Annual Report 2010

Lubrication for your heart

Contents

The olive.
The natural symbol of a long and healthy life. Its oil reduces your level of dangerous cholesterol. This in turn lowers the risk of blocked arteries. The secret? Olive oil is the only oil obtained simply by pressing the fruit. No additives. Just pure oil. No wonder it has become the basis for a healthier new lifestyle. And at Alfa Laval – thanks to our high-quality separators and decanters – we are helping to advance this movement. Our equipment and systems produce more than three million litres of extra-virgin olive oil every year.

Pure Performance: Oil. Water. Chemicals. Beverages. Foodstuffs. Starch. Pharmaceuticals. You name it. Alfa Laval is helping most types of industries to refine and improve their products and to optimise the performance of their processes. Time and time again.
Our equipment, systems and service are hard at work in more than 100 countries. Helping to create a richer life for people. That's a mission very close to our hearts.

Alfa Laval in brief

Food
Energy
Environment

Alfa Laval has developed products since 1883, with the vision of creating better everyday conditions for people. Today, Alfa Laval's products are highly topical since the world is increasingly focusing on saving energy and protecting the environment. This involves treating water, reducing carbon emissions and minimizing water and energy consumption, as well as heating, cooling, separating and transporting food. These areas, which impact us all in various ways, represent the core of Alfa Laval's expertise.

Three key technologies to meet basic needs

Alfa Laval is a leading global supplier of products and solutions for heat transfer, separation and fluid handling. The company's key products – heat exchangers, separators, pumps and valves – currently play a vital role in areas that are crucial for society, such as energy, the environment and food. Alfa Laval's products are used in the manufacturing of food, chemicals, pharmaceuticals, starch, sugar and ethanol. They are also used in nuclear power, onboard vessels and in the engineering sector, mining industry and refinery sector, as well as for treating wastewater and creating a comfortable indoor climate. They can also be used to reduce the consumption of energy and water and minimize carbon emissions. Who wouldn't benefit from such solutions?

1. Heat transfer

2. Separation

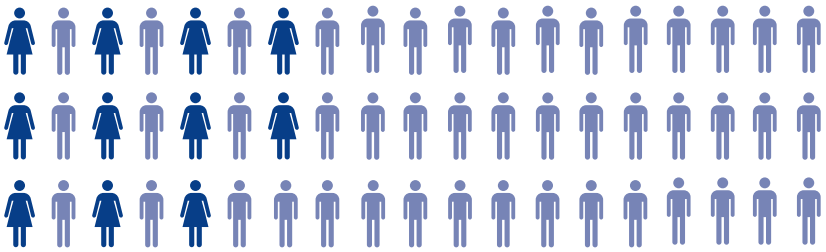
3. Fluid handling

Optimizing processes in nearly 100 countries

Alfa Laval's worldwide organization helps customers in nearly 100 countries to optimize their processes. The company also has 30 major production units (15 in Europe, 10 in Asia, 4 in the US and 1 in Latin America).

Market-adapted organization

Alfa Laval has two marketing and sales divisions: Equipment and Process Technology. In addition, a third division known as Operations is responsible for product-related purchasing, manufacturing and distribution. To ensure that Alfa Laval fulfills its business concept – to optimize the performance of customers' processes, time and time again – the sales divisions are divided into segments that specialize in various industries. Both divisions also have well-structured aftermarket organizations that manage the installed base of products worldwide. The Parts & Service segment accounted for 28.5 percent of the Group's total order intake in 2010.



12,078 employees, the majority of whom are located in Sweden (2,042), Denmark (1,127), India (1,402), China (1,435), the US (1,238) and France (787).

SEK 625 million

Continued focus on research and development

To strengthen its competitiveness, maintain its leading position and ensure continued profitable growth, Alfa Laval continuously develops products and services. In 2010, approximately 2.5 percent of the company's sales were devoted to research and development initiatives.

+5%

Focus on profitable growth

Alfa Laval aims to grow at a faster rate than its competitors, while maintaining favorable profitability. The company's goal is to achieve an average annual growth rate of at least 5 percent over a business cycle. This growth should occur organically, through existing products and services, as well as through acquisitions that add complementary products and sales channels, thereby bolstering the company's already leading position in selected markets.

After the end of the year, the growth target was revised to at least 8 percent.

Significant acquisitions

In 2010 Alfa Laval signed agreements that, when closed, will add a total of SEK 4.6 billion, corresponding to 19 percent of the Group's sales. The largest two were Olmi, a leading Italian company, specialized in the development and manufacturing of shell-and-tube heat exchangers and air coolers for niche applications, and Aalborg Industries, a Danish supplier of products, systems and service solutions, mainly to the marine and offshore markets, but also to the power industry and other industrial end markets.

Outcome for 2010

Demand increased during the year and order intake rose some 11 percent to SEK 23,869 million. Meanwhile, sales totaled SEK 24,720 million, down somewhat versus 2009.

NATURAL PROCESS

ANIMAL / Polychaete worms
TECHNOLOGY / Separation
PRODUCTS / Separators, decanter centrifuges and membranes

Separation with double effect

Polychaete worms are one of the largest groups of marine invertebrates. And as beautiful as they are, their filter feeder is equally as delicate with a function that is not only used for food intake. It also helps the worm burrow or build tubes in the sediment. The filtering mechanism comprises a pair of fleshy protrusions that are joined at the base of the back and suspended over both sides of the mouth. Each protrusion bears bundles of bristles. The bristles have microscopic antennae that grow in rows and build canals. With the help of cilia, water is drawn into the canals and filtered particles of food are transported to the mouth. Other particles are removed, or used to build tubes. Food in one pile, building materials in another.

Polychaete worms use the separation technique to its full potential.

Critical for many processes

Separation has been central to Alfa Laval's operations since the founder Gustaf de Laval began developing his first centrifugal separator in 1877. The technique is used to separate liquids from other liquids, solids from liquids, or particles and liquids from gases. Alfa Laval's separation and filtration products are dominated by high-speed separators and decanter centrifuges. A third separation product is membrane filters, which separates extremely small particles right down to the nanoscale.

Separators and decanters play a critical role in a range of industrial processes such as food, pharmaceutical, biotech, chemical and petrochemical processes, extraction and production of crude oil, cleaning and recycling of drilling fluids, treatment and purification of fuel and lubricating oil for vessels and power plants, and dewatering of sludge in wastewater plants.

2010 in brief

January

Acquisition of Champ Products Inc., of Sarasota in Florida, USA, a company with extensive expertise in engine cooling and a customer list that includes the North American engine and vehicle manufacturers. The acquisition expands Alfa Laval's product portfolio and application skills and thus supplements the offering in North America as well as Europe and Asia. Champ Products had net sales of approximately SEK 100 million in 2009.

February

In 1885, the DeLaval Separator Company was founded in the USA; it was one of Alfa Laval's first global sales companies. Its 125th anniversary was celebrated in 2010 with internal and external events.

March

Alfa Laval wins a SEK 90 million order for Packinox plate heat exchangers from a refinery in Saudi Arabia. A Packinox is exceptionally energy efficient and thus, despite its massive size, a compact product in comparison to other solutions.

April

Acquisition of 65 percent of the shares in Si Fang Stainless Steel Products Co. Ltd of China. Si Fang is a leading supplier of hygienic pumps, valves and fittings to the Chinese food and beverage industry. In 2009, the company had net sales of approximately SEK 150 million and around 300 employees.

May

SWEDEN 瑞典
EXPO 2010
OFFICIAL PARTNER

Alfa Laval was the official partner in the Swedish pavilion at the World Expo in 2010, in Shanghai, China. Between May 25 and 29, Alfa Laval presented innovative technologies in the fields of energy, the environment and food. A considerable number of customers participated in the 40 seminars that were arranged, seminars that comprised the company's latest products and solutions for achieving a more sustainable society.

June

Two record orders for Alfa Laval PureBallast from two leading shipyards in South Korea. The systems will be installed in 14 vessels being constructed for A.P. Møller-Maersk and the total order amounts to approximately SEK 80 million. The orders have broken new ground in many ways; they included the 100th system sold and were of record size, both in terms of value and in numbers of systems.

July

The order intake rose to SEK 6.3 billion during the second quarter, an increase of 21 percent compared with the same quarter in 2009. The growth Alfa Laval noted in Parts & Service for two quarters was followed up by increased capital sales. Medium-sized orders, which for a longer period were affected by the customers wait-and-see policy, were realized at an increasing pace during the quarter.

August

Alfa Laval China was selected as one of China's 50 greenest companies by the Chinese publication Business Watch Magazine, after evaluation by a panel of judges, readers and online voting. The prize is awarded to companies, Chinese and multinational, which have achieved particular success in combining growth and sustainability.

September

Record order for decanters to be used in the world's largest wastewater treatment plant. The new equipment replaces decanters delivered by Alfa Laval to the same customer, in Chicago, in the US, more than twenty years ago. The order totaled approximately SEK 250 million.

October

Indian refinery orders Alfa Laval Packinox heat exchangers for SEK 110 million. The order coincided with India climbing up the list of Alfa Laval's largest markets. At the end of the year, India was in third place, behind the US and China.

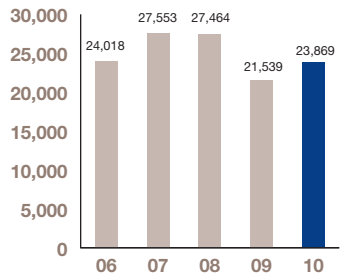
November

Alfa Laval acquires Definox, a French manufacturer of valves and fittings in stainless steel for the food, pharmaceutical and cosmetics industries. Definox, which has net sales of approximately SEK 200 million, adds an independent channel to these markets.

December

Alfa Laval announced two acquisitions with combined sales of SEK 4 billion. Aalborg Industries is a Danish company with net sales of SEK 3.3 billion. This acquisition will, once the deal has received approval from authorities, strengthen Alfa Laval's position in heat transfer as well as in the marine and oil and gas industries. The other announcement covered the acquisition of Olmi, a leading Italian company specialized in the development and manufacture of shell-and-tube heat exchangers and air-coolers for niche applications within the petro-chemical, power and oil/gas industries.

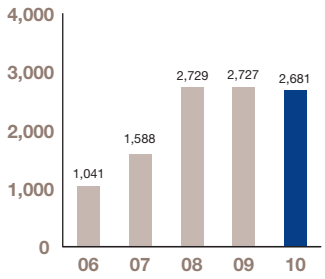
Order intake



Order intake totalled SEK 23,869 million in 2010, compared with SEK 24,018 million in 2006. Order intake rose 16 percent* in 2010 compared with 2009.

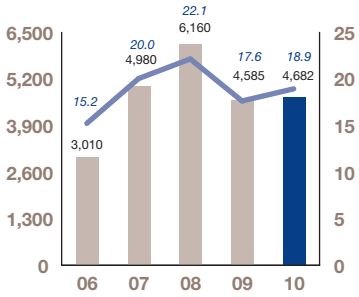
* Excluding exchange-rate variations.

Free cash flow



Alfa Laval generated free cash flow of SEK 2,681 million (2,727) in 2010.

Operating margin



The adjusted EBITA margin, or operating margin, amounted to 18,9 percent in 2010, compared with 17.6 percent in 2009.

Amounts in SEK million unless otherwise stated	+/- %[6]	2010	2009	2008	2007	2006
Order intake	11	23,869	21,539	27,464	27,553	24,018
Net sales	-5	24,720	26,039	27,850	24,849	19,802
Adjusted EBITDA [1]	3	5,107	4,976	6,464	5,245	3,273
Adjusted EBITA [2]	2	4,682	4,585	6,160	4,980	3,010
Operating margin (adjusted EBITA [2]), %		18.9	17.6	22.1	20.0	15.2
Profit after financial items	16	4,364	3,760	5,341	4,557	2,375
Return on capital employed, %		37.4	33.6	53.8	54.2	35.9
Return on shareholders' equity, %		24.4	24.5	42.8	44.1	25.3
Earnings per share, SEK	14	7.34	6.42	8.83	7.12	3.78
Dividend per share, SEK	20	3.00[3]	2.50	2.25	2.25	1.56
Equity per share, SEK	11	32.30	28.98	24.40	17.80	15.30
Free cash flow per share, SEK [4]	-1	6.38	6.46	6.38	3.60	2.33
Equity ratio, %		50	46.7	36.1	34.2	36.4
Debt/equity ratio, %		-4	4	20	30	22
Number of employees [5]	11	12,618	11,390	12,119	11,395	10,115

1) Adjusted EBITDA – Operating income before depreciation, amortization of goodwill and amortization of other surplus values, adjusted for items affecting comparability.
2) Adjusted EBITA – Operating income before amortization of goodwill and other surplus values, adjusted for items affecting comparability.
3) Board proposal to the Annual General Meeting.
4) Free cash flow is the sum of cash flow from operating and investing activities.
5) Number of employees at year-end.
6) Percentage change between 2009 and 2010.

President's comments

2010 – the year of turnaround

2010 was the year in which demand recovered following nearly two years of decline. The turnaround came during the second quarter, when the order intake increased by 20 percent to slightly more than SEK 6 billion, a pace that was then maintained for the remainder of the year. At the end of the period, the order intake totaled SEK 23.9 billion, up 11 percent on 2009. The increase in demand was solid and included the majority of customer segments and regions. Particularly strong demand came from the food, pharmaceutical, oil and gas and refinery industries. In addition, Alfa Laval won its most substantial order for many years; an order for decanters for water purification in the US worth SEK 250 million. The new equipment replaces decanters supplied by Alfa Laval to the same customer more than 20 years ago, providing clear evidence that our products are of high quality and generate customer benefit.

During the year, India became Alfa Laval's third largest market, having advanced its ranking from fifth, after the US and China. We expect India to continue its strong growth, in pace with the rapidly growing middle-class continuing to drive demand for items including processed food, water purification solutions and products from the processing industry. However, of all the regions, the North American market posted the strongest growth for the year.

Looking at revenues, the downturn still continued, reflecting the delay between orders and sales. Revenues amounted to SEK 24.7 billion, a decline of 5 percent. Despite this, profitability improved, impacted by positive currency effects, a change in the product mix toward a larger proportion of aftermarket sales and efficient capacity utilization. The operating margin amounted to a very strong 18.9 percent, compared with 17.6 percent for 2009.

Significant acquisitions completed during the year

Acquisitions are a key feature of creating value at Alfa Laval and an efficient and rapid method of building new positions in the market. 2010 was successful, with agreements that will add a total of 19 percent to annual sales, corresponding to SEK 4.6 billion.

The most significant was Aalborg Industries which, once it has received approval from authorities, will add SEK 3.3 billion to sales and strengthen Alfa Laval's position in both the heat transfer market as well as the marine, and oil and gas industries. Aalborg is the world leader in marine boilers and Alfa Laval holds the same position in respect of high-speed separators. In addition, our already extensive aftermarket support will strengthen as Aalborg brings a global service network. The acquisition complements our existing offering to the marine market, while we also foresee opportunities for Aalborg's products in the form of new markets and new applications. Consolidation of this acquisition is expected to provide significant synergies both in respect of revenues and costs.

The acquisition of Italian Olmi, which has net sales of SEK 700 million, formed another key component in Alfa Laval's development as it provided new competence and new products including shell-and-tube heat exchangers for industrial purposes. In addition, we strengthened our position in the fluid handling area through the acquisition of local suppliers in France and China. In the US, we acquired a key operator in the aftermarket for plate heat exchangers, as well as a leading supplier of heat exchangers for heavy vehicle diesel engines.

Acquisitions remain a priority for Alfa Laval, which is primarily looking for companies that complement existing operations in terms of production, geographic location or by adding additional sales channels. The target is to continuously add 3–4 percent to annual net sales. Added to this are larger acquisitions such as Aalborg Industries.

Revised targets for growth

The long term conditions and opportunities we see in our operating environment caused us to raise the growth target after year end. The new target means that the company's sales should reach an average growth of at least 8 percent annually over a business cycle. This includes 3-4 percentage points added through smaller, complementary acquisitions. The base of Alfa Laval's profitable growth is still organic growth, which is supported by technology shifts that are beneficial to the company. In addition, structural changes in the world are contributing to increasing demand for Alfa Laval's products. Globalization, escalating energy needs, increasing demand for foodstuffs due to improved living standards and more stringent environmental laws and regulations, all comprise driving forces that are expected to boost demand.

Environmental issues and sustainability

Alfa Laval's wide offering includes products and services that can both save energy and reduce emissions, with a vision of being able to create better everyday conditions for people. One example is the SEK 80 million order we secured in the US during the year. The order was for heat exchangers to be utilized in a process for cleaning gases in the world's first full-scale integrated coal gasification combined-cycle (IGCC) power plant. IGCC is an environmental engineering solution that enables coal-fired power plants to generate extremely low emissions – wholly 99 percent of sulfur dioxide is removed and up to 65 percent of carbon dioxide captured. IGCC is one example of a case in which Alfa Laval already supplied products and solutions at the test stage, thus putting the company in a strong position when the full-scale project was initiated.

However, the vision of creating better everyday conditions for people is not limited just to our products; it includes all aspects of our operations. Aside from Alfa Laval being guided by financial goals, we are also guided by our business principles, which define our approach to our environmental impact, our social responsibility, our business ethics and our transparency.

The share and shareholders

The share price rose by more than 40 percent and, toward the end of the year, posted a new top notation that surpassed the record from 2007. At the end of the year, Alfa Laval's market capitalization amounted to nearly SEK 60 billion, a doubling over a period of three years. At the same time, it is pleasing to note that the number of shareholders has nearly tripled over a five-year period to more than 33,500.

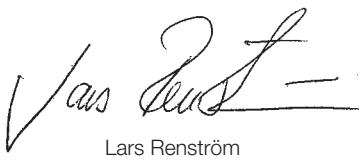
Continued belief in long-term drivers

In the long-term, structural changes will drive development in energy, the environment and food, which are core areas for Alfa Laval. These changes derive from an increased focus in our operating environment on solutions to save energy, protect the environment and ensure hygienic food production. These drivers apply globally, in varying degrees, but perhaps primarily in rapidly growing economies such as China, India, Brazil and Russia, markets that we deem to have substantial, long-term development opportunities. Over the past five years, with this in mind, we have substantially increased our investment in research and development, with particular focus on energy and the environment. At the same time, we have continued to invest in an increased presence in the BRIC countries. Following the acquisition of Aalborg, in excess of 50 percent of Alfa Laval's order intake will stem from Asia, Latin America and Eastern Europe.

With new, efficient products – the final result of our investment in R&D – combined with a strong geographic presence, the foundations are laid for continued profitable growth.

I would like to conclude by giving a full and sincere thank you to all the employees of the Alfa Laval Group for their contribution to building a successful company.

Lund, March 2011



Lars Renström
President and Chief Executive Officer

The share

Continued strong stockmarket trend for Alfa Laval

For Alfa Laval, as with the industrial sector at large, 2010 was a successful stock-market year. Alfa Laval rose another 43 percent from SEK 99.00 to SEK 141.70, following a 47-percent increase in 2009. The index for industrial companies, SX Industrials index, in which Alfa Laval is included, was up 48 percent during the year, while the market as a whole, the OMX Stockholm index, increased 23 percent. The highest price during the year was SEK 142.60 at year-end, while the lowest price was SEK 94.95 in May.

The company's total market capitalization was SEK 58.9 billion (41.8) at year-end. Alfa Laval is included in the Large Cap segment of the OMX Nordic Exchange Stockholm, as well as the OMXS30 index, which includes the companies with the stock exchange's 30 most-traded shares.

Strong long-term return

Since Alfa Laval was relisted on the OMX Nordic Exchange Stockholm on May 17, 2002, its share, including reinvested dividends, has generated a yield of 676 percent. Measured over this 8.5-year period, the average annual return amounts to 27 percent, compared with the SIX Return Index, which has generated an annual average of 10 percent.

Share turnover*

Alfa Laval's share is not traded exclusively on the NASDAQ OMX Exchange in Stockholm, but also on Chi-X, Bats Europe, Turquoise and Burgundy to name the largest marketplaces that trade in Alfa Laval shares. However, the NASDAQ OMX Exchange in Stockholm is by far the largest, handling 57 percent of the Alfa Laval shares traded.

The liquidity in trading of Alfa Laval's shares is favorable, and 808 (957) million shares in the company were traded in 2010 at a value of SEK 89 billion (71.6). This corresponds to a turnover rate of 1.92 (2.25) times the company's total number of outstanding shares. During the year, an average of slightly more than 4,200 (2,700) share transactions per day were completed in Alfa Laval shares.

Dividend policy

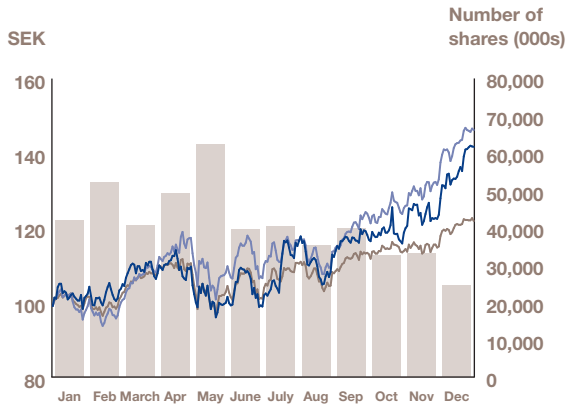
The Board of Directors' goal is to regularly propose a dividend that reflects the Group's performance, financial status and current and expected capital requirements. Taking into account the Group's cash-generating capacity, the goal is to pay a dividend of between 40 and 50 percent of net profit over a business cycle, adjusted for surplus value. For 2010, the Board has proposed that the Annual General Meeting approve a dividend of SEK 3.00 (2.50) kronor. The proposed dividend corresponds to 37.4 (36) percent of net profit, adjusted for surplus value.

Share capital

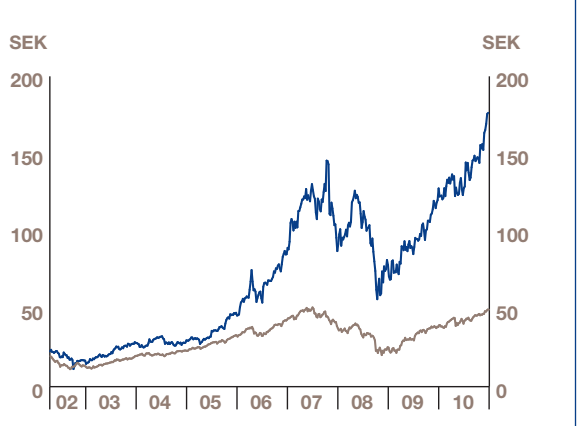
The par value at year-end totaled SEK 2.65 (2.65) per share. All shares carry equal voting rights and equal right to the company's assets. Alfa Laval has no options outstanding that could create a dilution effect for shareholders. At the Annual General Meeting on April 26, 2010, the Board was granted a mandate to repurchase shares up to a level at which the company's holding of treasury shares does not exceed 5 percent of the total number of shares outstanding. The shares will be repurchased with the purpose of being cancelled. During the year, the Board exercised this mandate by acquiring 2,583,151 shares at an average price of SEK 98.09 per share. The company's total holding at year-end amounted to 2,583,151 shares.

The Board will propose to the Annual General Meeting (AGM) to cancel the repurchased shares which will result in a reduction in the share capital of SEK 7 million. In parallel, it is proposed that the AGM

Price trend, January 1-December 31, 2010



Total return, May 17, 2002 – December 31, 2010



*Source: Fidessa

resolve on a bonus issue of shares of the corresponding amount, thereby restoring the share capital and enabling the company to avoid the requirement of obtaining the approval of the Swedish Companies Registration Office, or in case of dispute, the court's permission for the cancellation of the bought-back shares.

Alfa Laval's financial position is very strong. In order to adjust this to a more efficient structure while maintaining financial flexibility, the Board of Directors will propose that the AGM 2011 resolve to provide the Board with a mandate, for the period until the next AGM, to buy back shares in the company amounting to up to 5 percent of the total number of shares outstanding. The intention is to cancel the repurchased shares and reduce the share capital. Buy-backs will be made on the NASDAQ OMX Nordic Exchange Stockholm.

Alfa Laval's shareholders

At year-end 2010, Alfa Laval had slightly more than 33,500 (33,800) shareholders. During the year, there were 8,300 new shareholders, while 8,500 sold their stakes. The ten largest shareholders at year-end 2010 held 44.2 percent (48.0) of the shares. The single largest shareholder was Tetra Laval B.V., which held 18.7 percent (18.7) of the shares.

Data per share

	2010	2009	2008	2007	2006
Market price at year-end, SEK	141.70	99.00	67.50	91.00	77.25
Highest paid, SEK	142.60	100.20	107.25	125.25	78.00
Lowest paid, SEK	94.95	55.00	46.40	72.75	39.25
Shareholders' equity, SEK	32.40	29.00	24.40	17.80	15.30
Earnings per share	7.34	6.42	8.83	7.12	3.78
Dividend, SEK	3.00[1]	2.50	2.25	2.25	1.56
Unrestricted cash flow, SEK [2]	6.38	6.46	6.38	3.60	2.33
Price change during the year, %	+43	+47	-23	+18	+80
Dividend as % of EPS, %	40.9	38.9	25.5	31.6	41.4
Direct return, % [3]	2.1	2.5	3.3	2.5	2.0
Market price/shareholders' equity, times	4.4	3.4	2.8	5.1	5.0
P/E ratio [4]	19	15	8	13	20
No. of shareholders	33,565	33,780	28,078	16,090	12,178

[1] Board proposal to the AGM.
[2] Unrestricted 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 at December 31, 2010

	No. of shares	Capital/Voting rights, %	Change in 2009, %
Tetra Laval B.V.	78,976,056	18.7	0.0
Alecta Pension Insurance	37,190,000	8.8	1.1
Swedbank Robur Funds	22,060,085	5.2	-0.9
AMF Insurance and Funds	13,963,471	3.3	-1.8
Lannebo Funds	8,300,150	2.0	-0.4
Folksam - KPA - Förenade Liv	6,437,570	1.5	0.0
Handelsbanken funds	5,608,539	1.3	0.3
AFA Insurance	5,094,336	1.2	-0.6
Nordea Investment Funds	4,588,512	1.1	0.8
SEB Investment Management	4,532,410	1.1	0.3
Total ten largest shareholders	**186,751,129**	**44.2**	

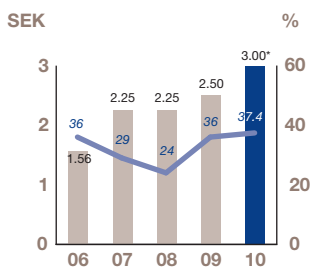
Ownership distribution by size at December 31, 2010

	No. of shareholders	No. of share-holders, %	No. of shares	Holding, %
1 – 500	19,745	58.8	4,099,826	1.0
501 – 1,000	5,711	17.0	4,797,073	1.1
1,001 – 5,000	5,927	17.7	13,989,172	3.3
5,001 – 10,000	878	2.6	6,566,789	1.6
10,001 – 15,000	312	0.9	3,928,014	0.9
15,001 – 20,000	185	0.6	3,333,155	0.8
20,000 –	807	2.4	385,325,452	91.3

Ownership categories at December 31, 2010

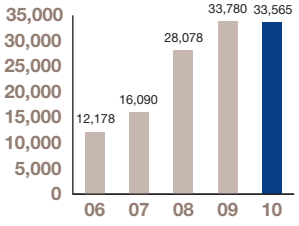
	No. of shares	Holding, %
Financial companies	143,410,772	34.0
Social insurance funds	12,516,528	3.0
Government and municipalities (Sweden)	2,026,734	0.5
Municipal sector	163,691	
Trade association	6,502,202	1.5
Other Swedish legal entities	12,157,107	2.9
Shareholders domiciled abroad (legal entities and individuals)	210,498,162	49.9
Swedish individuals	26,965,654	6.4
Uncategorized legal entities	7,798,616	1.8

Dividend and percentage of net profit**

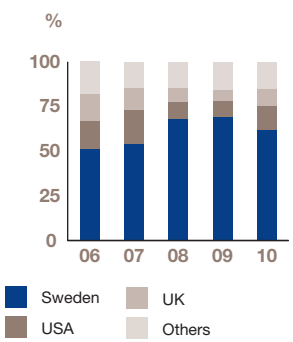


* Board proposal to AGM.
**Adjusted for surplus values.

Total number of shareholders

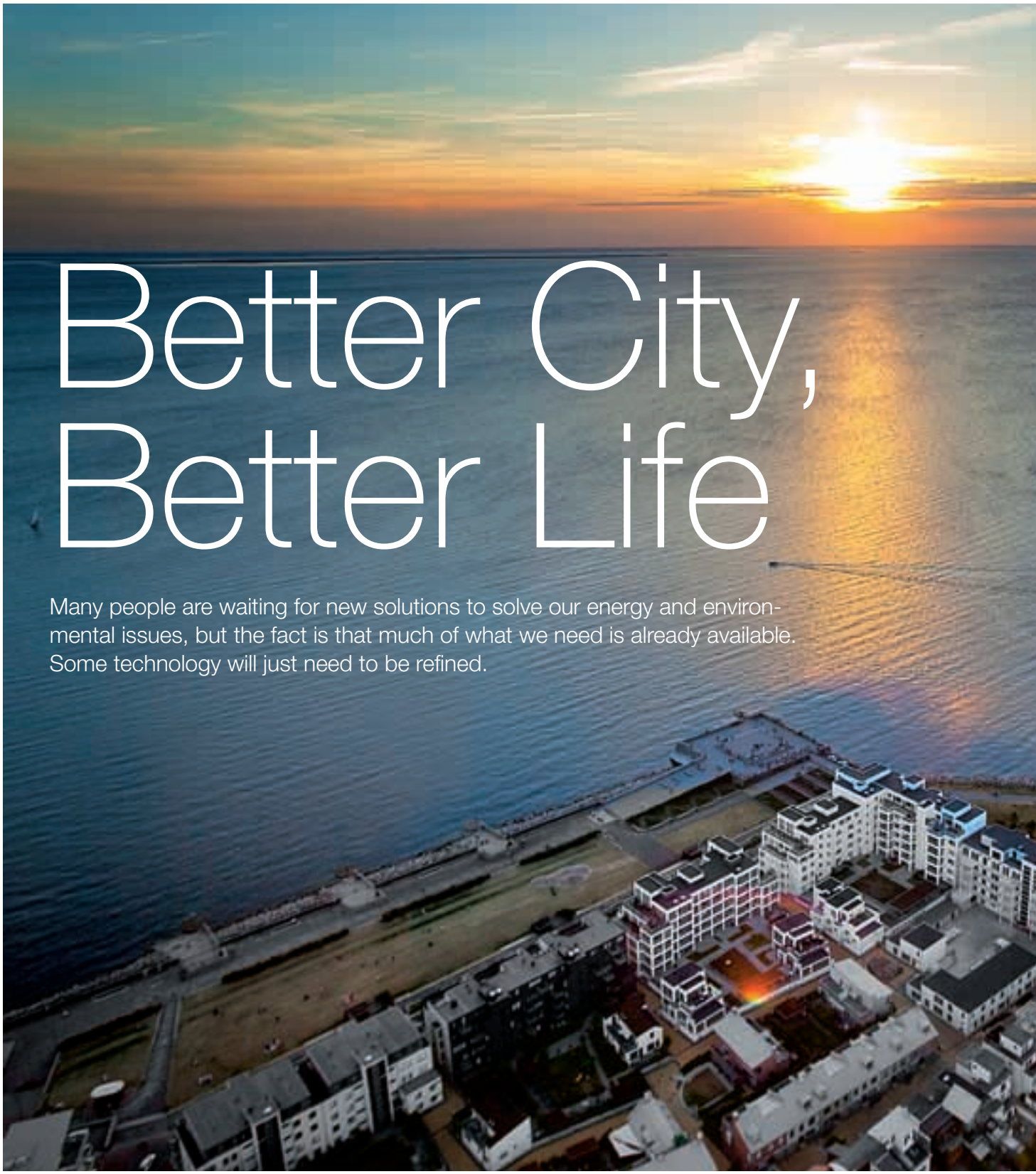


Geographic distribution of the free float, % of capital and voting rights



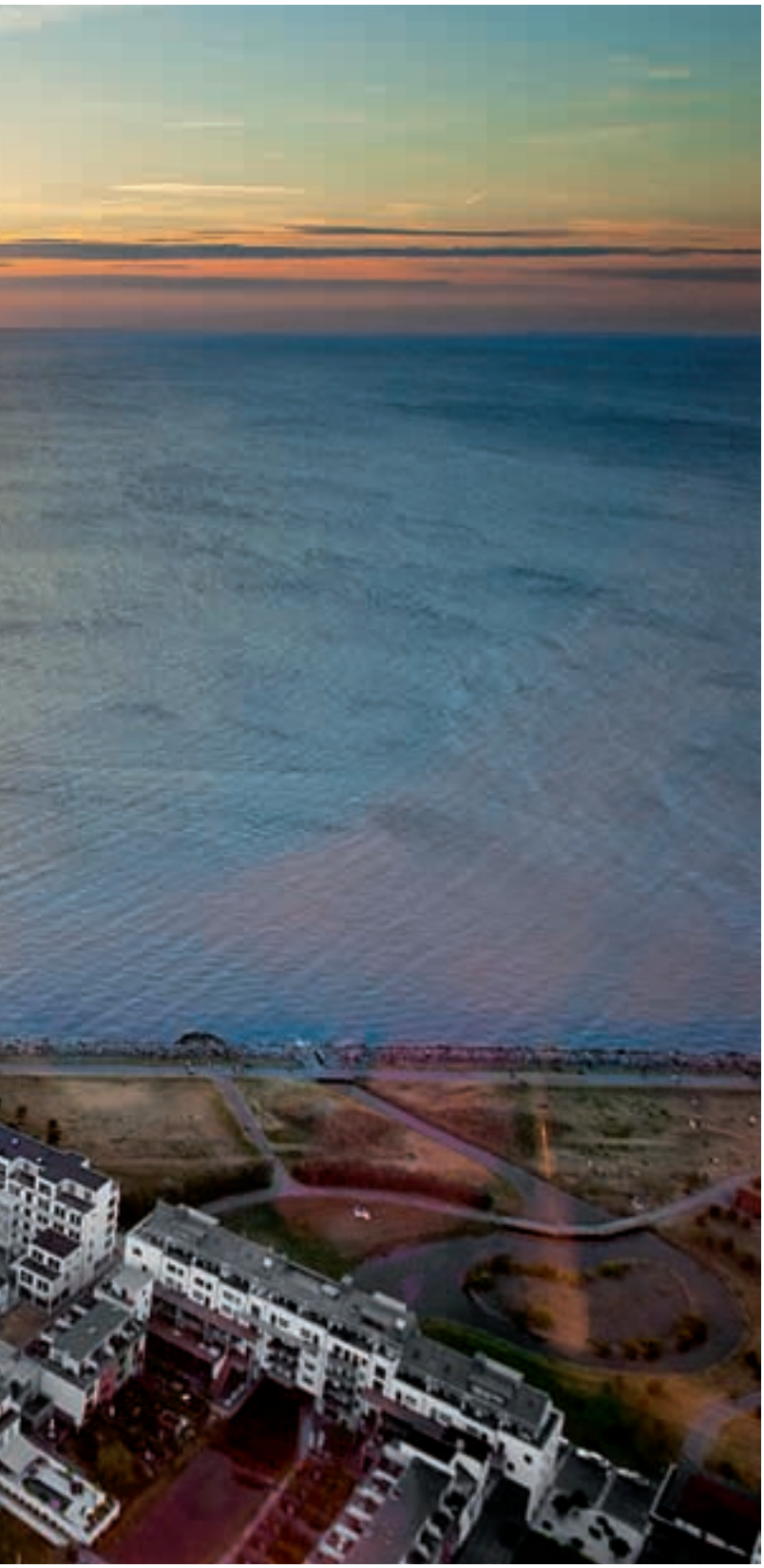
Excluding Tetra Laval (Netherlands) 18.7 percent.

Article



Better City, Better Life

Many people are waiting for new solutions to solve our energy and environmental issues, but the fact is that much of what we need is already available. Some technology will just need to be refined.



It can be done. One example is the Western Harbour, a central area of Malmö, Sweden where 3 000 people live with the sea as a neighbour. It looks like many other such developments, with its vibrant harbour walk, apartment buildings, shops, cafes and schools. But there's one important difference: Västra Hamnen is an area with 100 percent locally renewable energy.

The heart of the solution is a nearby wind power plant, which provides the bulk of the electricity. Solar power is an important complement: Some 120 square metres of solar cells are integrated into the architecture, generating about 6,000 kWh of electricity per year. Solar power also provides around 10 percent of the district's heating and hot water; 2,600 square meters of solar collectors are connected to the district heating network. But the bulk (90 percent) of Västra Hamnen's heating needs is met by the sea, where boreholes up to 90 metres deep have been sunk into an aquifer. In the winter, water at 15 degrees Celsius is drawn up from the "warm side" and provides the heat source for a heat pump. After cooling, it is pumped back into the aquifer to the "cold side". During the summer, the process is reversed, to produce cooling for the district cooling network. Little goes to waste here. Actually, waste is treated as an energy source and organic waste is converted into biogas to power Malmö's city buses.

Every city has unique concerns. Still, it is only integrated thinking that can make experiments such as Malmö's Västra Hamnen possible on a much larger scale. The give and take that characterizes Västra Hamnen is the key to sustainability in cities.

World Expo in Shanghai 2010

At the Shanghai Expo 2010, the overall theme was "Better City, Better Life", which summarizes the ambitions to show sustainable solutions for the future. Alfa Laval was one of the official partners, together with several other Swedish companies. In the general exhibition Alfa Laval contributed with two products – the "MiniCity" for district heating/cooling and PureBallast, the chemical-free ballast treatment system, developed in cooperation with Wallenius Water. Alfa Laval's decision to participate was made already in 2007, mainly because the overall theme really connected with Alfa Laval's own ambitions within energy, the environment and food.

"Natural processes" was the theme for Alfa Laval's customer days at the Expo. Between May 25 and 29, Alfa Laval arranged 40 seminars covering such topics as wastewater - how to process raw sewage into pure water, heat recovery - the most efficient way to reduce carbon-dioxide emissions and food processing – mixing techniques that prolong the shelf life of products.

Business model and financial goals

Optimizing the performance of our customers' processes, time and time again

Driving force/vision
Alfa Laval's core idea, and the driving force behind the business, is to create better everyday conditions for people. This can be achieved through the company's products, which meet basic needs including heating, cooling and separation. Needs that occur in various industries and include the production of food, beverages, biofuels and pharmaceuticals, the creation of a comfortable indoor climate, the cleaning of wastewater and the cleaning of emissions from diesel engines. In addition, Alfa Laval's products optimize energy use, which entails them reducing the negative environmental impact of customers' processes.

Business concept
Alfa Laval is a customer-focused company with the business concept of optimizing the performance in customers' processes, time and time again. Alfa Laval delivers products and solutions that increase customers' productivity and competitive power while reducing their consumption of energy and water.

Strategy
Alfa Laval's ability to realize its business concept depends on the company's three key technologies, the engineering expertise of its employees and their application know-how. This is supported by the company's global organization that directly and indirectly operates in approximately 100 countries, as well as by the resources continuously invested in the further development of products, markets and sales channels.

Strategies for continued growth
Alfa Laval has two sales divisions - Equipment and Process Technology – that market the company's products and solutions, and one division – Operations – that is responsible for production-related procurement, manufacturing and distribution. In addition to capital sales, the two sales divisions have another strategically important operation - Parts & Service. This is a global organization that manages sales of spare parts and services, thereby developing customer relations and ensuring the long-term function of equipment supplied.

Alfa Laval's strategy is to develop and expand the company's leading positions in defined market segments. This can be achieved:

– **through organic growth**, by systematically working with existing products and existing markets

– **through acquisitions and alliances**, that complement existing operations

– **through continuous investment in research and development**, to produce new market concepts or key products, which in the long-term will form the foundation of profitable growth

– **through the continued development of the aftermarket business**, which builds a stable revenue stream, is less dependent on the business cycle and contributes to promoting closer customer relations. (See pages 16–17 for more information on the strategy for growth)

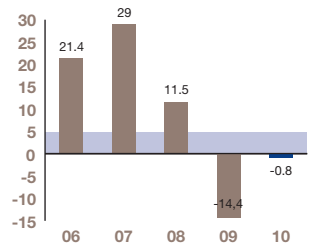
Goals
Alfa Laval conducts operations based on the financial goals for growth, profitability and return.

Good earnings enable the company to make further investment in line with its strategies, which include investing in organic growth and growth through acquisitions as well as investments in research and development. Favorable earnings also build shareholder value, through an annual dividend to shareholders and an increased value of the company.

Financial goals

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

Invoicing growth, %



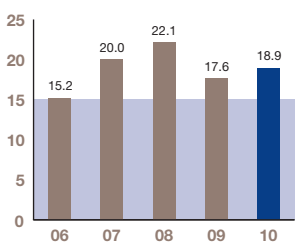
Goal
Minimum average of 5 percent annually over a business cycle.

Goal fulfillment in 2010
Invoicing declined 0.8 percent*. The organic decline was 5.2 percent while acquisitions added 4.4 percent.

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 average global GDP growth. To this are to be added technology shifts in Alfa Laval's favor, which add additional growth, and the structural changes in the world that contribute to increasing demand for Alfa Laval's products. Globalization, escalating energy needs, increasing demand for processed food due to improved living standards and more stringent environmental laws and regulations all comprise driving forces that are expected to boost demand. The growth target was raised after year end to at least 8 percent.

**Excluding exchange-rate variations.*

Operating margin*, %



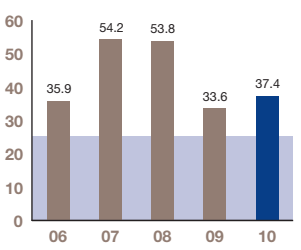
Goal
15 percent over a business cycle.

Goal fulfillment in 2010
The margin was 18.9 percent.

The trend was impacted by a number of factors during the year. Favorable factors included positive currency effects, a more advantageous mix of products sold and improved capacity utilization. Negative factors included continued downward price pressure on contract-based sales, which affected margins in the backlog.

**Adjusted EBITA.*

Return on capital employed, %



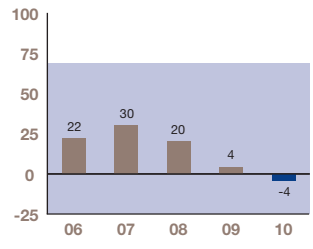
Goal
At least 25 percent. This level was set taking into account the relatively low level of capital tied up in operating activities.

Goal fulfillment in 2010
The return was 37.4 percent.

Financial benchmark values

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

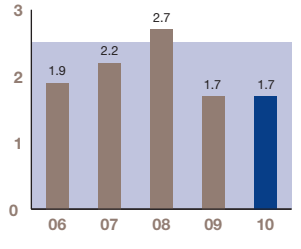
Debt/equity ratio, %



Benchmark value
Below 75 percent.

In the long term, the debt/equity ratio, meaning the capital borrowed by the company in relation to the carrying amount of shareholders' equity, must be less than 75 percent. Although the ratio may exceed 100 percent in connection with major acquisitions, this should be viewed as merely temporary, since cash flow and earnings are expected to offset this effect. At year-end 2010, the debt/equity ratio was -4 percent.

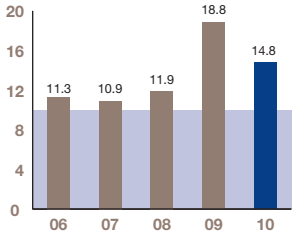
Investments, %



Benchmark value
2.5 percent of sales.

This investment level creates scope for replacement investments and an expansion of capacity in line with organic growth for the Group's existing core products. Investments in 2010 amounted to 1.7 percent of sales.

Cash flow from current operations*, %



Benchmark value
10 percent of sales.

The value is below the goal for the operating margin, since organic growth normally requires an increase in working capital. In addition, taxes are paid in an amount corresponding to approximately 30 percent of earnings before tax. In 2010, cash flow from current operations amounted to 14.8 percent.

**Including investments in fixed assets.*

Non-financial goals

In addition to the financial goals, Alfa Laval has a number of non-financial goals. Environment-related goals are dealt with in the sustainability section on pages 44–47, information on goals in respect of health and safety can be found in the section on employees on pages 42–43.

Growth strategy

The paths to profitable growth and consolidated market positions

Alfa Laval's goal is to grow at an average rate of at least 5 percent annually over a business cycle*. The Group's growth must exceed that of the market and be accompanied by solid profitability. 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.

To achieve profitable growth and further consolidate market positions, the following key areas must be developed organically or through acquisitions:

– existing technologies, products and services

– the aftermarket business

– new market concepts, complementary key products and supplementary sales channels.

Existing technologies, products and services

Alfa Laval's existing products and technologies comprise a good foundation for continued profitable growth; they are energy efficient and hold the highest quality standards. Against a background of high energy prices and increased environmental focus around the world, it is specifically the proven efficiency of the products that has become an increasingly important factor for customers. For example, replacement of a traditional shell-and-tube heat exchanger with a plate heat exchanger in a refinery often leads to such large savings that the payback period for an Alfa Laval product is considerably less than one year. This favours continued technology shifts, which contribute to Alfa Laval's growth.

In addition, the company boasts strong market positions, broad geographic coverage and an organization divided into market-specific segments. This facilitates and enhances the effectiveness of customer dialogues and increases the ability to understand and fulfill their needs. Communication with customers forms a solid foundation for the research and development organization, resulting in continuous improvements and updates to the offering. Through consistent investment in research and development, the possibilities are strengthened for continued profitable growth.

Focus on the aftermarket business

A fundamental element in Alfa Laval's growth strategy is the continued development and expansion of the aftermarket business. It is important to be able to provide service and spares to the substantial and continuously expanding base of equipment and systems installed globally. This part of the business not only provides customer benefit, but also ties in the customers more closely. It shows a healthy profit, supports new sales and entails opportunities to hear new requests and future needs, which can be forwarded to units for research and development. Furthermore, it is less sensitive to the business cycle and thus has a stabilizing effect on revenues during economic downturns.

The age of Alfa Laval's installed base varies by region. Simplistically put, the products are older in Western Europe and North America and younger in Central and Eastern Europe, Latin America and Asia, where there is thus a considerable potential to increase aftermarket sales. Alfa Laval has an extensive network of service centers and is therefore equipped to meet this need. The range of aftermarket products and service is expanding and developing continuously, both through organic and inorganic growth.

New market concepts, complementary key products and sales channels

Alfa Laval constantly seeks new ways of helping customers to optimize their processes. To be able to offer this, it is important to view requirements, as well as problems, from the customer's perspective. Accordingly, in addition to the company's continuous development of existing products, Alfa Laval aims to identify and add products and solutions that complement and broaden its offering. This can be achieved through internal development, but also through acquisitions. In parallel with focused product development and the expanded service concept, Alfa Laval must continue to invest in the development of the sales channels to bolster and strengthen its positions in the geographic markets in which it operates.

Strategy for acquisitions, alliances and divestments

Alfa Laval's acquisition strategy is closely connected to the three key areas touched on above. Accordingly, Alfa Laval shall make acquisitions and form alliances with the objective of:

– strengthening existing key technologies

– developing the aftermarket business

– adding new key products and complementary sales and distribution channels.

Acquisitions are made systematically and are lead by a special unit, Corporate Development. This unit is responsible for developing new market concepts, supporting and facilitating the growth ambitions of various segments and handling patent issues. The ambition is for Alfa Laval to add between 3 and 4 percent in sales growth annually through acquisitions. During the period 2006 through 2010, Alfa Laval acquired 25 companies with combined net sales of SEK 8,180 million, which corresponds to average

The growth target was raised after year end to at least 8 percent.

annual growth of SEK 1,636 million. Over the same period, only one project business with sales of SEK 100 million was divested. Since all current units in the Group are deemed part of the Group's core operations, divestments are expected to remain at an extremely low level.

Acquisitions during 2010

Champ Products Inc., USA
A leading supplier of engine cooling products to the North American market. The company, which had a turnover of approximately SEK 100 million in 2009 and around 75 employees, was integrated on January 5, 2010. The acquisition enabled Alfa Laval to complement its product portfolio and increase its market penetration of the engine and vehicle manufacturing industry in North America.

Service company, USA
A leading supplier of plate heat exchanger service in the North American market. The company, which is expected to deliver net sales of approximately SEK 100 million, was consolidated on January 6, 2010. The company will remain a separate organization that provides products and services under its own brand. The acquisition complements Alfa Laval's service offering in the American market.

Astepo S.r.l., Italy
Supplier of aseptic solutions and key products that include filling equipment for bag-in-box and heat exchangers for the global industry in fruit juice concentrates. The company, which had net sales of about SEK 70 million and approximately 20 employees, was consolidated on April 1, 2010. The acquisition complements Alfa Laval's offering to the food industry.

Si Fang Stainless Steel Products Co. Ltd, Kina (65 percent)
Supplier of hygienic pumps, valves and fittings to the Chinese food and beverage market. The company had net sales of approximately SEK 150 million in 2009 and had about 300 employees. Si Fang was consolidated on April 1, 2010, but will continue to operate under its own brand and via its own sales network. The acquisition added a complementary independent sales channel.

Definox, France
Supplier of valves and equipment in stainless steel to the food, pharmaceutical and cosmetic industries. The company has annual net sales of about SEK 200 million and approximately 120 employees. Definox, which was consolidated in Alfa Laval on November 1, 2010, will continue to supply its own product range under its own brand and via its own distribution network. The acquisition thus adds an additional independent sales channel to the food and pharmaceutical industries.

Olmi S.p.A.
A leading Italian company specialized in the development and manufacture of shell-and-tube heat exchangers for niche applications in the petrochemical, power and oil/gas industries. Olmi has net sales of about SEK 700 million and approximately 240 employees. Olmi was consolidated on December 6, 2010. The acquisition bolsters Alfa Laval's opportunities to expand in the heat exchanger market for high pressure and high temperature applications.

Aalborg Industries A/S
A Danish, leading supplier of products, systems and service solutions, today primarily in the marine and offshore markets but also to power companies and other industrial end markets. The company's products include boiler systems, thermal fluid systems, waste heat recovery systems and inert gas systems. Aalborg will, after the deal has received approval from authorities, add just over SEK 3 billion in net sales and 2,600 employees. The acquisition will bolster Alfa Laval's offering to the marine market. In addition, Alfa Laval expects to be able to introduce Aalborg's products in other markets and for other applications.

Year	Company	Reason*	Sales SEK million**
2005			
Acquisitions:	Packinox, France	Product	450
Divestments:	–		
2006			
Acquisitions:	Tranter, USA	Channel	900
	Fruit concentrate, Sweden	Channel	45
	Tranter, China	Geography	100
Divestments:	Biotechnology project business		100
2007			
Acquisitions:	Fincoil, Finland	Product	375
	Helpman, The Netherlands	Product	200
	DSO, USA	Geography	50
	AGC Engineering, USA	Geography	70
	An additional 13 percent of the share capital in Alfa Laval India. (Total participating interest 77%)	Geography	Did not affect sales
Divestments:	–		
2008			
Acquisitions:	Standard Refrigeration, USA	Product/geography	220
	Ageratec, Sweden	Product	50
	Høyer Promix, Denmark	Product	20
	Pressko, Germany	Product	50
	Hutchison Hayes, USA	Channel/geography	150
Divestments:	–		
2009			
Acquisitions:	P&S Multibrand	Channel	200
	P&S Multibrand	Channel	100
	Onnuri, South Korea	Channel/Geography	150
	HES, Germany	Product	85
	PHE, Brazil	Geography	45
	LHE, South Korea	Channel/Geography	750
	An additional 12 percent of the share capital in Alfa Laval India. (Total participating interest 89%)	Geography	Did not affect sales
Divestments:	–		
2010			
Acquisitions:	Champ Products Inc., USA	Product	100
	Service company, USA	Channel	100
	Astepo S.r.l., Italy	Product	70
	Si Fang, China (65%)	Channel	150
	Definox, France	Channel	200
	Olmi S.p.A, Italy	Product	700
	Aalborg Industries A/S	Product	3,300
Divestments:	–		

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

** Refers to annual sales before acquisitions and divestments.

Structural changes

Four factors driving future growth

Globally, there are trends that are expected to drive demand for Alfa Laval's products and solutions over the next years. These trends entail fundamental, structural changes that comprise a raised standard of living, increased trade in the wake of a globalized market, an escalating demand for energy and more stringent environmental regulation.

Escalating demand for energy requires efficient solutions

Greater focus on the bottom line, combined with high energy prices, has resulted in companies worldwide searching for methods to optimize processes and save money. Together with more stringent environmental regulation, whereby emissions entail a cost, the way is paved for healthy demand for Alfa Laval's energy efficient solutions. In comparison with traditional technology, a compact heat exchanger can reduce energy consumption and emissions, which in turn considerably reduces the payback time. An attractive proposition for most industries!

The demand for processed food is increasing in fast-growing economies

For a number of years, economic growth has resulted in a higher standard of living for an increasing number of people worldwide. This is accompanied by a higher level of consumption and lifestyle changes, which are expected to contribute to increased demand for processed food such as juices, convenience food, frozen food and olive oil. Demand is also becoming more intense for products and processes that can contribute to improving the shelf life of food and thereby reduce waste. In addition, due to trends in fast-growing economies and an ageing global population, the pharmaceutical sector is creating demand for Alfa Laval's hygienic products and solutions.

Increased international trade driving demand for transports

Globalization is not a new phenomenon, but has progressively intensified over recent decades. In order to supply the global market with products, companies have increasingly established production operations in different regions of the world. This trend has bolstered demand for maritime transportation, which has an environmental advantage compared with airfreight with lower emission levels. Alfa Laval offers a range of specialized products for ships and can already be found onboard approximately 75 percent of the global oceangoing fleet.

Intensified environmental focus creates opportunities for Alfa Laval

A more intense focus on climate and environmental issues is driving the implementation of new rules and regulations intended to reduce human impact on the environment. This, in turn, drives demand for products that can minimize energy consumption and emissions to air and water. Alfa Laval's heat exchangers are efficient and can meet both requirements. In addition, the company's decanters play their part in treating the wastewater of 400 million people. Alfa Laval can provide solutions to a number of other environment-related problems, including the cleaning of ballast water and the crankcase gases emitted from a diesel engine.

Key technologies

Three technologies with world-leading positions

Alfa Laval's operations are built on three key technologies – heat transfer, separation and fluid handling – all of which are of decisive importance for many industrial processes. In 2010, heat transfer products accounted for 53 percent (53) of sales, separation products for 24 percent (25) and fluid handling products for 11 percent (9). Alfa Laval is the global leader in all three technology areas.

Heat transfer

Various solutions for heat transfer are used in most industrial processes for heating, cooling, freezing, ventilation, evaporation and condensation of fluids. These solutions have numerous fields of application and are used by customers in such areas as the chemical, food processing, oil and gas production, power generation, marine and construction industries.

More efficient energy utilization

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 importance in ensuring the efficiency of the customer's entire manufacturing process. Compact plate heat exchangers, the main product in Alfa Laval's offering, offer far more efficient energy utilization, which cuts costs and environmental impact.

Plate heat exchangers

Plate heat exchangers are made up of a series of plates assembled closely to each other. Between the plates there are two channels containing a cold and a warm medium. These pass on either side of the plates and in opposite directions to each other. Heating or cooling is transferred via the plates. Different types of plate heat exchangers – gasketed, brazed and welded – have been designed to withstand various forms of pressure and a range of temperatures.

SELECTED MARKET SEGMENTS	COMPETITORS	MARKET POSITION	SALES
● INDUSTRIAL EQUIPMENT ● MARINE & DIESEL ● OEM ● SANITARY ● FOOD ● ENERGY & ENVIRONMENT ● PROCESS INDUSTRY ● LIFE SCIENCE	– GEA (GERMANY) – HISAKA (JAPAN) – SPX/APV (USA) – SWEP (USA)	1 MORE THAN 30 PERCENT OF THE WORLD MARKET	53% PERCENTAGE OF GROUP SALES

Separation

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

High-speed separators and decanters

Alfa Laval's products in this technology are dominated by high-speed separators and decanter centrifuges. Separators have high rotation speeds, are generally mounted vertically and are used primarily for separating liquids from one another.

Decanter centrifuges are normally based on horizontal separation technology and work at slower speeds. They are used, for example, in the dewatering of sludge in wastewater treatment plants. A third separation product is membrane filtration, which is the established solution for separating very small particles.

Crucial for a number of processes

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

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

SELECTED MARKET SEGMENTS

- INDUSTRIAL EQUIPMENT
- MARINE & DIESEL
- OEM
- SANITARY
- FOOD
- ENERGY & ENVIRONMENT
- PROCESS INDUSTRY
- LIFE SCIENCE

COMPETITORS

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

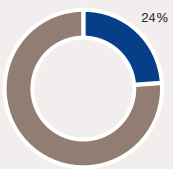
DECANTERS
– GEA (GERMANY)
– GUINARD /ANDRITZ (FRANCE, AUSTRIA)
– FLOTTWEG (GERMANY)
– PIERALISI (ITALY)

MARKET POSITION

1

25 TO 30 PERCENT OF THE WORLD MARKET

SALES



PERCENTAGE OF GROUP SALES

Fluid handling

Transporting and regulating fluids in an efficient and safe manner are crucial processes in many industries. Among other areas, Alfa Laval focuses on sanitary fluid handling in industries with stringent hygiene requirements.

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 and health and personal care products. Alfa Laval also offers tank cleaning equipment. Flow equipment is used to attain exact pumping of all types of fluids in various applications. Customers often integrate many of Alfa Laval's products for fluid handling into their systems, and thus require continuous product deliveries.

Products mainly for sanitary applications

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

SELECTED MARKET SEGMENTS

- ○ INDUSTRIAL EQUIPMENT
- ● MARINE & DIESEL
- ○ OEM
- ● SANITARY
- ● FOOD
- ○ ENERGY & ENVIRONMENT
- ● PROCESS INDUSTRY
- ● LIFE SCIENCE

COMPETITORS

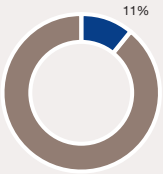
– GEA (GERMANY)
– SPX/APV/ WAUKESHA CHERRY BURRELL (USA)
– FRISTAM (GERMANY)

MARKET POSITION

1

10 TO 12 PERCENT OF THE WORLD MARKET

SALES



PERCENTAGE OF GROUP SALES

Research & development

Innovative thinking
– the foundation of future solutions

Dairy production was revolutionized by the centrifugal separator; at a single stroke, it became quick and easy to skim off the cream from milk. The new technology radically changed conditions as it enabled large-scale dairy production. Behind this technology was Gustav de Laval, an inventor who went on to obtain patents in fields ranging from separators to steam turbines. Since those times, separator technology has found many new fields of application, due to a consistent and continuous focus on research and development. Today, products and solutions are offered for everything from olive oil production to the treatment of wastewater.

Since its inception, Alfa Laval, just as its predecessor AB Separator, has been defined by a focus on innovation. Understanding customer needs and being first with ground-breaking solutions are crucial to keeping a step ahead of the competition, maintaining favorable pricing and thus achieving profitable growth. At the core of all research, both the needs-motivated fundamental research and the applied development of products and solutions in heat transfer, separation and fluid handling, lies the need to meet customers' continuously changing needs and requirements with new updated and improved products. In many instances, small adjustments to existing products can lead to considerable improvements for customers. This could apply to the use of new materials or the production of a new version with greater capacity. In other cases, it may involve Alfa Laval participating in customer pilot projects in which new equipment is tested, developed and adapted.

Investments in research and development

Alfa Laval invests continuously in research and development to strengthen and develop the company's leading, global positions in heat transfer, separation and fluid handling. In 2010, SEK 625 million (654) was invested in research and development, which represents 2.5 (2.5) percent of net sales. Activities in this area are focused and must meet certain requirements. These criteria are set to ensure that new or updated products reach the market and turn profitable in the shortest time possible. In addition, measurements are taken to ensure that the new products' share of Group sales is at a good level. The number of initiatives is limited to avoid splitting research and development resources between too many projects simultaneously. Additionally, the sales organization must be able to handle the existing product range together with all additional products in each local market. The pace that Alfa Laval maintains, with 35 to 40 products launched per year, is deemed to provide the optimal return on each Swedish krona invested.

Collaboration for success

The achievement of successful results in research and development, meaning efficient and competitive products, requires collaboration between the various areas of the company. This entails the involvement of all segments in a process for which the first step involves transferring an idea to the drawing board and the final step launching the product in the market. In addition to the segments, the organizations responsible for manufacturing, procurement and aftermarket activities are also involved in the process. This level of collaboration enables Alfa Laval to identify customer needs and wishes, to then convert this knowledge into the development of new products. At the core of the development process are Alfa Laval's product centers, which focus on the research and development of all main products – compact and welded heat exchangers, air heat exchangers, separators, decanters, membranes and fluid handling equipment. These centers combine development and technological know-how with expertise in various applications. The product centers are located in various countries, with the majority located in Western Europe. Currently, research related to the various main products is located in countries that include Sweden (compact plate heat exchangers and separators), Denmark (decanters, pumps, valves and membranes), Italy (air heat exchangers and braised heat exchangers) and France (welded heat exchangers).

Up to five times faster

The Alfa Laval rotary jet mixer distinguishes itself from traditional mixers in that it does not only mix various liquids but can also be utilized to clean the tank used for mixing. This means the tank can be ready to make a new batch in less than 20 minutes. It is up to five times faster and at the same time more energy efficient than traditional solutions. The mixer is aimed at industries including the dairy, food, beverage and pharmaceutical industries, to name but a few. A British juice and smoothie producer optimized the time for mixing, raised hygienic standards and reduced maintenance costs by EUR 12,000 per tank by investing in Alfa Laval's rotary jet mixer.

40% less energy

The ALDEC G3 decanter centrifuge belongs to a new generation of decanters that consume 40 percent less energy than previous generations, while increasing capacity by 10 percent. Dewatering of sludge cake in a sewage treatment plant can contribute to savings of up to EUR 5.5 million over a fifteen-year period by reducing the volume of sludge that must be transported away, at the same time as it reduces energy costs. When used in the thickening process, it can lower energy costs by up to EUR 437,000 over a similar period.

Three times as effective

The high pressure spiral heat exchanger (HPSHE) has the capacity to handle high temperatures and pressure of up to 100 bar thus making it the obvious choice for uses including the various processes in refineries. Not only does it hold a clear cost advantage compared with traditional shell-and-tube heat exchangers by being self-cleaning – it also consumes considerably less energy. Yet, it is up to three times as effective and requires 84 percent less space. All in all, it can create substantial cost savings.

INVESTMENTS IN RESEARCH AND DEVELOPMENT IN 2010, SEK MILLION

625

TOTAL NUMBER OF PATENTS

>300

PRODUCTS LAUNCHED PER YEAR

35–40

NATURAL PROCESS

ANIMAL / Great white shark
TECHNOLOGY / Heat transfer
PRODUCTS / Heat exchanger

Ice-cold heat exchanger

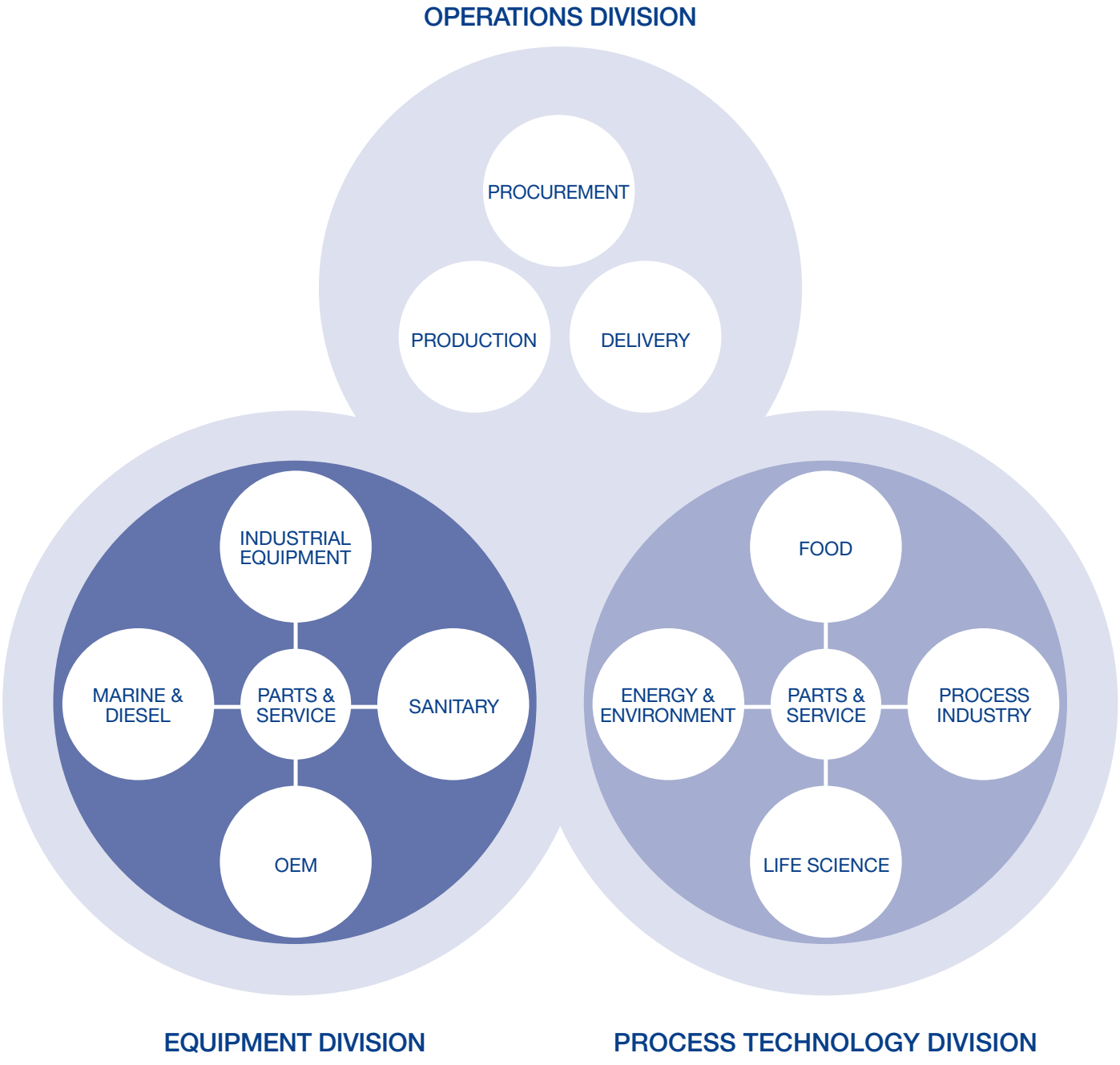
The great white shark is the most feared predator in the ocean. But despite the ice-cold respect it inspires, the most distinctive feature of this animal is its heat-exchanger system. No less than three heat-exchangers ensure the temperature in vital parts of the shark's body. The system comprises a dense parallel network of small arteries and veins. Since heat is always transported from hot to cold areas, heat is transferred through the blood vessel walls from the outgoing veins to the incoming arteries and then cycled back to the organ, which remains warm. The three heat exchangers are located around the swimming muscles, certain organs and the brain. This enables the shark to conserve energy and sustain its swimming speed. An effective heat transfer system for a cold-blooded predator, in other words.

More efficient energy consumption

Alfa Laval has led the field in heat transfer technologies since the company began operating in this area in the 1930s. Various solutions are used in most industrial processes. The technology is used for heating, cooling, freezing, ventilation, evaporation and condensation. Alfa Laval has a comprehensive range of heat exchangers for applications spanning from simple processes with low pressure and temperatures to processes with aggressive media and high, constantly varying temperatures and pressure.

A heat-exchanger transfers heat or cold, usually from one liquid to another, but also using air. These products are crucial for effective manufacturing processes. The compact plate heat exchanger, a key product, gives highly efficient energy consumption which reduces both costs and the environmental impact.

Group overview



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

Divisions

Equipment Division

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

Significant events in 2010

– All segments reported increased demand spread over the majority of regions. Particular strength was noted in the BRIC countries.

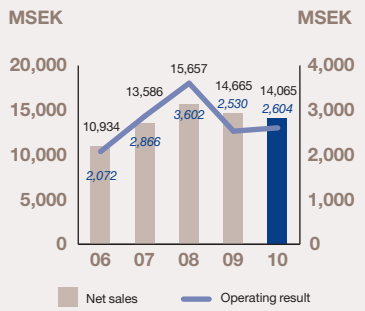
– Marine & Diesel noted increased levels of activity since orders received at shipyards picked up from the low levels in 2009. Both shipyards and shipowners showed greater awareness and interest in products that limit shipping's impact on the environment, a trend that is driven by laws, regulations and greater focus on energy efficiency.

– Products for the food, dairy, pharmaceutical and personal hygiene industries reported strong demand for the second year running, with the BRIC countries playing a key role.

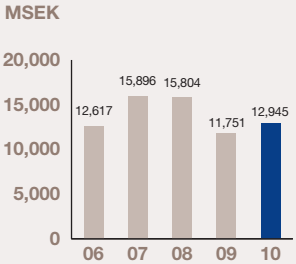
– During the year, demand for cooling, heating and refrigeration solutions showed a turnaround driven by continued demand for energy-efficient solutions, for both industrial applications and OEM customers.

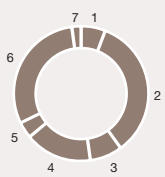
– Parts & Service recorded good growth, lifted by increased capacity utilization of Alfa Laval's installed base of products. The trend was driven by increasing global trade, higher capacity utilization in the manufacturing industry and a need for energy efficient heating and cooling solutions.

SALES AND OPERATING RESULT



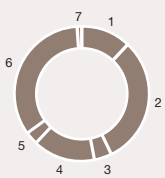
ORDER INTAKE





1	Sweden	6%
2	Other EU	34%
3	Other Europe	8%
4	North America	16%
5	Latin America	4%
6	Asia	30%
7	Other	2%

EMPLOYEES



1	Sweden	12%
2	Other EU	31%
3	Other Europe	4%
4	North America	15%
5	Latin America	3%
6	Asia	34%
7	Other	1%

Process Technology Division

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

Significant events in 2010

– Renewable energy was an area that continued to grow and amounted to an increasing proportion of Energy & Environment. In the same segment, Alfa Laval's ability to transform wastewater into energy, fertilizer or clean water contributed to creating new business opportunities.

– Larger projects that had been put on hold during the financial crisis were resumed in many cases and contributed to building a positive trend.

– Alfa Laval's energy efficient solutions continued to generate new orders, not least in the refinery sector.

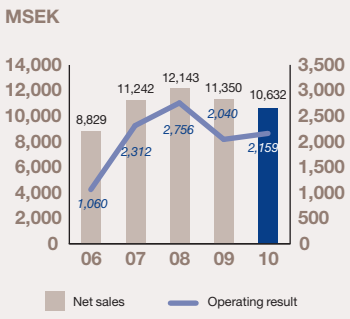
– The market for vegetable oil was strong and, in Food Technology, Alfa Laval succeeded in gaining advantage from the company's strong presence in Asia and Latin America, the regions that noted the greatest growth. Additional solutions for the vegetable oil industry were offered with the launch of a number of new processes including the utilization of enzymes.

– Expansion of the service offering continued and included the establishment of three new service centers.

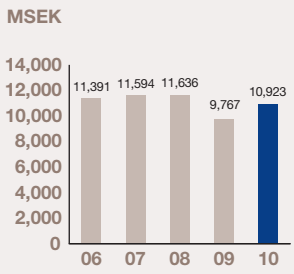
– New opportunities appeared in industrial fermentation including increased global activity in respect of the development of processes to produce biofuels, chemicals and bioplastic through synthetic biology. Life Science's connection to these areas was primarily related to pilot projects or semi-commercial plants.

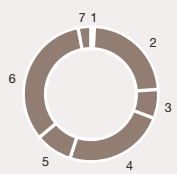
– During the year, integrated gasification combined-cycle (IGCC) environmental technology made further progress. IGCC is a solution that enables coal-fired power stations to generate very low emissions – 99 percent of sulphur dioxide is removed and up to 65 percent of carbon dioxide captured. Alfa Laval supplied products and solutions already at the test stage, and was thus well-positioned when it was announced, during the year, that the world's first, full-scale IGCC facility was to be constructed in the USA. The result was an order worth SEK 80 million for Alfa Laval Packinox heat exchangers, which will be used in a gas cleaning process at the plant.

SALES AND OPERATING RESULT



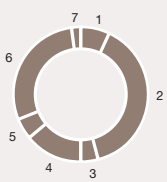
ORDER INTAKE





1	Sweden	1%
2	Other EU	23%
3	Other Europe	7%
4	North America	24%
5	Latin America	9%
6	Asia	33%
7	Other	3%

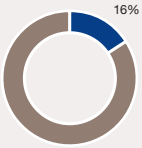
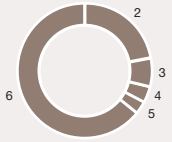
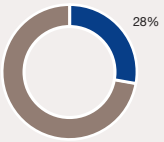
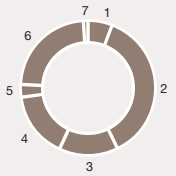
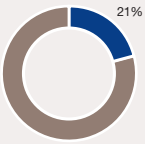
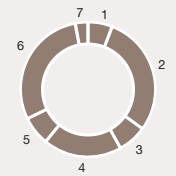
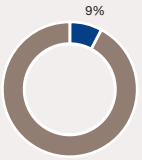
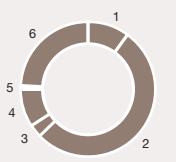
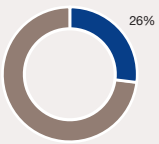
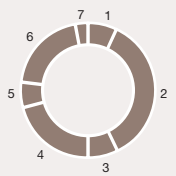
EMPLOYEES



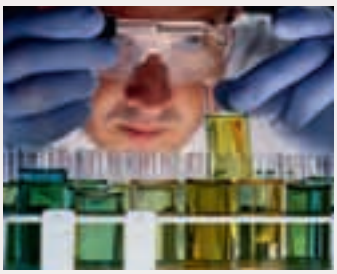
1	Sweden	7%
2	Other EU	39%
3	Other Europe	4%
4	North America	14%
5	Latin America	5%
6	Asia	29%
7	Other	2%

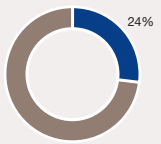
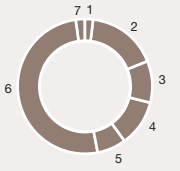
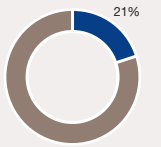
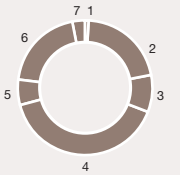
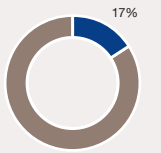
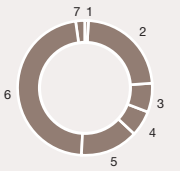
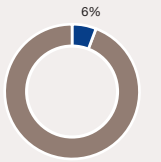
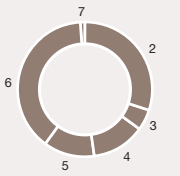
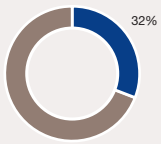
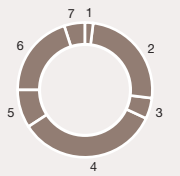
Equipment Division overview

MARKET SEGMENT	OPERATIONS	EXAMPLES OF CUSTOMERS
Marine & Diesel 	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 freshwater. Customers include shipyards, shipowners and manufacturers of diesel engines. About three-fourths of the world's ocean-going vessels carry Alfa Laval products onboard.	– A.P. Moller-Maersk – Carnival Cruise Lines – WAI GAO QIAO SHIPBUILDING CO.,LTD – Hyundai – DSME – Wärtsilä – MAN/B&W
Industrial Equipment 	Industrial Equipment is the result of a merger between two segments; Fluids & Utility and Comfort & Refrigeration. Sales comprises heat exchangers for use in systems for district heating and cooling and air conditioning of plants, offices and shopping malls, cooling and freezing solutions for the food, beverage and pharmaceutical industries and supermarkets. In addition, the segment's customers come from the manufacturing industries to which Alfa Laval sells heat exchangers and separators for temperature regulation of and/or cleaning of liquids to enable their reuse, thus lowering operating costs and protecting the environment.	– VodoKomfort – YIT – Cummins – Spirax Sarco – Beijer Ref
Sanitary 	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 biotechnology industries, all of which have very stringent requirements in terms of hygiene and safety.	Customers include large corporations in the food and pharmaceutical industries. The single most prominent customer is Tetra Pak, the leading supplier of process and packaging systems for the food industry.
OEM 	Customers in this segment include manufacturers of air-conditioning systems, air compressors, air dryers and gas boilers. Among other products, Alfa Laval sells brazed plate heat exchangers, which are later integrated into customers' end-products.	– BRD Thermea Group – Ariston – Bosch – Daikin-McQauy Group – NIBE – Stiebel Eltron – Mitsubishi Electric – Vaillant Group – Vestas – Hitachi
Parts & Service 	Customers are active in all of the Division's segments, with the exception of OEM. The aftermarket is a priority area and the overall strategy is to further develop and expand the spare parts and service operations.	Customers are active in all of the Division's segments, with the exception of OEM.

FORCES DRIVING DEMAND	ORDER INTAKE		Geographic distribution
Marine / Global transport requirements, consolidation in the shipbuilding industry, government initiatives to support local shipyards and environmental legislation. **Diesel /** The need for electricity in remote locations, global energy demand, the need for power reserves, for example, for nuclear power plants and wind farms.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 0% 2 Other EU 22% 3 Other Europa 7% 4 North America 4% 5 Latin America 3% 6 Asia 64% 7 Other 0%
Activity level in the construction industry, energy price trends, the need for energy-efficient solutions, shift toward demand for more environmentally friendly cooling media, environmental legislation, industry capacity utilization, commodity and energy price trends, increased environmental focus, expansion of power supply.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 6% 2 Other EU 37% 3 Other Europa 14% 4 North America 16% 5 Latin America 3% 6 Asia 23% 7 Other 1%
Change in consumption habits as a result of urbanization in growing economies, the development of new medicines, improved standard of living, demographic changes, the need for energy-efficient solutions and expanded food production.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 6% 2 Other EU 29% 3 Other Europa 7% 4 North America 19% 5 Latin America 7% 6 Asia 29% 7 Other 3%
Increased focus on the environment, the need for energy-efficient solutions, government subsidies and energy price trends.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 10% 2 Other EU 53% 3 Other Europa 3% 4 North America 9% 5 Latin America 1% 6 Asia 24% 7 Other 0%
Increased trade, capacity utilization in the global ship fleet, industrial capacity utilization and growth in the installed base.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 7% 2 Other EU 36% 3 Other Europa 7% 4 North America 21% 5 Latin America 6% 6 Asia 20% 7 Other 3%

Process Technology Division overview

MARKET SEGMENT	OPERATIONS	EXAMPLES OF CUSTOMERS
Process Industry 	Alfa Laval's products are used for manufacturing petrochemical products, plastics, polymers, metals, minerals, biofuels, starch, paper and sugar.	– BASF – Bayer – Dow Chemical
Energy & Environment 	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. Alfa Laval is also active in the environmental sector, since the company's products can help customers fulfill increasingly strict environmental requirements and legislation. In the waste treatment segment, Alfa Laval supplies products that reduce sludge volumes so that they can be managed in a cost-efficient manner in municipal treatment plants throughout the world.	– Shell – Total – Petrobras – Statoil – GE – Alstom – Major international cities, including the City of Chicago
Food Technology 	Alfa Laval supplies process solutions for the beverage and food industries. Among other applications, the Group's solutions are used in the production of beer, wine, juice, fruit concentrates, milk proteins and milk sugars, liquid foods, vegetable proteins and meat and fish proteins.	– Cargill – ADM – Bunge – Nestlé – Heineken – Carlsberg – Anheuser-Busch InBev
Life Science 	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 these industries.	– Roche – GlaxoSmithKline – Lonza
Parts & Service 	Customers are active in all of the Division's segments. The aftermarket is a priority area and the overall strategy is to develop and expand the spare parts and service business. It offers customer value, brings customers closer to Alfa Laval and is less sensitive to variations in the business cycle. By creating continuous customer contacts, it facilitates new sales. Read more on pages 38-40.	

FORCES DRIVING DEMAND	ORDER INTAKE		Geographic distribution
Global market prices for raw materials, such as sugar, ethanol, corn, oil and steel, energy price trends, environmental legislation, the need for energy-efficient solutions, the need for productivity enhancements, demand for fuel and a technological shift.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 2% 2 Other EU 17% 3 Other Europa 10% 4 North America 11% 5 Latin America 7% 6 Asia 51% 7 Other 2%
Energy / Oil and gas prices, a growing need for energy in developing countries, national independence (LNG), development of energy production using renewable fuels, increased focus on nuclear power, the need for energy-efficient solutions. **Environment /** New rules and regulations, increased need for freshwater due to a growing population and increased urbanization.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 1% 2 Other EU 21% 3 Other Europa 9% 4 North America 40% 5 Latin America 6% 6 Asia 20% 7 Other 3%
Demographic changes, population growth, improved standard of living, changes in consumption patterns, increased focus on healthy food, subsidies and raw material price trends.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 1% 2 Other EU 23% 3 Other Europa 7% 4 North America 6% 5 Latin America 14% 6 Asia 47% 7 Other 2%
The development of new medicines, improved standard of living, longer life expectancy and economic growth in developing countries.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 0% 2 Other EU 30% 3 Other Europa 5% 4 North America 13% 5 Latin America 12% 6 Asia 39% 7 Other 1%
The general activity level in various industries, the need to upgrade older equipment, an increased need for efficiency and the need for service and spare parts to prevent unplanned stoppages and minimize the time necessary for planned stoppages.	 Share of Division's order intake	 2010 Change in order intake 2009 2008	 1 Sweden 2% 2 Other EU 25% 3 Other Europa 5% 4 North America 34% 5 Latin America 9% 6 Asia 20% 7 Other 5%

Divisions

Operations Division

Operations is a global division responsible for the Group's production-related procurement, manufacture and distribution. Operations must live up to agreements made by the two sales divisions (Equipment and Process Technology) with their respective customers, which entails producing and delivering all products in all markets at the right time, with the right quality and at the right cost. The organization's centralization enables Alfa Laval to achieve high levels of efficiency and reduced operating costs.

Procurement

The procurement organization ensures that the Group's total material needs are met, irrespective of geographic location. Assuring that Alfa Laval's criteria are met in respect of prices, delivery reliability, quality, lead times and terms of payment entail the continual evaluation of the supplier network, a process that was further developed during the year. In other words, the procurement organization's goal is to optimize the supply structure. This comprises ongoing review of existing suppliers, agreements with the aforementioned and the continual search for new suppliers. In parallel, evaluation and thinning is conducted of suppliers that have been added through acquisitions. In addition, Alfa Laval has a development process that examines if suppliers located in fast-growing economies live up to the company's business principles in respect of health, safety and the environment. Read more about this in the Sustainability report on pages 44–47.

Alfa Laval's network of suppliers is well established, with approximately 75 percent of the Group's total purchasing volume originating from about 300 suppliers and about 65 percent (65) occurring within the framework for global contracts. The single most utilized raw material for Alfa Laval is steel, combined with alloys needed including nickel, chrome, molybdenum, copper, aluminum and titanium.

The organization comprises three regional offices, located in India, China and Mexico, and three central offices, based in Sweden and Denmark. This centralization makes it easier to assess the Group's overall material requirements. It also provides an overview of how these requirements are distributed, which facilitates the matching of local production units with suppliers that are able to make both local and global deliveries.

Manufacturing

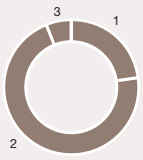
Alfa Laval's production is distributed between 30 (28) major manufacturing units, spread over four continents and has approximately 5,300 employees (4,800). Alfa Laval's goal of adding 3–4 percent sales growth through acquisition each year, results in the continuous integration of new manufacturing units being added. Production is based on manufacturing technology, product group and size, not on application. For example, regardless of their application, large separators are manufactured in Eskilstuna (Sweden), small separators in Pune (India), medium-sized separators in Pune and Krakow (Poland) and assembly of all types of separators in Jiangyin (China).

Production of the various technologies is distributed in a similar manner. The structure is subject to ongoing evaluation to ensure optimal planning and distribution of production. In Europe, all of the product groups are manufactured, in India, production includes separators, decanters, pumps, valves, welded and gasketed heat exchangers and air heat exchangers, in Asia, separators, pumps, valves and various types of heat exchangers are produced and in North America, production includes welded and gasketed heat exchangers as well as shell-and-tube heat exchangers, pumps and valves.

During the year, Alfa Laval's multi-year investments in Lean SixSigma continued. At year-end more than 95 percent (95) of the

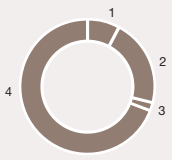
GEOGRAPHY

Investments by geographic market, %



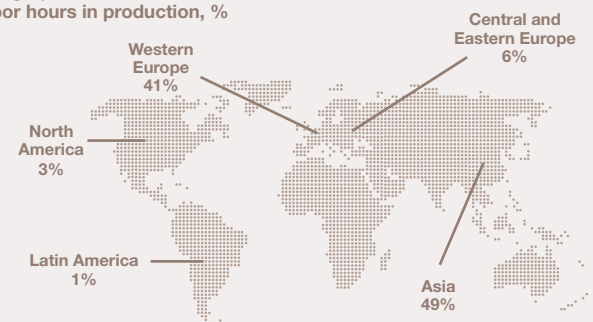
1	Asia	23%
2	Europe	71%
3	North and Latin America	6%

Purchases by geographic market, %



1	North and Latin America	8%
2	Asia	21%
3	Central and Eastern Europe	2%
4	Western Europe	69%

Geographic distribution of direct labor hours in production, %



production units were certified. In parallel with these initiatives, efforts to obtain ISO 14001 certification continued. At year-end, more than 95 percent (95) of the total delivery value came from certified facilities. For more information regarding the consequences of the environmental management system for one individual plant, see the Sustainability section on pages 44–47.

Distribution and logistics

Operations contains a unit that is responsible for all Alfa Laval's transports. The goal is to provide rapid and cost-efficient solutions that, in line with the company's environmental focus, can reduce carbon dioxide emissions. Review of the transports enables the environmental impact of distribution to be reduced. Accordingly, over the past few years, a focused initiative has been underway to reduce use of airfreight in favor of land or maritime transports. In 2010, this trend was slowed due to external factors. In the wake of the financial and economic turbulence in 2009/2010, a considerable change in the content of customer orders occurred. Orders for spares, which tend to be transported by airfreight to meet customer needs and delivery terms, increased as did their share of the total order intake. In parallel, many segments showed signs of a considerable recovery in order intake. This, in turn, placed strain on the logistic system which was solved through increasing the proportion of airfreight. In 2010, approximately 7.5 percent (7) of distribution occurred by airfreight, 32 percent (31) by ship and 60.5 percent (62) by truck.

Alfa Laval has three primary distribution centers located in Tumba and Staffanstorp in Sweden and Kolding in Denmark. The company also has regional distribution centers in Indianapolis (US), Singapore (Singapore), Shanghai (China), Shonan (Japan) and Thane (India). The distribution units conduct continuous tracking of the demand for spare parts and work incessantly to improve the supply and delivery reliability of various products and spare parts.

PRODUCTION UNITS ●

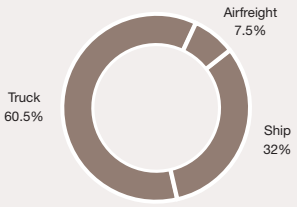
Alfa Laval has approximately 5,300 (4,800) employees and 30 major manufacturing units:

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

DISTRIBUTION CENTERS ●

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

DISTRIBUTION 2010



Article

Heating up Harjavalta

In Harjavalta, a town in Western Finland, residents can thank a local sulphuric acid plant for helping to keep them warm. The plant, owned by Swedish metals company Boliden, recovers so much heat from its production of sulphuric acid that it channels part of the heat to the Harjavalta district heating network and uses the rest in its other factories on site, including copper- and nickel-processing facilities.

Boliden Harjavalta is the Nordic region's largest sulphuric acid plant, producing about 600,000 tonnes of sulphuric acid a year. The closed-loop circuit recovers 10 MW for heating Boliden's nickel and copper production plants in the area and recovers another 10 MW for the municipal district-heating network. "It's a nice side product," says Jyrki Makkonen, General Manager Boliden Harjavalta Oy. "You have to get rid of the energy somehow, and if you can receive some money for it, it's even better. Plus it's wiser from an environmental and emissions point of view."

If this 20 MW of total recovered heat had been generated from oil (priced at USD 70 per barrel), it would have cost around USD 9.5 million per year and generated about 40,000 tons of CO_2 emissions – assuming typical values of boiler efficiency and heat of combustion and 350 days of operation per year. To simplify this estimate, every 1 MW of recovered heat saves about 2,000 tons of CO_2 emissions and a half million dollars in fuel costs annually at today's rates.

In the winter, Boliden Harjavalta supplies about two thirds of the heat for Harjavalta's district heating network, and in the milder summer months it supplies all the heat needed for the city's domestic water. "It's straightforward," Makkonen says. "You turn the energy you have into hot water. Using this hot water is just pure engineering. The tricky part is to figure out the customer and what needs to be heated. Flats, houses, greenhouses, swimming pools, whatever. Just get your thinking 'out of the box' and widen your scope."

Alfa Laval's solution

The Boliden Harjavalta sulphuric acid plant recovers waste heat with semi welded Alfa Laval plate heat exchangers. "It was the introduction of D205 material in the plate heat exchangers that made this possible," says Magnus Renlund, segment manager, Process Industry and Power, Alfa Laval Nordic. Two of the most important components of D205 material are nickel alloy and its silica content. "When you're dealing with sulphuric acid, you need certain plate materials that can withstand strong, concentrated, sulphuric acid." In such plants, plate heat exchangers make it possible to economically recover the heat from the circulating acid in the drying and absorption towers. By installing a closed loop of cooling water, the heat can be used for a range of purposes, such as district heating, boiler feed water preheating, process heating in adjacent plants, space heating of factories and offices, production of freshwater by desalination, and the enabling of more internal electricity generation from waste steam.

How much a plant saves on its own energy costs through this process depends upon many factors, including technology supplier, other investments in energy efficiency and the climate around the plant. The payback time for a plate heat exchanger installation depends on the specific application, but usually somewhere between half a year and three years. "But on average, if we estimate from what we hear from our customers, it might be less than one year for the investment," Renlund says. "And anyway, recovering energy goes in line with reducing CO_2 emissions. This is energy that can and should be used."

FACTS SULPHURIC ACID

> With 195 million tonnes of sulphuric acid produced in 2008 alone, the potential to recover heat and at the same time lower CO_2 emissions is enormous. Based on the calculated savings at Harjavalta, global application of such plate heat exchangers on sulphuric acid plants could save more than 5 million tonnes of CO_2 a year and more than USD 700 million from the higher energy efficiency, according to Alfa Laval's Magnus Edmén, business development manager, market unit Inorganics, Metals and Paper.

> Sulphuric acid is widely used in the chemical industry for the manufacture of fertilizers, batteries, pharmaceuticals, paper, plastic materials and detergents among other products.

> The US is the biggest sulphurproducing nation, followed by Canada. Together, they produce about 30 percent of the total world output. The main consumers of sulphuric acid are large fertilizer producers in the US, Morocco, Tunisia, India, China and Brazil.

Sources: Merchant Research & Consulting, Ltd and the European Sulphuric Acid Association

Parts & Service

Alfa Laval's products are of high quality and have a long service life. In combination with the long history of the company, this means that, today, a substantial amount of the company's equipment is installed at customers all over the world – an installed base that continues to grow.

It is this base of heat exchangers, separators, decanters, pumps and valves that opens up the market for Alfa Laval's aftermarket organization Parts & Service. This part of the business is strategically important as it reports good profitability, is less susceptible to cyclical fluctuations and creates opportunities for new sales. It also fulfills another crucial and decisive function; it adds value for customers. Alfa Laval invests continuously in ensuring that the company's offering provides the optimal match for previously sold equipment in terms of geographic location, product and application to best meet customer needs. Since 2006, the number of employees in this area of operations has increased by nearly 30 percent.

A driving force behind the initial geographic expansion of the Parts & Service organization was the need to meet the existing service and spare parts needs of Alfa Laval's equipment installed on ships. Therefore, it was natural to locate service centers in the vicinity of ports around the world. Alfa Laval has a long tradition with the shipbuilding industry and ship owners, and the company's equipment is currently installed onboard 75 percent of the global ocean-going fleet. This installed base, in turn, generates great demand for spare parts and service, which is why approximately 25 percent of the total order intake for Parts & Service, stems from Marine.

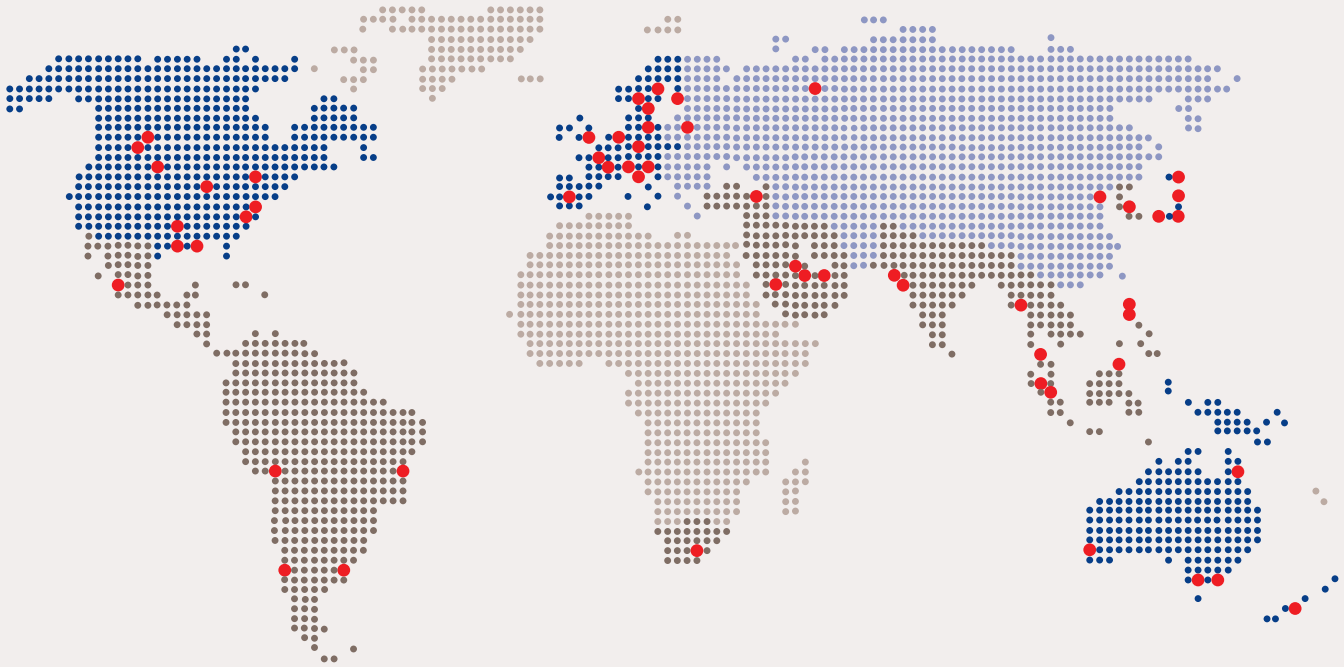
It is however not only the maritime industry that sets high requirements regarding the organization's presence and offering. The last few decades' growth in capital sales has occurred in all sectors, in everything from separators for olive oil production and decanters for wastewater cleaning to heat exchangers for refineries and pumps and valves for the food industry. Alfa Laval's equipment is often found at the heart of a customer's process; performing the most critical tasks. Since unplanned stoppages can be expensive, it is extremely important that Alfa Laval ensures rapid delivery of spare parts and service, which is facilitated by the company's global coverage. However, market presence must be combined with expertise to add value. Critical success factors include service personnel in the field having solid in-depth competence in the products, familiarity with the customers' processes and that this knowledge is continuously updated through training. To ensure a strong offering, Alfa Laval's local units have product expertise, field service and service centers as well as a sales organization.

Alfa Laval has a substantial installed base of products that continuously grows. Additionally, its geographic spread has widened, from existing established markets in Western Europe and the US to fast-growing economies in countries in Central and Eastern Europe, Latin America and Asia. This means that older, well-established markets have stable demand for spare parts and service, while the younger markets have potential for more rapid increases in demand, in pace with equipment ageing. Toward the end of 2010, Alfa Laval had established 57 service centers to meet customer demand from around the world.

Large variation in demand for spare parts and service

Requirements and demand for spare parts vary depending on the type of process in which the product is involved. Take, for example, the following two extreme cases: a plate heat exchanger used to heat a high-rise building and a plate heat exchanger used in a chemical process. The first may function for years without requiring any service, while the latter may need to be cleaned after only a few months. Other decisive factors are how intensively the customer conducts its processes and the complexity of the product itself. The customer's individual preferences and needs also play a vital role.

Some customers need to buy spare parts and service, while others have their own service personnel and only require technical



SERVICE CENTERS

57

Towards the end of 2010, Alfa Laval had established 57 service centers to meet customer demand, around the globe.

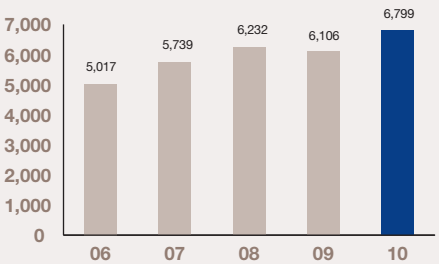
INSTALLED BASE

Substantial, mature installed base that needs to be maintained and renewed.

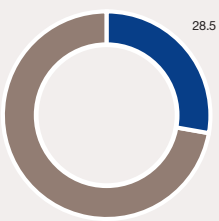
Smaller, newly installed base that is growing rapidly.

A combination of fast-growing markets and niche applications.

ORDER INTAKE, SEK MILLION



SHARE OF GROUP'S ORDER INTAKE, %



GEOGRAPHIC POTENTIAL

Alfa Laval's 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 will rise as new sales increase and the installed base ages.

support and spare parts. Another factor that impacts demand is whether the customer needs to enhance efficiency through investments in upgrades of existing equipment or replacing older equipment with a newer equivalent. However, to achieve optimal product functionality while maximizing service life, regular preventive maintenance is recommended.

Plate heat exchangers
Regular cleaning of a plate heat exchanger maximizes its energy efficiency and service life. However, the extent of this need is determined by the environment in question. Products used in demanding environments, such as chemical processes, require more frequent service and cleaning than those used in less demanding environments.

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

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

Sales of service and spare parts over the total lifetime of a product can be several times higher than the initial investment. Therefore, Alfa Laval's installed products constitute a highly valuable base.

Parts & Service – a business with an extensive range

Alfa Laval's aftermarket business offers everything from solely spare parts to full service. The range on offer includes:

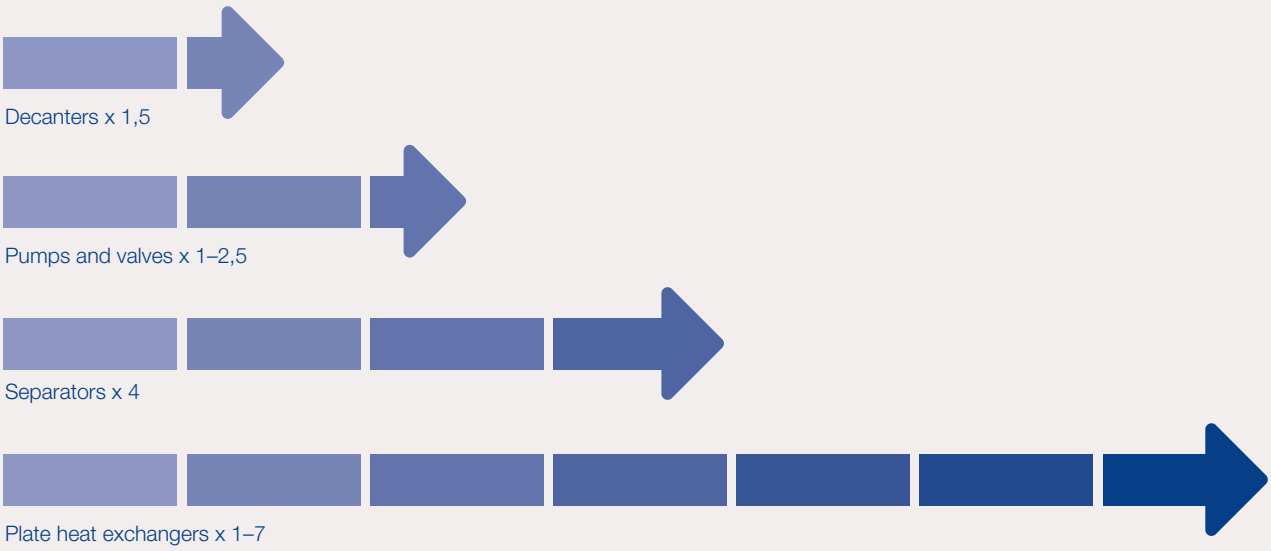
– Spare parts
– Cleaning
– 24 hour a day technical assistance from field service engineers, 7 days a week
– Training in maintenance procedures to enable the company to undertake its own maintenance
– Four levels of maintenance agreements
– Planned maintenance agreements, tailored to fit customer needs and desires
– Equipment monitoring to ensure that maintenance and service is carried out at the correct opportunity
– Reconditioning and repair
– Application engineers that review customer processes on site and propose improvements
– Upgrading of existing equipment to raise performance.

Developments in 2010

– The Parts & Service business' share of the Group's total order intake has varied between 20 and 28 percent since 2002. The fluctuations are rather due to trends in capital sales than due to any significant changes in demand for its own products and services. In absolute terms, Parts & Service has reported consistent growth, with the exception of 2009 when the economic crisis caused customers to lower capacity utilization thus reducing the need for maintenance and spare parts. In 2010, business recovered in pace with customers increasing activities and the order intake amounted to SEK 6,799 million, compared with SEK 6,106 million in 2009.

– The focus on a local presence increased during the year. This led to another three service centers being established, in Australia, Qatar and Malaysia. In addition, a number of existing service centers expanded. At the end of 2010, Alfa Laval had a total of 57 service centers around the world. Five of these comprised either expansion or relocation to better match market demand.

LONG-TERM POTENTIAL – THE VALUE OF THE AFTERMARKET RELATIVE TO NEW SALES



Employees
















Employees

When people grow, the company grows

Alfa Laval aims to be an attractive employer for its employees, who averaged approximately 12,100 during 2010. Of these, 17 percent were employed in Sweden. The remaining 83 percent had their workplace in the other more than 50 countries where the company operates.

All employees are subject to Alfa Laval's business principles that address diversity, individual development, a ban on discrimination, requirements for a safe work environment and the right of employees to freedom of association and to conclude collective agreements. The employees constitute the company's most important asset for achieving success and are its foremost ambassadors as regards attracting future employees. For these reasons, Alfa Laval focuses on creating a pleasant and safe work environment that provides opportunities for progress and personal development. For more information regarding a career at Alfa Laval, go to www.alfalaval.com/career.

Diversity

Achieving global success requires that Alfa Laval capitalizes on its employees' varied cultural, national and social backgrounds as well as genders. Diversity enriches operations and increases understanding of the wider context in which the company operates. It contributes to creativity, provides new perspectives and inspires innovative thinking. For these reasons, equal opportunity and diversity are at the essence of Alfa Laval's recruitment processes, personnel development and appointment of managers. The goal is for all Group employees to feel they have career paths open to them.

During 2010, 82 different nationalities were employed in the company and 19 percent of the employees were women. During the same period 28 nationalities were represented among the company's level 3 managers, that is, managers who report directly to a member of Group management. The proportion of women amounted to 17 percent. Changing this proportion is a priority but constitutes a long-term initiative. Change is to be accomplished through the creation of opportunities and removal of barriers rather than through a quota system. One example of how Alfa Laval has opened new paths for employees is the implementation of open recruitment via the intranet. All available positions, including managerial positions, are announced and all employees can apply. This comprises a significant change to previously when a position was not announced, thus reducing the number of possible candidates. Open recruitment broadens the base of potential applicants, leading to increased mobility and diversity.

When people grow, the company grows

Alfa Laval takes a proactive approach to skills development, a key




factor in stimulating and motivating. Alfa Laval's focus on development comprises four building blocks: consolidating Alfa Laval as an attractive employer in the labor market – both internally and externally, recruitment and training, and the focused initiatives to attract and develop talent.

Alfa Laval offers a wide variety of training and development opportunities. These include Challenger, a program to promote young talent, and Impact, a mentor program for female leaders. In addition, there is Alfa Laval Academy, which comprises four faculties and a range of educational programs adapted to most levels in the organization. The range is extensive and includes sales, marketing, leadership, project management, Six Sigma, pricing and courses in many other areas. In addition, the company utilizes E-learning, which enables an individual to study distance courses, all that is required is an Internet connection. This type of training does not have lectures, but does require considerable activity from the student. Alfa Laval's various training programs are run on an ongoing basis, though 2010 saw a specific initiative to roll out the leadership program Pure Leadership to managers in subsidiaries in the world's fast-growing economies.

Health and safety

Alfa Laval is pledged to create a healthy and safe work environment for all employees, which entails continuous improvement within the areas of safety and health. The minimum standard acceptable is compliance with local and national legislation in these fields. This is then supplemented by Alfa Laval's business principles.

In 2009, Alfa Laval started a global program for health and safety (Occupational Health & Safety) to achieve greater focus on preventative measures. In 2010, the pace of the program accelerated and Alfa Laval took another step forward in its aim to provide all employees a safe and healthy work environment. The goals have been set – in 2013, the number of injuries and time lost due to injuries must be halved and absence due to ill health or injury must be reduced by 5 percent per year. The intensified efforts started to have effect in 2010 when the number of injuries dropped 3.5 percent from 2009, maintaining the trend of reduction. By the end of the year, eight plants had achieved certification in accordance with OHSAS 18001.

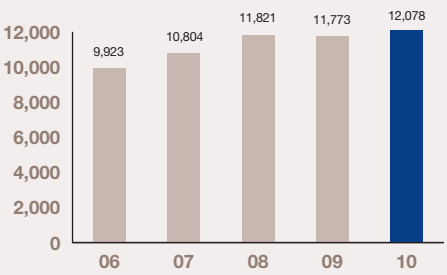
Alfa Laval also provides health promotion activities for employees. These vary from country to country and place to place and may include anything from local exercise facilities, with a gym and workout room, to help with giving up smoking.

Employee survey measures the level of satisfaction

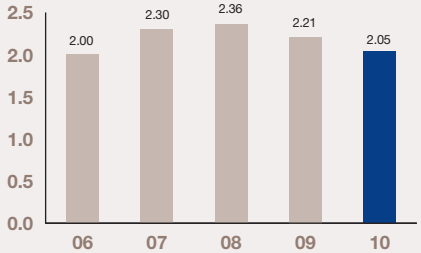
At the end of 2009, Alfa Laval's Groupwide employee survey, Compass, was launched. This survey, which includes around 50 questions, will be carried out every second year with a follow-up survey in between. The response rate was substantial from the start and the percentage of answers received reached 91 percent, thus providing an excellent basis for analysis and follow-up. The results are comparable over time, and even against other companies.

The survey is a development tool meant for improving work in and between groups, with the long-term goal of positively affecting the company's profitability. Compass measures how familiar the employees are with the company's strategies and whether they are acting in line with them, while also measuring the level of satisfaction in the organization by asking questions that identify how employees perceive respect, collaboration, ability to exercise influence, information flow and confidence within the Group. The objective of Compass is for the findings to result in solid proposals for improvement, an objective that was amply achieved after the first survey. In 2010, 5,242 different action plans were launched in response to the results of the 2009 survey.

AVERAGE NUMBER OF EMPLOYEES



SALES PER EMPLOYEE, SEK MILLION



EMPLOYEES PER REGION

1	Sweden	17%
2	Other EU	34%
3	Other Europe	3%
4	North America	11%
5	Latin America	3%
6	Asia	31%
7	Other	1%

Sustainability

Vision:

Committed to creating better everyday conditions for people

Alfa Laval's products are often at work at the very heart of our customers' processes, where they optimize the energy use and reduce environmental impact. They also indirectly contribute to creating better everyday conditions for people as they participate in the pasteurization and processing of milk or fruit juices; the processing and refrigeration of food; the creation of a comfortable indoor climate; the production of bio-fuels for cars and buses; the reduction of pollution from diesel engines; the production of pharmaceuticals and the cleaning of wastewater from domestic and industrial processes.

Our products are used to help create better everyday conditions for people in so many ways, providing us with a natural driver for the way we act and do business. This is encapsulated in our Business Principles, which are based on the United Nations' Global Compact and are the result of a consultation involving Swedish investors, trade-union representatives and employee representatives from the European Works Council, as well as sustainability consultants.

Alfa Laval's Business Principles

Environmental: Optimizing the use of natural resources is our business.

Social: Respect for human rights is fundamental.

Business Integrity: High ethical standards guide our conduct.

Transparency: Our commitment to open dialogue builds trust.

Alfa Laval's structure for working with sustainability

When the Business Principles were launched, it was stressed that they must apply to the entire organization. For this to happen, line management has to be responsible for implementing improvements. At the same time, a management structure was developed to decide on Groupwide priorities:

– Alfa Laval's Board of Directors reviews results, progress, priorities and targets at least once a year.

– Group Management sets annual goals, decides on priorities and allocates resources for all areas covered by the Business Principles, as a regular part of its meetings. It also discusses in detail specific projects regarding social and business ethics.

– The Environmental Council is responsible for environmental operational decisions, project establishment, results and progress reviews. It is also responsible for the environmental management system, data reporting processes and tools. It makes recommendations on priorities and targets to Group Management. The Council is run by the Senior Vice President, Operations, who is a member of Group Management.

– The Health and Safety Council, set up in 2009, focuses on health and safety matters at a Groupwide level. It is run by the Vice President of Human Resources, who is also a member of Group Management.

– Internal Audit assesses compliance with the Business Integrity Principle and also audits environmental and social aspects as part of its scope of work.

Annual progress reports and a sustainability report, based on the Global Reporting Initiative Guidelines, can be found in the sustainability section of the Alfa Laval website: www.alfalaval.com/about-us/sustainability.

Key initiatives and results in 2010

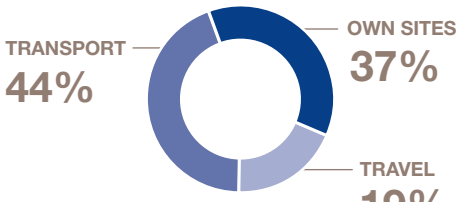
Environment

– Continuous energy-saving projects at production sites focus on, for example, implementing more efficient lighting, heating and cooling systems, as well as improving energy efficiency of production processes. Since 2007, 44 projects has been completed saving an estimated 4 percent of energy consumption. Additional projects are currently in progress.

– Greenhouse gas emissions from transportation of goods totaled 42,000 tons versus 31,000 tons in 2009. The increase is partly due to a 26 percent increase in tonnage of goods shipped and

Sustainability

Alfa Laval's carbon-dioxide emissions in 2010



TOTAL, TONS
95,000

partly a result of proportionally more parts and fluid handling products being shipped by air freight in response to rapidly changing market demands. Air freight has a significantly greater emissions impact compared to surface transportation.

– Alfa Laval's calculated carbon-dioxide emissions from production and service facilities totaled 36,000 tons (35,000). Additional sites, included for the first time in the 2010 reporting, contributed a combined total of 650 tons. Helped by energy saving projects emissions increased at a lower rate than the rise in production volume.

– Alfa Laval targets a 15-percent reduction in the calculated carbon dioxide emissions between 2007 and 2011. The target includes production and service workshops as well as employee and goods transportation. Many progress efficiency projects were completed in 2008 and 2009 and we seemed on track to achieving our goal. During 2010 the need to respond to very rapidly changing and growing sales demands caused some disruption. While energy-efficiency improvements in factories, together with lower car fleet emissions, had a positive impact, an increase in air freight caused a negative effect. Achieving our five-year goal in 2011, now seem very stretched.

– Changes in the company car policy toward more environmentally friendly models reduced the calculated CO_2 emissions of the car fleet to an average of 175 g/km, compared with 186 g/km in 2007.

– Employee travel increased as the economy started to recover. This had a negative effect on calculated emissions, which rose 17 percent in 2010.

– Lifecycle assessments of new products continued and 23 (19) new products were assessed during the year. Of these, 18 directly replaced existing products. One product had a 25 percent higher environmental impact, but the remaining new products could show a 11 to 24 percent smaller environmental impact than the products they replaced. See Case 3.

Case 1

Improving the internal energy efficiency

Alonte is a small town of some 600 households, located in the province of Vincenza in northeast Italy. Alfa Laval has a plant there that manufactures heat exchangers for air conditioning and refrigeration applications. Under the supervision of environmental manager Marco Coquinati, it has also been a pioneer of Alfa Laval's environmental management system: "We have always been very conscious of our plant's impact on the community and on the environment. Still, when we started working systematically with the environmental management system, we found many ways to further improve our performance."

The first priority was to gain better control of the chemicals used on the site. On systematically going through Alfa Laval's list of restricted chemicals, ways were found to eliminate the chemicals, one after the other. A major breakthrough came when a way was found to change the production process, enabling degreasing of the product during the actual production phase without the use of chemicals. Another positive effect was that it improved productivity and quality while cutting the consumption of natural gas and water.

After that, attention was turned to the site's energy consumption and energy meters were fitted throughout the factory. By improving lighting, heating and compressed air systems, the site's energy consumption has been cut by almost 20 percent since 2006.

"Production volumes and change in the mix of products we manufacture, makes year-on-year comparisons difficult but, based on the savings from our projects, we are confident that we have reduced our energy and hence greenhouse gas emissions by 19 percent since 2006 – exceeding the group target," says Coquinati.

Social

– Alfa Laval's supplier development process continued. The aim is to improve health, safety and working conditions in developing economies. More than 200 (200) suppliers in India, China, Mexico and Eastern Europe were included in this process by the end of the year and more than 130 (150) social inspections were carried out. The average score has improved by approximately 3 percent.

– A new Health and Safety policy and reporting system was introduced. See pages 42–43.

Case 2

Working with suppliers

Veekay Engineering in Satara (Maharashtra India) was founded in 1997. It is a small specialist metal fabrication and cutting company, managed by Sunil Sanglikar:

"We became a part of Alfa Laval India's supplier health, safety and environment development program in November 2006. At first, we were a little confused because we had supplied them with quality products for some years. After a couple of visits by their HSE inspectors, we started to see our operations in a different way and have steadily improved our HSE score from 38 percent to 75 percent. Clearly, we still have some way to go, but this initiative has helped greatly. Our employees now enjoy a much-improved work environment, with fewer accidents and machine breakdowns, and so our productivity has increased. Our new way of working has also definitely helped us to win new customers, including our first export orders."

Business Integrity

–The training of management in the Fair Competition Policy continued. This helped identify a number of potential non-compliances due to limited prior knowledge of detailed points in the relevant legislation. All risks identified were discussed with the Group Legal department and, when necessary, with external legal counsels. Corrective action on the wording of some customer contracts was required in a few cases.

– The whistle-blower process was used to notify management of ethical non-compliances in one country in Asia. This resulted in a forensic examination, which found that the Business Principles had been compromised. As a result, all employees were trained in the Business Principles with a special focus on business integrity. This was followed up by the introduction of new internal controls. A few months later, interviews were conducted to assess the effectiveness of the training.

– The Business Principles are part of the due diligence carried out in an acquisition process. New acquisitions are normally also audited within six months. The audit includes a focus on identifying any non-compliance with Alfa Laval's business integrity policies.

Transparency

The structure of our sustainability reporting, which was changed in 2009, received generally positive feedback from stakeholders.

In recognition of the growing importance of sustainability issues for various stakeholders, we have received an increasing number of requests for individual data reports and specific questions from analysts and rating agencies. In order to comply with our own Transparency Business Principle, we have adopted a policy where we will include supplementary questions in our GRI report and answer them when this is updated each year. Consequently, we will no longer populate external databases with sustainability data.

We welcome dialog with all stakeholders. We are very pleased to have the opportunity to comment on draft reports about Alfa Laval's sustainability performance. We particularly welcome meetings with those who share Alfa Laval's commitment to creating better everyday conditions for people.

Case 3

New, more efficient products

Alfa Laval's large decanter centrifuges can be used to dewater the sludge in municipal water treatment plants. These decanters compete with another technology - belt filter presses.

The key issue for sludge dewatering is to separate the water from the sludge and thus produce a dry cake. Increasing the amount of water extracted cuts the volumes and the weight of the dry cake. This means lower financial and environmental costs when the dry cake is transported for disposal. If the cake is used instead to generate heat or power through incineration, then the dryer it is, the more efficiently it will release its energy.

The decanter separator normally has a higher cost than the belt filter technology it often replaces. However, over the product's entire life cycle savings are considerable. Life-cycle thinking and design for the environment is well established in Alfa Laval. By adding Alfa Laval power plates, the decanter's energy consumption can be reduced by up to 40 percent, while at the same time generating a 10-percent dryer cake.

NATURAL PROCESS

ANIMAL / Starfish
TECHNOLOGY / Flow management
PRODUCTS / Pumps and valves

A star of survival

Although starfish have neither heart nor blood circulation, they have developed an unusually smart way to survive in the ocean. They have a hydraulic network of canals, or a vascular system based on water flow. Their vascular system runs through the body and ends in a series of "tube feet", which can be seen on the starfish's tentacles or arms. By extending and contracting its tube feet, the starfish sucks sea water into its body to vary the internal water pressure. This multi-function governs the starfish's entire existence: breathing, locomotion, food collection and waste disposal. A real survivor, in other words. But a flow management expert too.

For exact flows

Transporting liquids and controlling flows efficiently and safely is central to many industries. Alfa Laval focuses on sanitary flow products for industries in which hygiene demands are high. The fluid handling equipment achieves exact pumping of all types of liquids in a range of applications. The company's pumps, valves and installation material are used in the manufacture of beverages, dairy products, food, pharmaceuticals, and health and beauty products. Alfa Laval also offers solutions for tank cleaning in the above industries, and for the process industry. The pumps used in sanitary environments are mainly centrifugal pumps, rotary lobe pumps and liquid ring pumps. Other fluid handling products include valves, tank cleaning products and various types of installation materials.

Financial statements

Board of Directors' Report

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2010 to December 31, 2010.

The information in this annual report is such information that Alfa Laval AB (publ) must publish in accordance with the Securities Market Act and/or the Financial Instruments Trading Act. The information was made public by publishing the annual report on Alfa Laval's website on March 31, 2011 at 9.00 CET and by sending the printed annual report to the shareholders in week 14, 2011 starting at April 4, 2011.

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

Financial statements

The following parts of the annual report are financial statements: the Board of Directors' Report, the ten-year overview, the consolidated cash flows, the consolidated comprehensive income, the consolidated financial position, the changes in consolidated equity, the parent company cash flows, the parent company income, the parent company financial position, the changes in parent company equity and the notes. All of these have been audited. The rest of the annual report has been reviewed by the auditors.

The Corporate Governance Report, which also has been audited, is to be found on page 120.

Ownership and legal structure

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

The company had 33,566 (33,780) shareholders on December 31, 2010. The largest owner is Tetra Laval B.V., the Netherlands who owns 18.7 (18.7) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 8.8 to 1.1 percent. These ten largest shareholders own 44.3 (48.0) 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 business is divided into the two business divisions "Equipment" and "Process Technology" that sell to external customers and one division "Other" covering procurement, production and logistics as well as corporate overhead and non-core businesses. These three divisions constitute Alfa Laval's three operating segments.

The business divisions (operating segments) are in turn split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The Equipment division consists of five customer segments: Industrial Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service. In 2010 the two former customer segments Comfort & Refrigeration and Fluids & Utility Equipment were combined into the customer segment Industrial Equipment. The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

Material factors of risk and uncertainty

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

Acquisition of businesses

The full information on the acquisitions is found in Note 17. Below follows a shorter summary of each acquisition.

During 2010

In a press release on December 21, 2010, Alfa Laval announced that an agreement had been signed to acquire Aalborg Industries Holding A/S for a total cash consideration of SEK 5.0 billion, on an enterprise value basis, from Altor 2003 Fund, LD Equity and the company's management. Aalborg Industries has some 2,600 employees and is expected to generate sales of about SEK 3.3 billion in 2010. The acquisition will be accretive to EPS from 2011. The closing of the transaction is subject to clearance from regulatory authorities. For further information reference is made to the issued press releases.

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

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

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

On April 1, 2010 Alfa Laval acquired 65 percent of the shares in Si Fang Stainless

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

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

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

In addition one minor acquisition has been made during 2010:

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

During 2009

On September 1, 2009 Alfa Laval acquired 90 percent of the shares in LHE Co., Ltd in South Korea – a leading heat exchanger company in South Korea. The company targets the compact plate heat exchanger market. LHE will continue to offer its own product range, under the LHE brand, through its own sales network. The company had a turnover in 2009 of SEK 593 million. Lars Renström, President and CEO of the Alfa Laval Group commented: "LHE is a well-managed company with strong presence in South Korea and with a large potential in Asia. With the acquisition of LHE the Alfa Laval Group achieves profitable growth by adding an independent channel to the heat exchanger market."

On August 14, 2009 Alfa Laval acquired PHE Indústria e Comércio de Equipamentos Ltda in Brazil, a company that services plate heat exchangers in a variety of industries. It will be integrated into Tranter. The company is consolidated in the Alfa Laval Group from August 1, 2009. Together with the other Latin American business mentioned below the turnover for 2009 was SEK 44 million. Lars Renström, President and CEO of the Alfa Laval Group commented: "With this acquisition we strengthen Tranter's presence in Brazil, especially in the heat exchanger service area which supports new sales. Our multibrand strategy has been successful and Tranter continues to offer its own product range under the Tranter brand through its own distribution network."

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 almost 2.2 million shares corresponding to approximately 12 percent of the total number of shares accepted to sell their shares. This means that the ownership in the Indian subsidiary has increased from 76.7 percent to 88.8 percent. The total cost for the acquisition was SEK 376 million.

On February 1, 2009 Alfa Laval acquired HES GmbH Heat Exchanger Systems in Germany, a company with focus on spiral heat exchangers mainly to the process industry. The company will be integrated into Tranter. The company's net sales for 2009 were SEK 99 million. Lars Renström, President and CEO of the Alfa Laval Group commented: "With this acquisition we strengthen Tranter's product offering, especially their welded product portfolio. Our multibrand strategy has been successful and Tranter continues to offer their own product range under the Tranter brand through their own distribution network."

On January 16, 2009 Alfa Laval acquired Onnuri Industrial Machinery Co., Ltd, a South Korean system provider to the shipbuilding and diesel power markets. Onnuri will remain a separate company as it will continue to offer its own systems under the Onnuri brand. Onnuri's net sales for 2009 were SEK 81 million. Lars Renström, President and CEO of the Alfa Laval Group commented: "The acquisition is in line with Alfa Laval Group's strategy and adds both presence and a complementary channel to the shipbuilding and diesel power markets. By acquiring Onnuri, we increase our local presence which makes us even more fit to meet demands from the important Asian shipbuilding and engine builder markets. We also get access to marine, as well as diesel engine, system building competence."

On January 14, 2009 Alfa Laval announced that it had acquired one company and signed an agreement to acquire another, both major providers of parts and service for a variety of products, applications and geographical areas. Both companies will remain separate organisations as they continue to offer their own products and services to the industry, under their own brands. One company is consolidated in the Alfa Laval Group from January 1, 2009 and the other company from January 30, 2009. The combined net sales in 2009 for the two activities were SEK 258 million. Lars Renström, President and CEO of the Alfa Laval Group commented: "The acquisitions are in line with Alfa Laval Group's strategy of primarily acquiring companies that complement the existing business in terms of products, geography or in the form of new sales channels. In this case the Alfa Laval Group adds complementary channels, for aftermarket equipment and service. With these two acquisitions we are adding presence in the aftermarket business, covering both separation and heat transfer products used in aftermarket intensive industries. We are by this adding about 5 percent to our annual parts and service sales."

In addition four minor acquisitions have been made during 2009:

On February 4, 2009 Alfa Laval acquired the Polish company Termatrans that has been acting as Tranter's distributor in Poland. It will be integrated into Tranter. Termatrans' net sales for 2009 were SEK 18 million.

On February 22, 2009 Alfa Laval acquired another minor business in Latin America that also will be integrated in Tranter.

On July 15, 2009 Alfa Laval acquired the assets in the Danish company ISO MIX A/S. The business has been integrated into the

Danish company Alfa Laval Tank Equipment A/S. The turnover for 2009 was SEK 1 million. On November 9, 2009 Alfa Laval acquired the remaining 9 percent of the Indian company MCD Nitrile India Pvt Ltd, which thereby became a wholly owned subsidiary.

During 2008

On August 15, 2008 Alfa Laval acquired the U.S. company Hutchison Hayes Separation, which is a leading provider of separation equipment, parts and services, mainly to the U.S. 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 U.S.. The company had a turnover in 2008 of SEK 139 million. The acquisition of Hutchison Hayes Separation is in line with the Alfa Laval Group's strategy of primarily acquiring companies that complement the existing business in terms of products, geography or in the form of new sales channels.

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. Pressko's net sales in 2008 were SEK 44 million. The acquisition of Pressko supports the strategy of the Alfa Laval Group – to primarily acquire companies that complement the existing business in terms of products, geography or in the form of new sales channels.

On June 13, 2008 Alfa Laval acquired about 44 percent of the Swedish company Ageratec that develops innovative process solutions for the biodiesel industry. Lars Renström, President and CEO of the Alfa Laval Group commented: "Non-food based feedstock plays an increasingly important role in the production of biodiesel and the reuse of vegetable cooking oil is one very good example of this development. This is today also driving Ageratec's business. By acquiring a minority stake in Ageratec we will be in the frontline of the process development for the biodiesel industry." On December 29, 2008 Alfa Laval increased its ownership to about 68 percent and Ageratec became a subsidiary. Ageratec's net sales in 2008 were SEK 58 million.

On June 1, 2008 Alfa Laval acquired the U.S. 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's net sales in 2008 were SEK 249 million. Lars Renström, President and CEO of the Alfa Laval Group commented: "By acquiring Standard Refrigeration we are increasing our presence in the North American commercial refrigeration and industrial markets. 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."

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. During 2008 the company had a turnover of SEK 16 million.

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 company's net sales for 2008 were SEK 12 million.

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 company's net sales for 2008 were SEK 1 million.

Sale of real estate

During 2010 a property in France was sold for SEK 6 million with a realised gain of SEK 6 million and a property in India was sold for SEK 7 million with a realised gain of SEK 4 million. The French property was for sale already at the end of last year, but it was not expected to be sold in 2010. One small property in France is planned for sale. It is empty and has been for sale for several years. It is not expected to be sold within the next year. This means that no property has been re-classified as current assets held for sale. The situation was the same at the end of 2009. The fair value of the concerned property exceeds the book value by approximately SEK 2 (8) million.

During 2009 no major sale of properties took place. No property was re-classified as current assets held for sale.

During 2008 a property in Brazil was sold for SEK 113 million with a realised gain of SEK 102 million. No property was re-classified as current assets held for sale.

These disposals are reported as comparison distortion items in Note 9 to the consolidated comprehensive income statement.

Orders received

Orders received

Orders received amounted to SEK 23,869 (21,539) (27,464) million during 2010. Excluding exchange rate variations, the order intake for the Group was 15.9 percent higher than last year. Adjusted for acquisitions of businesses [1], the corresponding figure is an increase by 11.8 percent.

Order bridge

Consolidated			
SEK millions, unless otherwise stated	2010	2009	2008
Order intake last year	21,539	27,464	27,553
Structural change	4.1%	2.2%	2.6%
Currency effects	-5.1%	6.5%	0.1%
Organic development	11.8%	-30.3%	-3.0%
Total	10.8%	-21.6%	-0.3%
Order intake current year	23,869	21,539	27,464

Excluding exchange rate variations, orders received from the aftermarket "Parts & Service" increased by 16.2 percent during 2010 compared to last year. Its relative share of the Group's total orders received was 28.5 (28.3) percent.

1) Acquired businesses are:
Olmi at December 6, 2010,
Definox at November 1, 2010,
Si Fang Stainless Steel Products Co. Ltd at April 1, 2010,
Astepo S.r.l. at April 1, 2010,
a leading service provider on the North American market at January 6, 2010,
Champ Products Inc, at January 5, 2010,
LHE Co. Ltd at September 1, 2009,
PHE Indústria e Comércio de Equipamentos Ltda at August 1, 2009,
HES at February 1, 2009,
Onnuri Industrial Machinery at January 16, 2009,
two providers of parts and service at January 14, 2009,
Ageratec at December 29, 2008,
Hutchison Hayes Separation at August 15, 2008,
Pressko at July 31, 2008,
Standard Refrigeration at June 1, 2008,
Høyer Promix at February 11, 2008.

Large orders

Large orders are orders with a value over EUR 5 million. The volume of large orders is an important indicator of the demand situation and is therefore monitored separately within Alfa Laval. A large volume of large orders normally also means a good load in the factories. During 2010 Alfa Laval has received large orders for SEK 960 (900) million. By quarter it has looked like the following:

During the first quarter 2010 Alfa Laval received large orders for SEK 140 (140) million:

– An order for an evaporation system to a pulp and paper mill plant in Malaysia. The order value is about SEK 50 million and delivery will be completed in 2011.
– An order for Alfa Laval Packinox heat exchangers from a Saudi Arabian refinery. The order value is about SEK 90 million and delivery is scheduled for 2011.

During the second quarter 2010 Alfa Laval received large orders for SEK 240 (105) million:

– An order from an Indian refinery for the largest Alfa Laval Packinox heat exchanger ever. The order value is about SEK 95 million and delivery is scheduled for 2011.
– Two orders for Alfa Laval PureBallast systems from two leading shipyards in South Korea. The systems will be installed onboard 14 vessels built for A.P. Møller-Maersk. The total order value is about SEK 80 million and the delivery is scheduled for 2011 and 2012.
– An order for heat exchangers, various fluid handling and tank cleaning equipment to be used in production of a well-known health drink in India. The order value is about SEK 65 million and delivery is scheduled for 2010 and 2011.

During the third quarter 2010 Alfa Laval received large orders for SEK 270 (175) million:

– An order for decanter centrifuges for a waste water treatment plant in Chicago in the U.S.. The order value is about SEK 250 million of which SEK 40 million was booked in June. Delivery is scheduled to be finalized during 2013.
– An order from Tata Chemicals for heat exchangers to be used in evaporation systems for production of salt in India. The order value is about SEK 60 million and delivery is scheduled for 2011.

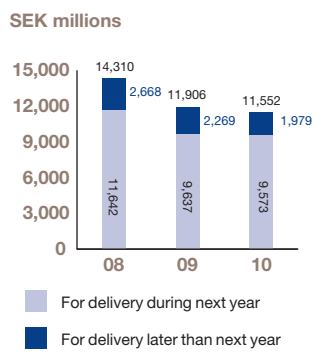
During the fourth quarter 2010 Alfa Laval received large orders for SEK 310 (480) million:

– An order for Alfa Laval Packinox heat exchangers to be used in an Indian refinery. The order value is about SEK 110 million and delivery will be finalized during 2011.
– An order for Alfa Laval Packinox heat exchangers to be used in a refinery in India. The order value is about SEK 50 million and delivery is scheduled for 2011.

– An order for compact heat exchangers from a refinery in Russia. The order value is about SEK 70 million and delivery is scheduled for 2011.
– An order for Alfa Laval Packinox heat exchangers to be used in the world's first full-scale IGCC (Integrated Gasification Combined Cycle) process for power generation with carbon capture, which will be placed in the U.S.. The order value is about SEK 80 million and delivery is scheduled for 2012.

Order backlog

Order backlog December 31



The order backlog at December 31, 2010 was SEK 11,552 (11,906) (14,310) million. Excluding exchange rate variations and adjusted for acquisitions of businesses the order backlog was 5.3 percent lower than the order backlog at the end of 2009.

Net sales

Net sales amounted to SEK 24,720 (26,039) (27,850) million during 2010. Excluding exchange rate variations, the net invoicing was 0.8 percent lower than last year. Adjusted for acquisitions of businesses, the corresponding figure is a decrease by 5.2 percent.

Operating segments

EQUIPMENT DIVISION

The Equipment division consists of five customer segments: Industrial Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service. In 2010 the two former customer segments Comfort & Refrigeration and Fluids & Utility Equipment were combined into the customer segment Industrial Equipment.

Orders received and net sales

(all comments are after adjustment for exchange rate fluctuations)

Orders received increased by 15.8 percent and net sales increased by 0.5 percent during 2010 compared to last year. Adjusted for acquisitions of businesses, the corresponding figures are an increase by 11.5 percent and a decrease by 3.0 percent respectively.

Taking a quarterly view the development for Equipment division during 2010 has been as follows:

The order intake in the first quarter for the Equipment division was lower than the corresponding period last year. However, compared to the previous quarter the order intake increased slightly. The order intake for Industrial Equipment decreased compared to both the corresponding period last year and the previous quarter. Despite this some applications within the refrigeration and general industrial utilities recorded higher order intake than in the previous 15 months. In Sanitary order intake increased compared to the first quarter last year on all main applications; dairy, beverage, cosmetics and in particular pharmaceuticals. The base business* is the main driver for the development. In the first quarter OEM decreased compared to the corresponding quarter last year, but increased compared to the previous quarter. This development is mainly attributed to the increased demand for customer products and supply contracts won for new products being introduced to the market. Continued government subsidies provide some stability for the demand for customer products in solar energy, heat pumps and boilers. Marine & Diesel continues to operate in a turbulent market environment. Diesel power investments continue to be postponed, but there is an underlying demand. The order intake for Parts & Service rose compared to both the corresponding quarter last year and the previous quarter. The effects of global financial recovery are impacting shipping activity and thus utilisation rates, which increases the demand for spare parts. Utilisation rates and an increased installed base have similarly given a good order intake development for other applications.

Order intake in the second quarter was characterized by strong growth compared to both the same period last year and the first quarter. The development was general with the base business as the main driver, particularly in the segments Industrial Equipment and Sanitary. In Industrial Equipment there was good demand for refrigeration solutions, mainly driven by investments in both commercial and industrial cooling. An example of this is the food industry. Sanitary Equipment continued to see strong demand in its three main application areas; dairy, food and pharma. OEM also had a good development supported by continued growth in the order intake for brazed heat exchangers. Marine & Diesel showed an increase through larger orders for diesel radiators and ballast water treatment. An increase in consumption and world trade has led to higher activity levels and utilization rates. Altogether this continued to increase demand for Parts & Service, which reported growth compared to the second quarter of last year and had a stable development compared to the first quarter.

The Equipment division showed a continued good development in the third quarter and all segments reported growth compared with the same period last year. The Sanitary segment showed continued strong growth, boosted by increased activity in both the food and pharma industries. The base business had a particularly strong development, especially in the BRIC countries – Brazil, Russia, India and China. Industrial Equipment had a strong development in the quarter compared with the same period last year. The improvement was driven by the base business in all main industrial applications, with the exception of district cooling and district heating where investments were still lagging behind. Order intake for OEM continued to develop positively as demand for boilers, heat pumps and

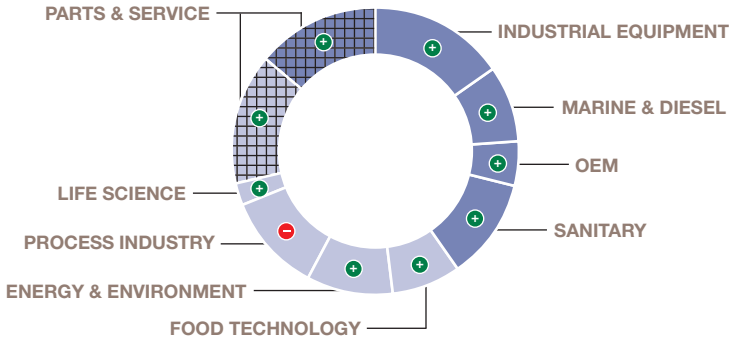
Sales bridge

Consolidated			
SEK millions, unless otherwise stated	2010	2009	2008
Net sales last year	26,039	27,850	24,849
Structural change	4.4%	2.9%	2.5%
Currency effects	-4.3%	7.9%	0.6%
Organic development	-5.2%	-17.3%	9.0%
Total	-5.1%	-6.5%	12.1%
Net sales current year	24,720	26,039	27,850

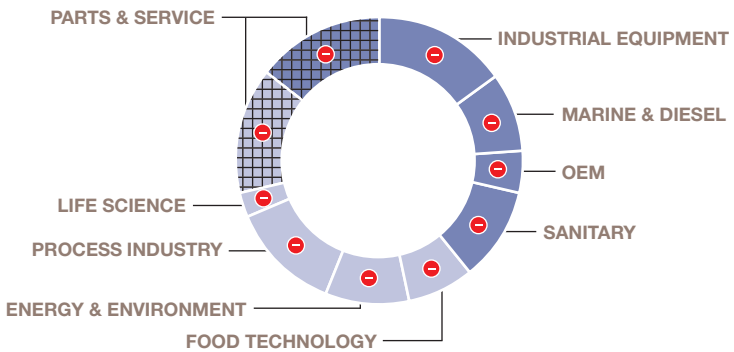
* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Operating segments

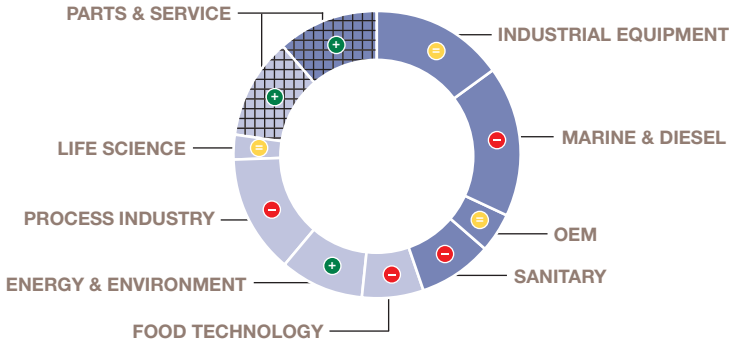
Orders received by customer segment 2010



Orders received by customer segment 2009



Orders received by customer segment 2008



Equipment
Process Technology
Parts & Service

increase
decrease
unchanged (+/- 3%)

Compared to last year, at constant rates adjusted for acquisitions and divestments of businesses

air conditioners grew, partly as a result of an increased focus on energy-saving initiatives. In Marine & Diesel, order intake continued to grow following a cautious increase in marine contracting levels. Projects for diesel power stations were on a high level, but a certain delay in decision-making prevailed. The demand for Parts & Service continued to grow, partly driven by the increased activity in world trade – which affects Marine – and partly by a substantial growth in utilisation rates in the markets served by Industrial Equipment.

The Equipment division posted a strong fourth quarter, significantly outperforming the same period last year, with a very positive development reported by all segments. The Sanitary segment stood out as investments in the food and pharmaceutical sectors fuelled growth. Demand was particularly strong for dairy, beverages and food applications across most regions, with the BRIC countries (Brazil, Russia, India and China) outperforming the more established markets in relative terms. In OEM demand continued to grow, predominantly for brazed heat exchangers. All three major application areas: air conditioners, boilers and heat pumps rose on the back of a new product portfolio which met good demand. The Industrial Equipment segment continued to show solid growth in all key markets, but the development was particularly good for refrigeration applications. Marine & Diesel was also up in the fourth quarter, helped by the recovery in the ship contracting levels to the ship yards that happened in the earlier part of 2010. Diesel power also reported a positive development, even as the market in general was continuously affected by delays in decision making. Shipping activity and industrial utilisation rates increased throughout the year, having a positive impact on demand for Parts & Service.

Operating income
(excluding comparison distortion items)
Operating income was SEK 2,604 (2,530) (3,602) million in 2010. The increase in operating income during 2010 compared to last year is mainly explained by a change of mix in the sales, lower costs and positive foreign exchange effects, mitigated by decreased volume.

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 16.3 percent and net sales decreased by 2.5 percent during 2010 compared to last year. Adjusted for acquisitions of businesses, the corresponding figures are an increase by 12.4 percent and a decrease by 8.1 percent respectively.

Taking a quarterly view the development for Process Technology division during 2010 has been as follows:

Order intake for the Process Technology division showed a decline in the first quarter from the corresponding quarter last year. Compared with the fourth quarter 2009 the division's order intake was also lower, primarily as a result of less large projects. This is especially valid for the Process Industry segment that enjoyed a very strong fourth quarter. A stable development was noted for the division's base business. Energy & Environment showed a slight decline, but with a mix change within the segment. Environment declined, but Oil & Gas had a strong quarter due to a stronger investment activity in the industry. Within Power the market showed positive signs with a continued growth in not only nuclear power, but also in the conventional and renewable power markets. In Process Industry order intake declined, primarily as a result of the several large projects booked in the previous quarter, which were of a non-repeat nature. Order intake for Food Technology decreased from the previous quarter, but grew compared to the first quarter 2009. The demand from the brewery industry was still weak due to consolidation and limited investments. The development for vegetable oil generated a significant growth compared to the first quarter last year, with a continued strong activity in Asia. Life Science grew compared to the previous quarter, but declined compared to the first quarter 2009. The growth was primarily generated through the base business, with component orders in many applications. Parts & Service benefitted from a higher activity primarily in parts sales. This should be seen following last year's low activity in connection with short-term capacity closure in many industry sectors.

Order intake for the Process Technology division showed strong growth in the second quarter, compared to both the same period last year and to the first quarter. Larger orders were on a significantly higher level compared to both periods, especially driven by sectors such as petrochemicals, oil and gas exploration as well as other process related industries like inorganics and metals. The division also benefitted from continued base business growth. In Energy & Environment order intake was up compared to the same period last year. The development was driven by oil & gas, which noted a strong development, as oil prices were stabilized on a higher level and hence boosted investment activity in the industry. Compared to the first quarter the segment as a whole declined, primarily as a result of non-repeat large orders in power and oil & gas. Process Industry had a strong development for both larger orders and the base business. A particular contribution came from petrochemicals and refinery, where larger orders were secured in for example Asia and Latin America. These orders covered both the need for new capacity and the need for improved energy efficiency. Food Technology had a very favourable development, boosted by an increased project activity. The earlier restrained brewery industry showed growth, as did other beverages and viscous food. The order intake for Life Science was in line with the second quarter last year, but showed strong growth compared to the first quarter, primarily generated by a good mix of larger orders and base business in pharma and biotech. Parts & Service performed very well. Demand for parts was on a continued high level, particularly in areas such as Process Industry and oil & gas. Overall, the activity level was higher, as customers brought closed capacity back online.

Order intake for the Process Technology division showed strong growth in the third quarter with larger orders on a significantly higher level, primarily driven by Energy & Environment. At the same time the division continued to see base business growth. During the quarter Energy & Environment won a U.S. order for waste-water treatment, which was Alfa Laval's largest order ever. This contributed to a strong development for the segment. In addition, drilling and exploration activities in oil and gas showed strength, primarily in the U.S. and Latin America. At the same time the market unit Power was boosted partly by a continued interest in renewable power such as solar and bio gas and partly by orders for clean technology solutions, such as carbon capture. In Process Industry order intake was down, mainly related to non-repeat large orders. The exception was inorganics, metals and paper which grew through some larger orders, particularly in Asia. An overall steady development in for instance the metals, process and petrochemical industries secured a steady growth for the base business in the segment. Food Technology showed growth compared to the corresponding quarter last year with vegetable oil benefitting from continued capacity investments in edible oil, driven by the major global companies in this field. Activity was strong in Latin America and Asia, which contributed to the growth. The order intake for Life Science was up, to a large extent driven by an improvement in the base business. Parts & Service showed strong growth compared to the same quarter last year with demand for parts on a continued high level. The demand for repair, maintenance and upgrades was strong, boosted by higher capacity utilization in industries served by Process Industry and Energy & Environment.

Order intake for the Process Technology division showed a strong development in the fourth quarter compared to the corresponding quarter last year. The order intake was boosted by significant growth in the base business, whereas larger orders remained on the same level as the fourth quarter last year. Food Technology showed a particularly strong development, driven by the vegetable oil business. Edible oil benefitted from a high activity level in for example China and India, where capacity investments continued. Brewery also had strong growth. In general, improvement could be seen in most geographical areas, with a good growth in base business. Energy & Environment continued to enjoy strong growth within Oil & Gas, primarily in North America and Latin America but also in the Middle East. Environment, however, noted a considerable decrease due to fewer project orders. Even though the market unit Power was below last year's level, a positive signal was received in the form of a large order for the world's first full-scale IGCC process for power generation and carbon capture. The order is evidence of the growing interest in carbon capture solutions. In Process Industry order intake showed growth. Growth was solid as the previously noted recovery in the metals, process and petrochemical industries continued. The segment enjoyed overall very strong base business growth, whereas the value of large orders was lower. The order intake for Life Science was up significantly, deriving from a good base business development. Parts & Service was another segment to show significant positive development, particularly driven by parts' sales. The demand for repair, maintenance and upgrades was stable. Notable was the strong development in industries such as process industry, environment and oil & gas.

Operating income
(excluding comparison distortion items)
Operating income was SEK 2,159 (2,040) (2,756) million in 2010. The increase in operating income during 2010 compared to last year is mainly explained by a change of mix in the sales, lower costs and positive foreign exchange effects, mitigated by decreased volume.

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

Operating income was SEK -405 (-138) (-395) million in 2010.

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

Western Europe including Nordic
Order intake in the first quarter was substantially lower in the region compared to the same period last year. All segments showed a decline except Life Science that grew and Marine & Diesel that had a flat order intake. Compared to the previous quarter the order intake in the region was slightly lower. Orders for capital goods grew in the Equipment division but decreased in the Process Technology division. The booking of base orders* were on the same level as during the fourth quarter last year.

In the second quarter order intake grew compared to the corresponding quarter last year as well as to the first quarter 2010. Compared to both of these comparison periods both Process Technology and Equipment reported growth. In addition, the demand for Parts & Service was strong and the base business order intake grew. All countries reported a higher order intake except the UK.

In the third quarter order intake grew compared to the corresponding period last year. The best development was in the United Kingdom, the Benelux and the Mid Europe sales regions. Also from a segment perspective it looked positive with a majority of the segments reporting increases in orders. The base business grew substantially from the third quarter last year.

Orders received rose in the fourth quarter, versus the same quarter in 2009, with all countries reporting growth except France. The base business grew across the line and did particularly well in Nordic and Mid Europe. On a segment level orders were up for all except Energy & Environment and Process Industry.

Central and Eastern Europe
In the first quarter the development in Central & Eastern Europe was flat for the Equipment division whereas the Process Technology division declined compared to the corresponding period last year. This was due to large orders not being repeated. Turkey and South East Europe had a good development while Poland and the Czech Republic showed weakness. Russia was essentially unchanged. Segments with good development include Sanitary, Food Technology and Process Industry. The Parts & Service business was unchanged. Compared to the previous quarter the development was flat.

The development in Central & Eastern Europe was very strong in the second quarter compared with the same period last year, with a good development in the capital sales segments as well as in Parts & Service. Russia, Turkey and Ukraine did particularly well. The base business showed good growth, with all segments in the Equipment Division doing well. Within the Process Technology Division, Energy & Environment as well as Process Industry had a good order intake. The region also reported a solid growth in order intake compared to the previous quarter.

Order intake declined somewhat in Central & Eastern Europe in the third quarter compared with the same period last year. Still, the base business did very well as did Parts & Service. The development in the region was due to a decline in Russia where large orders were not repeated although the base business showed a good development. All segments within the Equipment Division improved from the corresponding quarter last year. The picture was more mixed in the Process Technology Division where Energy & Environment and Food Technology grew while Process Industry was affected by non-repeat orders.

The development in Central & Eastern Europe was very strong in the fourth quarter compared with the same period last year. Growth was reported across the line which included the base business and large orders as well as Parts & Service. All segments reported growth with a particularly good development seen in the areas of marine, refinery and Parts & Service. The best performance was found in Russia and Turkey.

North America
Order intake in the first quarter was above the same period last year. The best developments were in the segments Industrial Equipment, Energy & Environment and Parts & Service. Compared to the fourth quarter last year the order intake in the region grew. The best development was in the segments Industrial Equipment, Energy & Environment and Parts & Service.

Order intake in the second quarter was up from the same quarter last year and also higher than the first quarter. Both the Process Technology division and the Equipment division including the base business and Parts & Service reported growth compared to both periods.

Order intake in North America was on a substantially higher level in the third quarter, supported by a generally positive development. An important contribution came from a waste water treatment order booked in the U.S., the largest order ever for Alfa Laval. All segments reported growth, including Parts & Service, and the base business was substantially above the corresponding quarter last year.

Order intake grew substantially in the fourth quarter compared to the corresponding quarter last year. This development was visible not only for the base business but overall. Segment development was strong as all segments, except Process Industry, grew.

Latin America
During the first quarter Latin America had good growth compared to the first quarter 2009, where Brazil and Argentina reported a very good development. The growth was related to all Equipment segments as well as most Process Technology segments. The base business including Parts & Service developed very strongly. Compared to the previous quarter Latin America showed a decline.

In Latin America the order development during the second quarter was very good for both the Equipment Division and the Process Technology Division. All segments were on the same level or significantly higher than the same period last year with Parts & Service doing particularly well. The countries with the best performance were Argentina, Chile and Peru. The region had a very strong development also compared to the previous quarter.

In Latin America order intake was up in the third quarter for both the Equipment division and the Process Technology division. The development was positive across the line as growth was reported for base business, Parts & Service and larger orders. The best development was in Energy & Environment, Food Technology and Sanitary Equipment. The countries with the best performance were Argentina, Brazil and Peru.

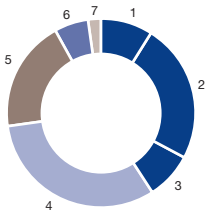
In Latin America order development was flat in the fourth quarter versus the same period last year. The base business and Parts & Service both reported growth, while a negative impact came from a non-repeat of large orders. Argentina and Chile did very well while Brazil was affected by the non-repeats. From a segment perspective the largest growth was reported in Parts & Service, Sanitary Equipment and Energy & Environment.

Asia
Order intake in the region was significantly lower in the first quarter than the corresponding period last year. This was mainly due to a negative effect on orders received for Marine upon local retranslation of order

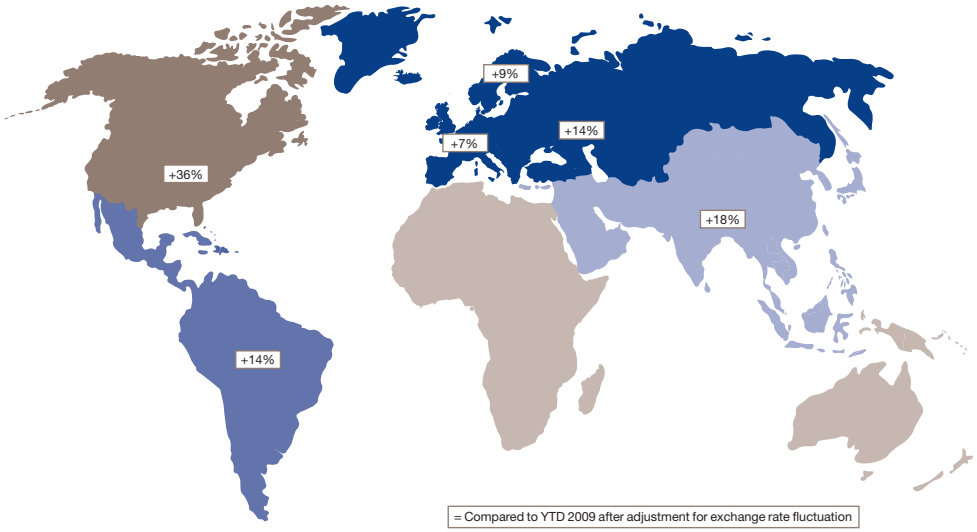
* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Information about geographical areas

Orders received 2010

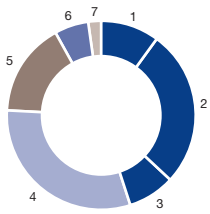


1	Nordic	9%
2	Western Europe	24%
3	Central & Eastern Europe	8%
4	Asia	32%
5	North America	19%
6	Latin America	6%
7	Other	2%

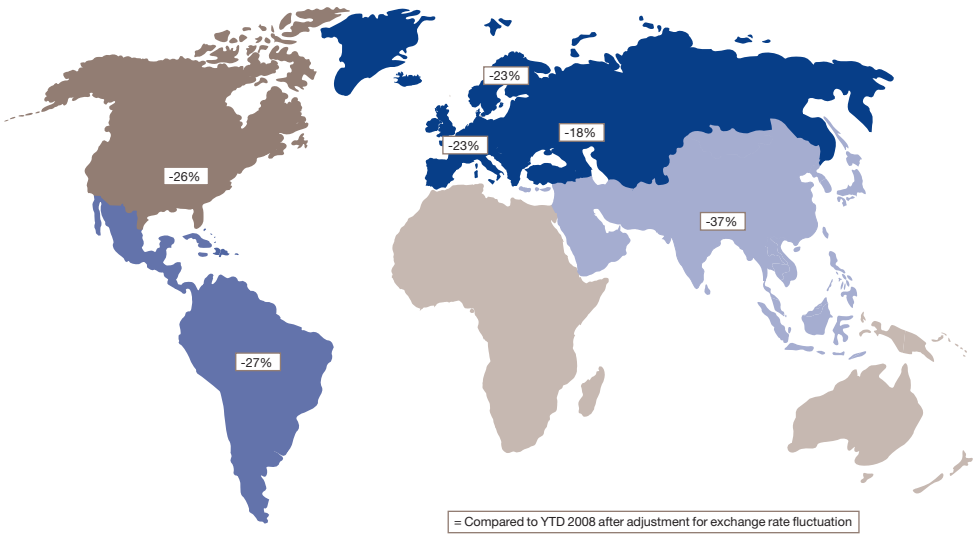


= Compared to YTD 2009 after adjustment for exchange rate fluctuation

Orders received 2009

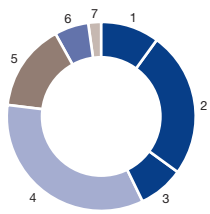


1	Nordic	10%
2	Western Europe	27%
3	Central & Eastern Europe	8%
4	Asia	31%
5	North America	16%
6	Latin America	6%
7	Other	2%

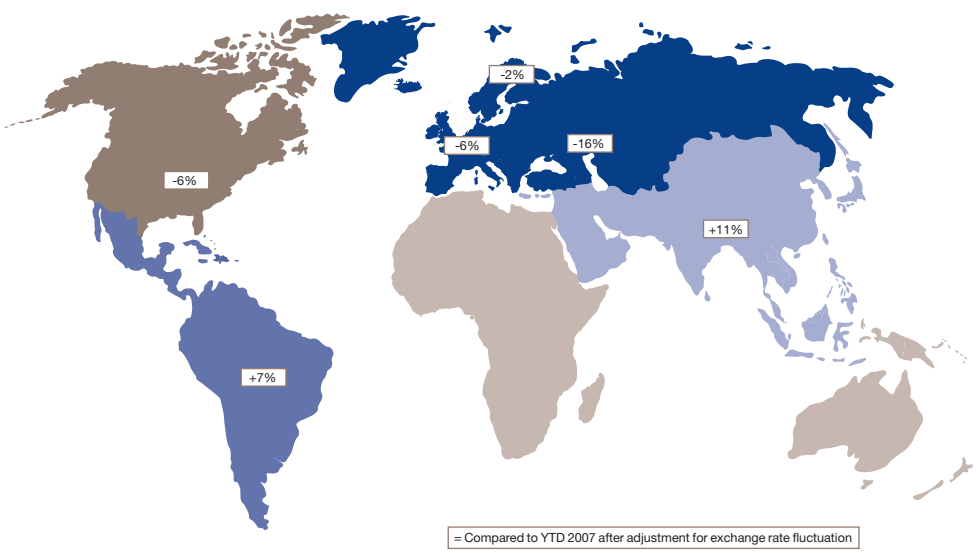


= Compared to YTD 2008 after adjustment for exchange rate fluctuation

Orders received 2008



1	Nordic	10%
2	Western Europe	25%
3	Central & Eastern Europe	8%
4	Asia	34%
5	North America	15%
6	Latin America	6%
7	Other	2%



= Compared to YTD 2007 after adjustment for exchange rate fluctuation

backlog in foreign currencies. Otherwise, China, South East Asia and Japan showed a positive development. Sanitary continued to show a good development and Industrial Equipment recorded a strong development. Parts & Service also showed a positive development in both Equipment and Process Technology markets. Compared to the previous quarter Asia showed a decline primarily due to large orders not being repeated.

Order intake showed a substantial increase in the second quarter, compared to the same period last year, with a particularly strong performance in India, Korea, Japan and Malaysia. The best performing segments were Marine & Diesel, Industrial Equipment and Sanitary in the Equipment Division and Process Industry in the Process Technology Division. The remaining capital sales segments in the Process Technology division had a weaker development, affected by a slower project business, particularly in Energy & Environment. Parts & Service did well, as did the base business in total. Also compared to the first quarter the order intake was substantially higher, driven by a strong performance in India, Korea, China and Indonesia. All segments in the Equipment Division grew as did Food Technology, Life Science and Process Industry in the Process Technology Division. Energy & Environment however declined due to a slow decision making process among customers. The demand for Parts & Service was up somewhat and the base business showed a substantial increase in order intake, largely driven by increased demand for components in the Equipment Division's segments.

Order intake showed a substantial increase in the third quarter compared with the same period last year. The performance was broad based and across most countries, with a particularly strong performance in China, India and Korea. The positive development was also broad from a segment perspective, with an especially strong performance in OEM, Sanitary and Food Technology.

Order intake continued to show a good development during the fourth quarter, compared to the same period last year, with particularly strong growth in India, Korea and China. Due to the positive development in 2010 India became Alfa Laval's third largest market by the end of the year, after the U.S. and China. All segments in the Equipment division reported a strong development. The picture was more mixed in the Process Technology division as Life Science and Food Technology both reported strong growth, while Process Industry and Energy & Environment were weaker than the same period last year, mainly due to non-recurring large projects within refinery and nuclear power. Parts & Service's solid performance continued in both divisions.

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 625 (654) (718) million, corresponding to 2.5 (2.5) (2.6) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have decreased, by 1.1 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 human rights and the very different social cultures in which the company works and supplies its products and services and that Alfa Laval conducts its business with honesty, integrity and respect for others.

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

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

Environment

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

Since 2004 the Group runs a project to improve the internal environmental management systems. Today all sites (except recent acquisitions) have an environmental management system in place. At the end of 2010 25 (22) (18) production sites with ISO 14001 certification accounted for about 95 (95) (80) percent of the delivery value. Another two sites have ongoing certifications. With these certified more than 97 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, 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, 2010, named as a co-defendant in a total of 596 asbestos-related lawsuits with a total of approximately 683 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.

Personnel

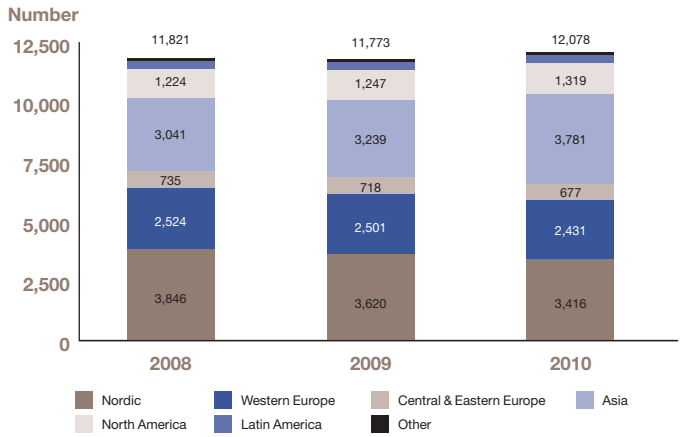
The parent company does not have any employees.

The Group has on average had 12,078 (11,773) (11,821) employees. At the end of December 2010 the Group had 12,618 (11,390) (12,119) employees. The employee turnover rate for 2010 is 9.5 (13.4) (11.7) percent and mainly relates to employees within

Employees

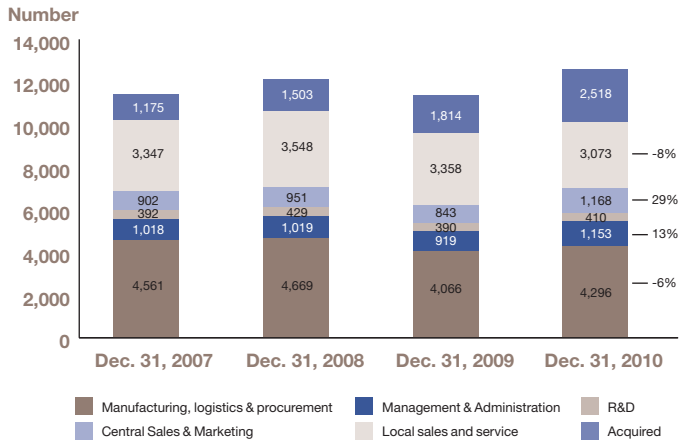
The distribution of the number of employees by region is:

Average number of employees – by region



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

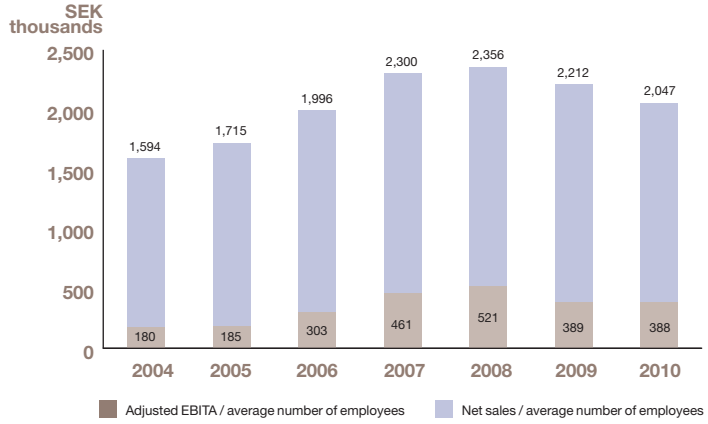
Employees – by category



The change in percent from 2007 until 2010 for the largest personnel categories is found to the right of the bar chart.

The productivity by employee has developed as follows:

Employees – Productivity development



The figures for 2007 and 2008 were inflated by the high metal prices. The figure for 2009 was affected by the fact that it takes some time until the average number of employees decrease as a consequence of the restructuring measures.

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 engaged in the sales process and Leading business through Finance @ Alfa Laval – a development program for financial managers and senior controllers.

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

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

Guidelines for remunerations to executive officers

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

The Annual General Meetings 2009 and 2010 decided to implement step two and three of a cash based long term incentive programme for approximately 75 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Board of Directors will propose the Annual General Meeting 2011 to implement a modified cash based long term incentive programme for the period January 1, 2011 – December 31, 2013. No other changes of these guidelines are proposed by the Board of Directors.

Result for the parent company

The parent company's result after financial items was SEK 3,431 (4,079) (3,133) million, out of which dividends from subsidiaries were SEK 2,288 (3,201) (2,201) million, group contributions SEK 1,154 (878) (844) million, net interests SEK 16 (11) (36) million, realised and unrealised exchange rate gains and losses SEK -3 (-10) (10) million, consideration from external captive SEK - (14) (55), costs related to the listing SEK -2 (-2) (-3) million, fees to the Board SEK -5 (-5) (-4) million, costs for annual report and annual general meeting SEK -5 (-4) (-3) million and other operating costs the remaining SEK -12 (-4) (-3) million. Appropriation to tax allocation reserve has been made with SEK -232 (-225) (-239) million. Income taxes amount to SEK -248 (-177) (-200) million. Net income for the year was SEK 2,951 (3,677) (2,694) million.

Unrestricted equity for the parent company

The unrestricted equity of Alfa Laval AB (publ) was SEK 8,964 (7,321) (4,593) million. The figures have been affected by repurchase of shares by SEK -253 (-) (-766) million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 3.00 (2.50) (2.25) per share corresponding to SEK 1,258 (1,055) (949) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 7,706 (6,266) (3,644) million be carried forward, see page 118.

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

Disclosure on share related information

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

Repurchase of shares

The Annual General Meeting 2010 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate referred to repurchase of up to 5 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through purchases on OMX Nordic Exchange Stockholm. Until December 31, 2010 Alfa Laval has made the following repurchases:

Specification of repurchase of shares

	Second quarter 2010	Third quarter 2010	Fourth quarter 2010	Total 2010
Number of repurchased shares	2,583,151	–	–	2,583,151
Percentage of outstanding shares	0.6%	0.0%	0.0%	0.6%
Cash-out and decrease in parent company and consolidated equity (SEK millions)	-253	–	–	-253

Proposal to cancel repurchased shares and make a bonus issue

The Board will propose to the Annual General Meeting 2011 to cancel the repurchased shares. Currently 2,583,151 shares are held by the company. Cancellation of these shares means that the share capital will decrease with SEK 7 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 closing date

The statements on financial position and the comprehensive income statements will be adopted at the Annual General Meeting of shareholders on April 27, 2011.

Outlook for the first quarter

In the fourth quarter and full year 2010 report issued on February 8, 2011, the President and Chief Executive Officer Lars Renström stated:

"We expect demand during the first quarter 2011 to be on about the same level as during the fourth quarter 2010."

Earlier published outlook (October 22, 2010):
"We expect demand during the fourth quarter to be on about the same level as during the third quarter."

Date for the next financial reports during 2011

Alfa Laval will publish interim reports during 2011 at the following dates:

Interim report for:	
the first quarter	April 27
the second quarter	July 19
the third quarter	October 21

Consolidated cash flows

Consolidated cash flows

SEK millions	Note	2010	2009	2008
Operating activities				
Operating income		4,401	4,030	5,736
Adjustment for depreciation		796	721	560
Adjustment for other non-cash items		145	37	-879
		5,342	4,788	5,417
Taxes paid		-1,215	-1,533	-1,868
		4,127	3,255	3,549
Changes in working capital:				
Increase(-)/decrease(+) of receivables		360	1,776	87
Increase(-)/decrease(+) of inventories		-536	1,439	-192
Increase(+)/decrease(-) of liabilities		332	-1,233	264
Increase(+)/decrease(-) of provisions		-185	110	354
Increase(-)/decrease(+) in working capital		**-29**	**2,092**	**513**
		4,098	**5,347**	**4,062**
Investing activities				
Investments in fixed assets (Capex)		-429	-451	-747
Divestment of fixed assets		31	8	140
Acquisition of businesses	27	-1,019	-2,177	-726
		-1,417	**-2,620**	**-1,333**
Financing activities				
Received interests and dividends		52	32	219
Paid interests		-139	-292	-266
Realised financial exchange differences		3	-5	-245
Repurchase of shares		-253	–	-766
Dividends to owners of the parent		-1,055	-949	-963
Dividends to non-controlling interests		-9	-6	-20
Increase(-)/decrease(+) of financial assets		-389	213	-380
Increase(+)/decrease(-) of borrowings		-641	-1,660	-178
		-2,431	**-2,667**	**-2,599**
Cash flow for the period		**250**	**60**	**130**
Cash and bank at the beginning of the period		1,112	1,083	856
Translation difference in cash and bank		-34	-31	97
Cash and bank at the end of the period	26	**1,328**	**1,112**	**1,083**
Free cash flow per share (SEK) *		6.38	6.46	6.38
Capex in relation to sales		1.7%	1.7%	2.7%
Average number of shares **		420,494,001	422,039,466	427,500,307

* 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-flows

For further comments on certain individual lines in the cash-flow statement, reference is made to Notes 26 and 27.

Cash flows from operating activities
The decrease in cash flows from operating activities is explained by the decrease in working capital that was realised in connection with the down turn in the business climate in 2009, partly compensated by higher earnings in 2010.

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

Cash flow
Cash flow from operating and investing activities amounted to SEK 2,681 (2,727) (2,729) million during 2010. Out of this, acquisitions of businesses were SEK -1,019 (-2,177) (-726) million whereas divestments generated cash of SEK 31 (8) (140) million.

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

Working capital
Working capital increased by SEK 29 million during 2010 whereas the corresponding figure for 2009 and 2008 was a decrease by SEK 2,092 million and SEK 513 million.

Investments
Investments in property, plant and equipment amounted to SEK 429 (451) (747) million during 2010. The investments made for the individual product groups are as follows:

Heat exchangers
Investments have been made in machines for manufacturing of new products and in productivity enhancing equipment in Ronneby in Sweden and in Alonte in Italy for brazed heat exchangers. Investments have also been made in China in equipment to increase capacity and widen the product range for heat exchangers. Investments in air heat exchanger manufacturing equipment have been made in Sarole in India and in Potok in Russia.

Decanters
During 2010 no major investments have been made relating to decanters.

High speed separators
Investments in test equipment have been made during the year in Eskilstuna in Sweden.

Fluid handling products
Investments have been made in lean manufacturing in Kolding in Denmark for the valves product range.

Depreciations
Depreciation, excluding allocated step-up values, amounted to SEK 425 (391) (304) million during the year.

Acquisitions
For a further analysis of the impact on the cash flow by acquisitions, see Note 27.

Free cash flow per share
The free cash flow per share is SEK 6.38 (6.46) (6.38).

Consolidated comprehensive income

Consolidated comprehensive income				
SEK millions	*Note*	2010	2009	2008
Net sales	*1, 2, 3, 4*	24,720	26,039	27,850
Cost of goods sold	*10*	-15,029	-16,411	-16,481
Gross profit		9,691	9,628	11,369
Sales costs	*5, 6, 8, 10*	-3,156	-3,179	-3,194
Administration costs	*5, 6, 7, 10*	-1,224	-1,132	-1,239
Research and development costs	*10*	-625	-654	-718
Other operating income *	*9*	494	442	522
Other operating costs *	*9, 10*	-779	-1,075	-1,004
Operating income		4,401	4,030	5,736
Dividends and changes in fair value	*11*	2	-1	2
Interest income and financial exchange rate gains	*12*	327	404	397
Interest expense and financial exchange rate losses	*12*	-366	-673	-794
Result after financial items		4,364	3,760	5,341
Tax on this year's result	*16*	-1,240	-1,017	-1,528
Other taxes	*16*	-8	-6	-6
Net income for the year		**3,116**	**2,737**	**3,807**
Other comprehensive income:				
Cash flow hedges		122	551	-515
Translation difference		-554	-392	850
Deferred tax on other comprehensive income		-36	-175	163
Comprehensive income for the year		**2,648**	**2,721**	**4,305**
Net income attributable to:				
Owners of the parent		3,088	2,710	3,774
Non-controlling interests		28	27	33
Earnings per share (SEK)		7.34	6.42	8.83
Average number of shares **		420,494,001	422,039,466	427,500,307
Comprehensive income attributable to:				
Owners of the parent		2,625	2,684	4,261
Non-controlling interests		23	37	44

* The line has been affected by comparison distortion items, see specification in Note 9.

** Average number of shares has been affected by the repurchase of shares and the 4:1 split.

Comments to the consolidated comprehensive income

For comments on the individual lines in the consolidated comprehensive income statement, reference is made to Notes 1 to 16 and Note 30. For comments on the operating segments, see Note 1.

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

Income analysis

Consolidated			
SEK millions	2010	2009	2008
Net sales	24,720	26,039	27,850
Adjusted gross profit *	10,062	9,958	11,625
- in % of net sales	***40.7***	***38.2***	***41.7***
Expenses **	-4,955	-4,982	-5,161
- in % of net sales	*20.0*	*19.1*	*18.5*
Adjusted EBITDA	***5,107***	***4,976***	***6,464***
- in % of net sales	*20.7*	*19.1*	*23.2*
Depreciation	-425	-391	-304
Adjusted EBITA	**4,682**	**4,585**	**6,160**
- in % of net sales	***18.9***	***17.6***	***22.1***
Amortisation of step up values	-371	-330	-256
Comparison distortion items	90	-225	-168
Operating income	4,401	4,030	5,736

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

Sales and administration expenses amounted to SEK 4,380 (4,311) (4,433) million. Adjusted for exchange rate variations and acquisitions of businesses, sales and administration expenses were 3.0 percent higher than last year.

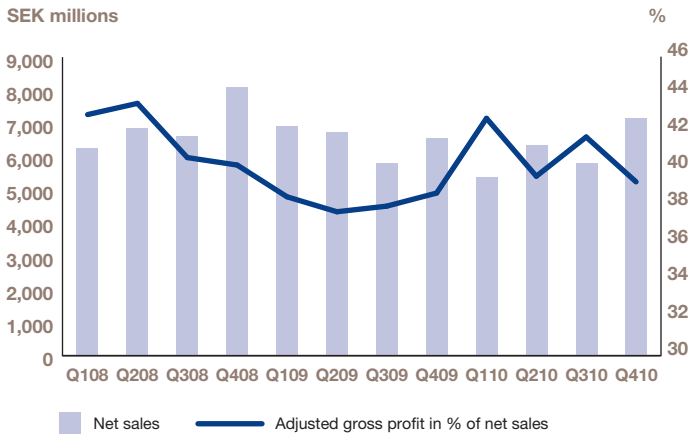
The costs for research and development have amounted to SEK 625 (654) (718) million, corresponding to 2.5 (2.5) (2.6) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have decreased, by 1.1 percent compared to last year.

The net income attributable to the owners of the parent, excluding depreciation of step-up values and the corresponding tax, is SEK 8.02 (7.00) (9.26) per share.

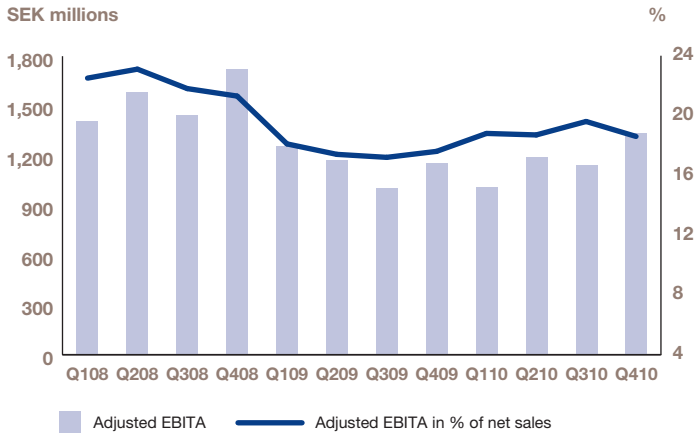
Compared with last year Alfa Laval has been affected during 2010 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK 356 (166) (-291) million for the full year 2010 compared with last year. The effect of the exchange rate variations has been limited through exchange rate hedging and through the distribution of the company's financial debts in relation to its net assets in different currencies.

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

Net sales & adjusted gross profit margin



Adjusted EBITA



The operating income has been affected by comparison distortion items of SEK 90 (-225) (-168) million, which are specified below. In the consolidated comprehensive income statement these are reported gross as a part of other operating income and other operating costs, see summary in Note 9.

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

2009 was burdened with SEK -225 million for restructuring measures.

In 2008 a property in Brazil was sold for SEK 113 million with a realised gain of SEK 102 million. The costs for the restructuring programme burdened 2008 with SEK -270 million.

The financial net has amounted to SEK -111 (-208) (-181) 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 -1 (-58) (-94) million, interest on the private placement of SEK -21 (-35) (-44) million and a net of dividends, other interest income and interest costs of SEK -89 (-115) (-43) million.

The net of realised and unrealised exchange rate differences amounts to SEK 74 (-62) (-214) million.

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

Fair value changes in cash flow hedges

Consolidated

SEK millions	2010	2009	2008
Opening balance	107	-444	71
Booked into other comprehensive income during the year	123	571	-406
Reversed from other comprehensive income due to inefficiency:			
booked against cost of goods sold	-57	23	30
Reversed from other comprehensive income:			
booked against cost of goods sold	55	2	-144
booked against interest income/interest costs	1	-45	5
Closing balance	**229**	**107**	**-444**
Change reported against other comprehensive income *	122	551	-515

* Prior to 2009 the changes in these cash flow hedges were reported against equity.

In addition the fair value changes in shares in external companies is included with SEK 0 (0) (0) million for 2010.

Accumulated translation differences *

Consolidated

SEK millions

Year	Main explanation to translation differences	Change	Accumulated	Effect on change by hedging measures
Formation of the Group				
2000	The EUR was appreciated by 6 %, which affected the EUR based acquisition loans	-94	-94	-312
2001	The USD was appreciated by 10.7 %	97	3	-105
2002	The USD was depreciated by 16.7 %	-190	-187	165
2003	The USD was depreciated by 17.5 %	-38	-225	140
2004	The USD was depreciated by 9.0 %	-103	-328	-14
2005	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	264	-64	-47
2006	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	-269	-333	40
2007	The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 %	224	-109	9
2008	The USD was appreciated by 20.5 % and the EUR was appreciated by 16.2 %	850	741	-345
2009	The USD was depreciated by 7.5 % and the EUR was depreciated by 6.0 %	-392	349	162
2010	The USD was depreciated by 5.7 % and the EUR was depreciated by 12.9 %	-554	-205	73

* Reported against other comprehensive income. Prior to 2009 these translation differences were reported against equity.

Consolidated financial position

Consolidated financial position

ASSETS

SEK millions	Note	2010	2009
Non-current assets			
Intangible assets	*17, 18*		
Patents and unpatented know-how		1,180	1,139
Trademarks		1,357	1,297
Licenses, renting rights and similar rights		44	54
Goodwill		5,952	6,143
		8,533	8,633
Property, plant and equipment	*17, 19*		
Real estate		1,412	1,366
Machinery and other technical installations		1,363	1,384
Equipment, tools and installations		571	660
Construction in progress and advances to suppliers concerning property, plant and equipment		166	138
		3,512	3,548
Other non-current assets			
Other long-term securities	*14, 15, 20*	32	39
Pension assets	*28*	235	136
Deferred tax asset	*16*	1,301	1,367
		1,568	1,542
Total non-current assets		**13,613**	**13,723**
Current assets			
Inventories	*21*	4,769	4,485
Current receivables			
Accounts receivable	*14, 22*	4,181	4,123
Other receivables	*14, 23*	1,878	1,982
Prepaid costs and accrued income	*14, 24*	181	148
Derivative assets	*14, 15*	644	331
		6,884	6,584
Current deposits			
Other current deposits	*14, 25*	575	302
Cash and bank	*14, 26*	1,328	1,112
Total current assets		**13,556**	**12,483**
TOTAL ASSETS		**27,169**	**26,206**

Consolidated financial position, continued

EQUITY AND LIABILITIES

SEK millions	Note	2010	2009
Equity			
Attributable to owners of the parent			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-40	423
Retained earnings		9,580	7,803
		13,427	12,113
Attributable to non-controlling interests	*13*	155	116
Total equity		**13,582**	**12,229**
Non-current liabilities			
Liabilities to credit institutions	*30*	292	832
Private placement	*30*	749	794
Provisions for pensions and similar commitments	*28*	847	920
Provision for deferred tax	*16*	1,617	1,390
Other provisions	*29*	632	439
Total non-current liabilities		**4,137**	**4,375**
Current liabilities			
Liabilities to credit institutions	*30*	173	165
Advances from customers		1,357	2,019
Accounts payable		2,120	1,630
Notes payable		119	203
Current tax liabilities		1,035	929
Other liabilities	*31*	1,476	1,140
Other provisions	*29*	1,496	1,926
Accrued costs and prepaid income	*32*	1,524	1,303
Derivative liabilities	*14, 15*	150	287
Total current liabilities		**9,450**	**9,602**
Total liabilities		**13,587**	**13,977**
TOTAL EQUITY AND LIABILITIES		**27,169**	**26,206**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*33*	25	7
Contingent liabilities	*33*	1,693	1,757

Comments on the consolidated financial position

For comments on the individual lines in the statement on financial position, reference is made to Notes 13 to 36. For comments on the operating segments, see Note 1.

Capital employed
The average capital employed including goodwill and step-up values amounted to SEK 12,752 (12,976) million during the year.

Return on capital employed
The return on average capital employed including goodwill and step-up values amounted to 37.4 (33.6) percent during the year.

Capital turnover rate
The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.9 (2.0) times for the year.

Return on equity
Net income in relation to the average equity was 24.4 (24.5) percent during the year.

Solidity
The solidity, that is the equity in relation to total assets, was 50.0 (46.7) percent at the end of the year.

Net debt
The net debt was SEK -551 (533) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was -0.1 (0.1) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity, was -0.04 (0.04) times at the end of December.

Changes in consolidated equity

Changes in consolidated equity

Attributable to:	Owners of the parent							Non-controlling interests			Total
			Other reserves								
SEK millions	Share capital	Other contributed capital	Cash flow hedges	Translation differences	Deferred tax	Retained earnings	Subtotal	Translation differences	Retained earnings	Subtotal	
As of December 31, 2007	**1,117**	**2,770**	**71**	**-88**	**-21**	**3,997**	**7,846**	**-21**	**112**	**91**	**7,937**
2008											
Comprehensive income											
Net income	–	–	–	–	–	3,774	3,774	–	33	33	3,807
Other comprehensive income	–	–	-515	839	163	–	487	11	–	11	498
Comprehensive income	–	–	-515	839	163	3,774	4,261	11	33	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 the parent	–	–	–	–	–	-963	-963	–	–	–	-963
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	-20	-20	-20
As of December 31, 2008	**1,117**	**2,770**	**-444**	**751**	**142**	**6,042**	**10,378**	**-10**	**125**	**115**	**10,493**
2009											
Comprehensive income											
Net income	–	–	–	–	–	2,710	2,710	–	27	27	2,737
Other comprehensive income	–	–	551	-402	-175	–	-26	10	–	10	-16
Comprehensive income	–	–	551	-402	-175	2,710	2,684	10	27	37	2,721
Transactions with shareholders											
Cancellation of repurchased shares	-19	–	–	–	–	19	–	–	–	–	–
Bonus issue of shares	19	–	–	–	–	-19	–	–	–	–	–
Decrease of non-controlling interests	–	–	–	–	–	–	–	–	-65	-65	-65
Non-controlling interests in acquired company	–	–	–	–	–	–	–	–	35	35	35
Dividends to owners of the parent	–	–	–	–	–	-949	-949	–	–	–	-949
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	-6	-6	-6
As of December 31, 2009	**1,117**	**2,770**	**107**	**349**	**-33**	**7,803**	**12,113**	**0**	**116**	**116**	**12,229**
2010											
Comprehensive income											
Net income	–	–	–	–	–	3,088	3,088	–	28	28	3,116
Other comprehensive income	–	–	122	-549	-36	–	-463	-5	–	-5	-468
Comprehensive income	–	–	122	-549	-36	3,088	2,625	-5	28	23	2,648
Transactions with shareholders											
Repurchase of shares	–	–	–	–	–	-253	-253	–	–	–	-253
Decrease of non-controlling interests	–	–	–	–	–	-3	-3	–	-2	-2	-5
Non-controlling interests in acquired companies	–	–	–	–	–	–	–	–	27	27	27
Dividends to owners of the parent	–	–	–	–	–	-1,055	-1,055	–	–	–	-1,055
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	-9	-9	-9
As of December 31, 2010	**1,117**	**2,770**	**229**	**-200**	**-69**	**9,580**	**13,427**	**-5**	**160**	**155**	**13,582**

Specification of changes in number of shares and share capital

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

* SEK millions

Comments on changes in consolidated equity

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

At January 1, 2010 the share capital of SEK 1,116,719,930 was divided into 422,039,466 shares. There have not been any changes since then.

The Annual General Meeting 2010 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, 2010 Alfa Laval had repurchased 2,583,151 shares. The Board will propose to the Annual General Meeting 2011 to cancel the repurchased shares. Cancellation of 2,583,151 shares means that the share capital will decrease with SEK 6,835,039. 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 419,456,315 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 18.7 (18.7) percent. The employees of the company do not own any shares in the company through company pension trusts.

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

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

The senior credit facility with the banking syndicate, the 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 flows and income

Parent company cash flows

SEK millions	2010	2009	2008
Cash flow from operating activities			
Operating income	-24	-1	42
Taxes paid	-202	-116	-509
	-226	-117	-467
Changes in working capital:			
Increase(-)/decrease(+) of receivables	-1,691	-2,799	-1,716
Increase(+)/decrease(-) of liabilities	43	-191	199
Increase(-)/decrease(+) in working capital	**-1,648**	**-2,990**	**-1,517**
	-1,874	**-3,107**	**-1,984**
Cash flow from investing activities			
Investment in subsidiaries	–	–	–
	–	**–**	**–**
Cash flow from financing activities			
Financial net, paid	16	11	36
Repurchase of shares	-253	–	-766
Received dividends from subsidiaries	2,288	3,201	2,201
Paid dividends	-1,055	-949	-963
Received group contribution	878	844	1,476
	1,874	**3,107**	**1,984**
Cash flow for the period	**–**	**–**	**–**
Cash and bank at the beginning of the year	–	–	–
Cash and bank at the end of the period	**–**	**–**	**–**

Parent company income *

SEK millions	*Note*	2010	2009	2008
Administration costs		-12	-11	-13
Other operating income		0	14	55
Other operating costs		-12	-4	0
Operating income/loss		-24	-1	42
Revenues from interests in group companies		3,442	4,079	3,045
Interest income and similar result items	*12*	17	23	50
Interest expenses and similar result items	*12*	-4	-22	-4
Result after financial items		3,431	4,079	3,133
Appropriation to tax allocation reserve		-232	-225	-239
Tax on this year's result		-248	-177	-200
Net income for the year		**2,951**	**3,677**	**2,694**

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

Parent company financial position

Parent company financial position			
SEK millions	*Note*	2010	2009
ASSETS			
Non-current assets			
Financial non-current assets			
Shares in group companies	*20*	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		8,265	6,298
Current tax assets		2	2
Other receivables		4	4
		8,271	6,304
Cash and bank		**–**	**–**
Total current assets		**8,271**	**6,304**
TOTAL ASSETS		**12,940**	**10,973**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1,117	1,117
Statutory reserve		1,270	1,270
		2,387	2,387
Unrestricted equity			
Profit brought forward		6,013	3,644
Net income for the year		2,951	3,677
		8,964	7,321
Total equity		**11,351**	**9,708**
Untaxed reserves			
Tax allocation reserve, taxation 2005		–	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	239
Tax allocation reserve, taxation 2010		225	225
Tax allocation reserve, taxation 2011		313	–
		1,434	1,202
Current liabilities			
Liabilities to group companies		100	55
Accounts payable		1	0
Current tax liabilities		54	8
Other liabilities		0	0
		155	63
TOTAL EQUITY AND LIABILITIES		**12,940**	**10,973**
MEMORANDUM ITEMS			
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries):			
Performance guarantees		None	0
Other contingent liabilities		None	None

Changes in parent company equity

Changes in parent company equity

SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
As of December 31, 2007	**1,117**	**1,270**	**3,628**	**6,015**
2008				
Comprehensive income				
Net income	–	–	2,694	2,694
	–	–	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**
2009				
Comprehensive income				
Net income	–	–	3,677	3,677
	–	–	3,677	3,677
Transactions with shareholders				
Cancellation of repurchased shares	-19	–	19	–
Bonus issue of shares	19	–	-19	–
Dividends	–	–	-949	-949
As of December 31, 2009	**1,117**	**1,270**	**7,321**	**9,708**
2010				
Comprehensive income				
Net income	–	–	2,951	2,951
	–	–	2,951	2,951
Transactions with shareholders				
Repurchase of shares	–	–	-253	-253
Dividends	–	–	-1,055	-1,055
As of December 31, 2010	**1,117**	**1,270**	**8,964**	**11,351**

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 422,039,466 (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 1.3 "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 2.3 "Accounting for legal entities" issued by the Council for Financial Reporting in Sweden.

Changed/implemented accounting principles
During 2010 the changes in IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements have been implemented. IASB has revised these in order to better converge with the rules in US GAAP. The changes mean that:

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

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

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

During 2009 the updated IAS 1 and the new IFRS 8 were implemented. The changes in IAS 1 meant that items that previously were reported directly against equity now instead were reported in consolidated comprehensive income as a part of other comprehensive income. This referred to the items in equity that are not transactions with shareholders, e.g. cash flow hedges and translation differences and deferred tax related to these. Alfa Laval has chosen to report these items as a part of one statement over comprehensive income instead of reporting the result down to net income for the year in one statement and the result below this down to comprehensive income in a separate statement. In addition the titles for the statements have been changed. The implementation of IFRS 8 meant that the reporting of primary and secondary segment was replaced by:

– a reporting of operating segments in the way the chief operating decision maker monitors the operations, which may deviate from IFRS and
– information according to IFRS for the company as a whole about products and services as well as geographical areas and information about major customers.

The change from primary segments to operating segments has not meant any major changes in the information, apart from the addition of two reconciliation items between the operating income for the operating segments and the operating income according to IFRS for the company as a whole.

During 2008 Alfa Laval implemented IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". It covered 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.

Critical accounting principles
IFRS 3 Business Combinations means that goodwill and intangible assets with indefinite useful life are not amortised. They are instead tested for impairment both annually and when there is an indication. The effect of IFRS 3 can be considerable for the Group if the profitability within the Group or parts of the Group goes down in the future, since this could trigger a substantial impairment write down of the goodwill. Such a write down will affect net income and thereby the financial position of the Group. The reported goodwill is SEK 5,952 (6,143) million at the end of the year. No intangible assets with indefinite useful life other than goodwill exist.

The Group has defined benefit plans, which are reported according to IAS 19 Employee Benefits. This means that the plan assets are valued at fair value and that the present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. If the value of the plan assets start to decrease at the same time as the actuarial assumptions increase the benefit

obligations the combined effect could result in a substantial deficit. The monetary magnitude comes from the fact that the deficit is the difference between two large numbers. The risk for this happening is however decreased by Alfa Laval applying the 10 percent corridor approach described under "Employee benefits" below and the fact that many of these defined benefit schemes are closed for new participants and replaced by defined contribution schemes.

The Group's reporting of provisions according to IAS 37 means that SEK 2,128 (2,365) million is reported as other provisions. This constitutes 7.8 (9.0) percent of the Group's assets and is important for the assessment of the Group's financial position, not the least since provisions normally are based on judgements of probability and estimates of costs and risks. If the accounting principles for provision would be changed sometime in the future, this could have a substantial impact on the Group's financial position.

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

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

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

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

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

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

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

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

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

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

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

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 consolidated comprehensive income statement these are reported gross as a part of the most concerned lines, but are specified separately in Note 9. To report these together with other items in the consolidated comprehensive income statement without this separate reporting in a note would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations from an outside viewer. Comparison distortion items affecting operating income are reported as a part of operating income, while comparison distortion items affecting the result after financial items are reported as a part of the financial net.

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

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

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

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

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

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

The discount rate used to calculate the obligations is determined based on the market yields in each country at the closing date on high quality corporate bonds with a term that is consistent with the estimated term of the obligations. In countries that lack a deep market in such bonds the country's

government bonds are used instead.

The costs for defined contribution plans are reported in Note 6.

The Swedish ITP plan is a multi-employer plan insured by Alecta. It is a defined benefit plan, but since the plan assets and liabilities cannot be allocated on each employer it is reported as a defined contribution plan according to item 30 in IAS 19. The construction of the plan does not enable Alecta to provide each employer with its share of the assets and liabilities or the information to be disclosed. The cost for the plan is reported together with the costs for other defined contribution plans in Note 6. Alecta reported a collective consolidation level at December 31, 2010 of 146 (141) percent. The collective consolidation level is defined as the fair value of Alecta's plan assets in percent of the insured pension commitments calculated according to Alecta's actuarial assumptions, which are not in accordance with IAS 19. Such a surplus can be distributed among the employers or the beneficiaries, but there is no agreement concerning this that enables the company to report a receivable on Alecta.

Events after the closing date

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

Financial instruments

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

– IAS 39 Financial Instruments: Recognition and Measurement,

– IAS 32 Financial Instruments: Presentation,

– IFRS 7 Financial Instruments: Disclosures.

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

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

Financial assets are classified into four different portfolios:

– Financial assets at fair value through profit or loss,

– Held to maturity investments,

– Loans and receivables and

– Available for sale.

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

– Designated upon initial recognition,

– Held for trading and

– Derivatives used for hedging.

Financial liabilities are classified into two portfolios:

– Financial liabilities at fair value through profit or loss and

– Loans.

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

– Designated upon initial recognition,

– Held for trading and

– Derivatives used for hedging.

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

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

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

The fair values of bonds and shares in external companies are arrived at using available market prices or best estimates. The effect of the measurement at fair value is reported in net income for bonds and in other comprehensive income for shares in external companies. The fair value adjustment of these instruments is reflected directly on the items bonds and other long-term securities in the statement of financial position.

The fair values of the Group's currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures are 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 changes are arrived at by comparing the conditions of the derivative entered into with the market price for the same instrument at the closing date and with the same maturity date.

Group contributions to parent company

Group contributions to the parent company were 2008 and earlier reported directly to equity, but since they are the equivalent to dividends they are now reported as financial revenue in the income statement in accordance with UFR 2 issued by the Council for Financial Reporting in Sweden.

Hedge accounting

Cash flow hedges

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

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

Hedges of net investments in foreign operations

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

Income Taxes

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

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

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill.

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

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

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

Inventories

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

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

Joint ventures

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

Leasing

Leasing is accounted for in accordance with IAS 17 Leases.

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

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

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

Long-term construction projects

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

Disclosures shall be made for:

– the amount of recognised project sales revenue,

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

– retentions,

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

– advances and

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

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

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

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

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

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

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

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

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

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

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

Non-current assets (tangible and intangible)

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

The following useful lives have been used:

Tangible:	
Computer programs, computers	3.3 years
Office equipment	4 years
Vehicles	5 years
Machinery and equipment	7–14 years
Land improvements	20 years
Buildings	25–33 years
Intangible:	
Patents and unpatented know-how and trademarks	10–20 years

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

estimated useful life of the asset is the same.

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

Impairment of assets

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

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

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

For the impairment testing of goodwill, two of Alfa Laval's operating segments, the 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 statement on financial position.

Objectives, policies and processes for managing capital

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

Other operating income and other operating costs

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

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

Provisions

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

A provision is recognised when and only when:

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

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

In measuring the provision:

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

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

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

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

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

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

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

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

- started to implement the restructuring plan; or

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

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

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

– necessarily entailed by the restructuring; and

– not associated with the ongoing activities of the company.

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

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

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

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

– the seller has transferred the significant risks and rewards of ownership of the goods to the buyer;

– the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the seller will get paid; and

– the costs incurred or to be incurred related to the transaction can be measured reliably.

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

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

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

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

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 5.

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

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

IAS 21 The Effects of Changes in Foreign Exchange Rates covers among other things the existence of functional currencies. Almost all of Alfa Laval's subsidiaries are affected by changes in foreign exchange rates for their procurement within the Group. They do however usually sell in their local currency and they have more or less all of their non-product related costs and their personnel related costs in their local currency. This means that none of Alfa Laval's subsidiaries qualify for the use of another functional currency than the local currency, with the following exception. Subsidiaries in highly inflationary countries report their closings in the functional hard currency that is valid in each country, which in all cases is USD. During 2010 Turkey and Venezuela are regarded as highly inflationary countries.

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

Recently issued accounting pronouncements
International Accounting Standards Board (IASB) has issued the following new or revised accounting pronouncements, which may be applicable on Alfa Laval and are effective for fiscal years beginning on or after January 1, 2011.

IFRS 9 Financial Instruments: Recognition and Measurement is the first step of a complete revision of the current standard IAS 39. The standard means a reduction of the number of valuation categories for financial assets and contains the main categories reported at cost (amortised cost) and fair value through profit or loss. This first part of the standard will be complimented by rules on impairments, hedge accounting and valuation of liabilities. IFRS 9 becomes effective for financial years beginning on or after January 1, 2013.

IAS 24 Related Party Disclosures has been changed in order to clarify the definition of a related party. IAS 24 becomes effective for financial years beginning on or after January 1, 2011.

IFRS 7 Financial Instruments: Disclosures has been amended with additional quantitative and qualitative disclosures that must be made when removing financial instruments from the statement of financial position. The amendment has not yet been adopted by the European Union.

In May 2010 IASB issued its third collection of amendments to the current standards, basically in order to remove inconsistencies and clarify wording. There are separate transition provisions for each amendment, but usually these become effective for financial years beginning on or after January 1, 2011.

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, 2011.

IFRIC 14 Prepayments of a Minimum Funding Requirement has been changed to give guidance when assessing the recoverable amount of a net pension asset. The change allows a prepayment of a minimum funding requirement to be reported as an asset. The change in IFRIC 14 becomes effective for financial years beginning on or after January 1, 2011 with retroactive application.

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 the part that is attributable to non-controlling interests. At the end of 2010 the managed capital was SEK 13,031 (12,762) 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:

Measures

	Goal	Target standard	Target not set	Outcome 2010	Outcome 2009	Average over last 3 years	Average over last 5 years	Average over last 8 years
Invoicing growth per year *	>= 5%			-5.1%	-6.5%	-0.2%	10.3%	8.7%
Adjusted EBITA margin *	15%			18.9%	17.6%	19.5%	18.8%	16.0%
Return on capital employed	>= 25%			37.4%	33.6%	41.6%	43.0%	35.3%
Debt ratio		< 0.75		-0.04	0.04	0.07	0.14	0.24
Cash flow from operating activities including investments in fixed assets **		10%		14.8%	18.8%	15.2%	13.5%	11.4%
Investments **		2.5%		1.7%	1.7%	2.1%	2.1%	2.1%
Return on equity			X	24.4%	24.5%	30.6%	32.2%	25.8%
Solidity			X	50.0%	46.7%	44.3%	40.7%	38.8%
Net debt to EBITDA			X	-0.1	0.1	0.1	0.3	0.6
Interest coverage ratio			X	35.9	15.2	25.8	23.1	16.8
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 February 2011 Alfa Laval adjusted the growth target upwards from an average annual growth in invoicing of at least 5 percent to at least 8 percent over a business cycle.

In the longer term the debt ratio should be less than 0.75. As a result of major acquisitions the ratio may temporarily exceed 1, but the ratio is then expected to soon decrease beneath 0.75 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 U.S. and the bilateral term loan with SHB that both happened in 2006.

– the repurchases of shares made during 2007, 2008 and 2010 and the proposal for a new mandate to repurchase shares during 2011.

– the finance contract that Alfa Laval entered into on September 15, 2009 with the European Investment Bank that gives Alfa Laval the option until March 15, 2011 to call for a loan of up to EUR 130 million corresponding to SEK 1,171 million. The loan then matures after 7 years.

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 14 and 15 for more information on these financial instruments.

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

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

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

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

Transaction exposure
During 2010 Alfa Laval's sales to countries outside Sweden amounted to 96.6 (96.8) (96.5) percent of total sales.

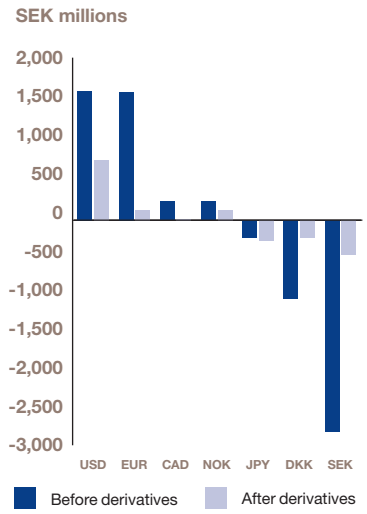
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark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

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

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

The Group's net transaction exposure in different currencies before and after derivatives during 2010 has amounted to:

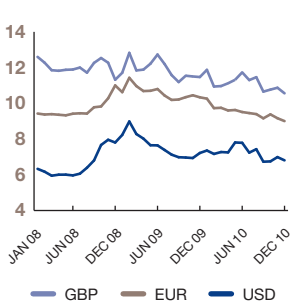
Net transaction exposure per currency during 2010

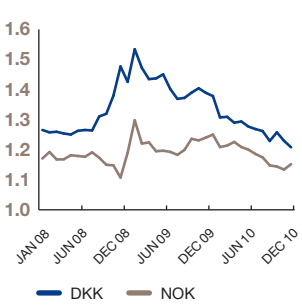


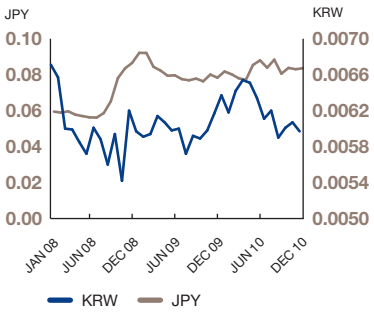
This is a reflection of the fact that a substantial part of the production within the Group is located in Sweden and Denmark with costs denominated in local currencies.

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

Exchange rate fluctuations







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

Effect on operating income by exchange rate fluctuations excluding hedging measures

Consolidated

SEK millions	2010		2009		2008	
Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
USD	167	-167	283	-283	443	-443
EUR	165	-165	118	-118	163	-163
CAD	24	-24	32	-32	42	-42
NOK	24	-24	27	-27	33	-33
DKK	-101	101	-105	105	-128	128
JPY	-22	22	-59	59	-119	119
Other	29	-29	45	-45	45	-45
Total	**286**	**-286**	**341**	**-341**	**479**	**-479**

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

Outstanding currency forward contracts and currency options

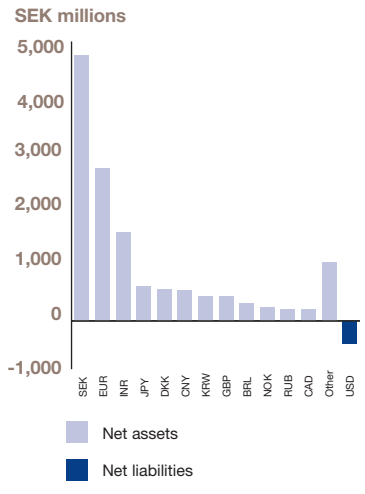
Consolidated

Millions	2010		2009		2008	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
Outflows:						
USD	-405	-2,754	-480	-3,465	-740	-5,775
EUR	-257	-2,316	-326	-3,365	-360	-3,965
KRW	-73,831	-441	-101,412	-626	–	–
AUD	-29	-203	-5	-30	-7	-38
CAD	-26	-176	-7	-47	-32	-205
JPY	-596	-50	–	–	–	–
BRL	-11	-43	-10	-42	–	–
DKK	–	–	–	–	-93	-137
GBP	–	–	–	–	-2	-23
Other		-79		-31		-77
Total		**-6,062**		**-7,606**		**-10,220**
Inflows:						
SEK	6,243	6,243	7,074	7,074	8,689	8,689
DKK	284	343	86	120	–	–
NOK	32	37	78	97	70	77
SGD	3	16	9	48	7	35
GBP	1	13	5	55	–	–
JPY	–	–	3,670	288	11,493	995
INR	–	–	–	–	1,153	186
Other		8		29		19
Total		**6,660**		**7,711**		**10,001**

Translation exposure

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

Net assets and liabilities by currency



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

These hedges of net investments in foreign operations work in the following way. Exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are reported as a part of other comprehensive income if the loans act as a hedge to the acquired net assets. In other comprehensive income they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK 99 (220) (-468) million relating to debts in foreign currencies have been charged to other comprehensive income as hedges of net investments in foreign operations. The loans that hedge net investments in foreign operations are denominated in EUR and USD since these foreign currencies have the largest impact on the statement of financial position. Since the Group uses part of its cash flows to amortise the loans in order to improve the financial net, the extent of this hedge tends to decrease over time.

Interest risk

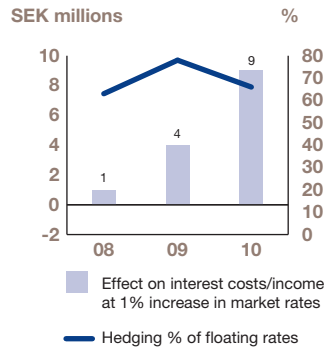
By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates. The Group attempts to manage interest-rate risk by matching fixed interest periods of financial assets and liabilities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

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

The senior credit facility and the bilateral term loan accrue interest at floating rate. The Group has chosen to hedge a portion of these loans to fixed interest rate. The duration of the hedge is 23.2 months.

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

Interest sensitivity analysis versus hedging % of floating rates



The reason for the positive effect during the period 2008 to 2010 is the size of cash, bank and current deposits relative to the un-hedged part of total debt.

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 242 (251) 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 near future does not need to refinance maturing loans. Since the maturity of the loans is distributed over time the refinancing risk is reduced.

In 2006 Alfa Laval made a private placement in the U.S.. The offer was over-subscribed and was closed at USD 110 million 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 225 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 4,776 million. At December 31, 2010, the facility was not utilised. The facility matures in April 2012.

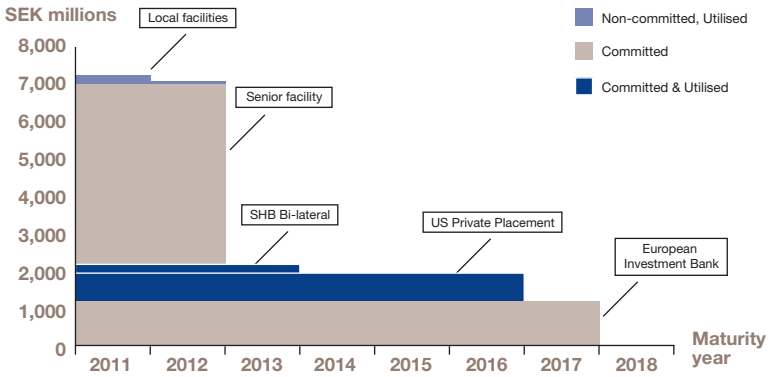
On September 15, 2009 Alfa Laval entered into a finance contract with the European Investment Bank that gives Alfa Laval the option until March 15, 2011 to call for a loan of up to EUR 130 million corresponding to SEK 1,171 million. The loan then matures after 7 years. When the loan is raised Alfa Laval can choose either floating or fixed interest rate.

Alfa Laval intends to use this loan as part of the financing of the acquisition of Aalborg.

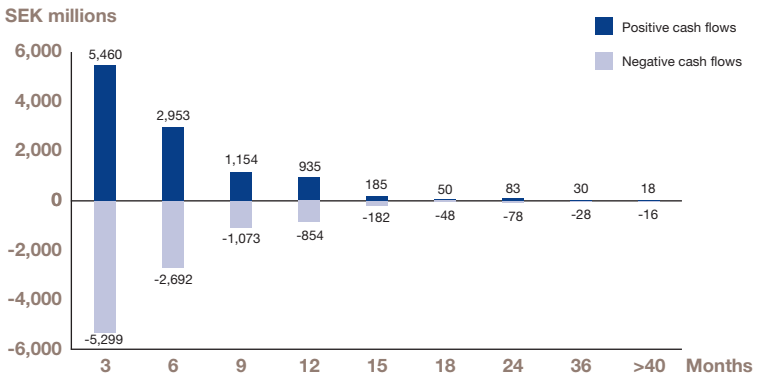
In addition Alfa Laval has agreed on a bridge loan with SEB of SEK 2,500 million in anticipation of a new syndicated loan to finance the rest of the Aalborg acquisition.

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

Maturity structure of Group funding



Maturity structure of financial derivatives



Cash flow risk

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

Counterpart risks

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

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

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

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

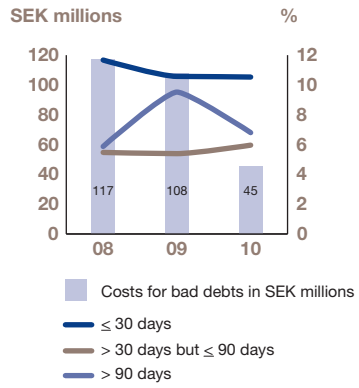
Operational risks

Risk for bad debts
The risk for bad debts is referring to the risk that the customer cannot pay for delivered goods due to financial difficulties. The Group sells to a large number of customers in countries all over the world. That some of these customers from time to time face payment problems or go bankrupt is unfortunately part of reality in an operation of Alfa Laval's magnitude. All customers except Tetra Laval represent less than 1 percent of net sales and thereby represent a limited risk. Alfa Laval regularly collects credit information on new customers and, if needed, on old customers. Earlier payment habits have an impact on the acceptance of new orders. On markets with political or financial risks, the Group strives to attain credit insurance solutions. Accounts receivable constitutes the single largest financial asset according to Note 14. With reference to the above description it is management's opinion that there is no material concentration of risk in this financial asset.

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

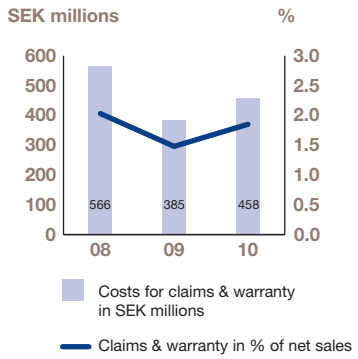
The Group's costs for bad debts and the overdues in percent of accounts receivable are presented in the following graph.

Costs for bad debts /overdues in % of accounts receivable



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

Claim costs in SEK millions and in % of sales



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

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

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

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

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

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

Business climate
In an overall economic downturn the Group tends to be affected with a delay of 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. The current downturn in the business climate has however meant a considerably larger decline in order intake. This is partly due to the fact that the decline happened abruptly from a very high level of demand that was the culmination of a long-lasting boom and that the price level in connection with this peak was inflated by substantial increases in raw material prices.

Prices of raw material
The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers of titanium. The risk for severely increased prices or limited supply constitutes serious risks for the operations. The possibilities to pass on higher input prices to an end customer vary from time to time and between different markets depending on the competition. The Group is addressing this risk by securing long-term supply commitments and through fixed prices from the suppliers during 6 to 12 months. During periods of large price increases the customer price on titanium products has been linked to Alfa Laval's procurement costs for titanium. In the period 2006 to 2010 the Group has experienced large price fluctuations for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium.

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

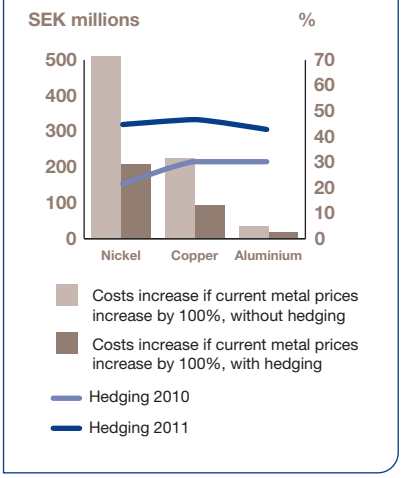
Nickel

Copper

Aluminium

The Group uses metal futures to secure the price on strategic metals. The graph below shows how much of the purchases of nickel, copper and aluminium that have been hedged during 2010 and how much of the expected purchases during 2011 that were hedged at the end of 2010. The graph also presents to what extent the Group's costs for these purchases would be affected if the prices would double from the current levels.

Sensitivity analysis and metal price hedging



Environmental risks

This risk relates to the costs that the Group may incur to reduce emissions according to new or stricter environmental legislation, to restore land at previously or currently owned industrial sites, to arrange more effective 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. For more information on Alfa Laval's environmental impact, see the section on "Sustainability" on page 44.

Political risk

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

Risk for and in connection with litigations

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

Asbestos-related lawsuits

The Alfa Laval Group was as of December 31, 2010, named as a co-defendant in a total of 596 asbestos-related lawsuits with a total of approximately 683 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

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

Risk for technically related damages

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

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

– strikes and other labour market conflicts,

– fires, natural catastrophes etc,

– computer access violations, lack of backups etc,

– corresponding problems at major sub-suppliers.

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

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

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

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

This means that the facility has state of the art fire and machinery protection systems and that the responsible personnel has adequate security routines to make sure that these protection systems are maintained and in function. In addition, known possible sources of ignition are under strict control to prevent a fire from starting. For an HPR facility the risk for a physical damage is brought to a minimum, which minimises the risk for business interruption that could have extensive consequences for Alfa Laval and its customers.

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

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

Notes

Note 1. Operating segments

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

The business divisions (operating segments) are in turn split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The Equipment division consists of five customer segments: Industrial Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service. In 2010 the two former customer segments Comfort & Refrigeration and Fluids & Utility Equipment were combined into the customer segment Industrial Equipment. The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

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

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

Orders received

Consolidated			
SEK millions	2010	2009	2008
Equipment	12,945	11,751	15,804
Process Technology	10,923	9,767	11,636
Other	1	21	24
Total	**23,869**	**21,539**	**27,464**

Net sales

Consolidated			
SEK millions	2010	2009	2008
Equipment	14,065	14,665	15,657
Process Technology	10,632	11,350	12,143
Other	23	24	50
Total	**24,720**	**26,039**	**27,850**

Order backlog

Consolidated			
SEK millions	2010	2009	2008
Equipment	4,983	6,399	7,926
Process Technology	6,569	5,486	6,365
Other	0	21	19
Total	**11,552**	**11,906**	**14,310**

Operating income

Consolidated			
SEK millions	2010	2009	2008
Equipment	2,604	2,530	3,602
Process Technology	2,159	2,040	2,756
Other	-405	-138	-395
Subtotal	4,358	4,432	5,963
Comparison distortion items	90	-225	-168
Consolidation adjustments *	-47	-177	-59
Total	**4,401**	**4,030**	**5,736**

* Difference between management accounts and IFRS

Assets / Liabilities

Consolidated	Assets		Liabilities	
SEK millions	2010	2009	2010	2009
Equipment	9,283	9,428	2,166	1,987
Process Technology	8,482	8,289	4,127	4,643
Other	4,456	4,507	2,286	1,866
Subtotal	22,221	22,224	8,579	8,496
Corporate	4,948	3,982	5,008	5,481
Total	**27,169**	**26,206**	**13,587**	**13,977**

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

Investments

Consolidated			
SEK millions	2010	2009	2008
Equipment	75	91	87
Process Technology	85	113	215
Other	269	247	445
Total	**429**	**451**	**747**

Depreciation

Consolidated			
SEK millions	2010	2009	2008
Equipment	256	200	134
Process Technology	198	153	107
Other	342	368	319
Total	**796**	**721**	**560**

Note 2. Information about geographical areas

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

Net sales

Consolidated

	2010		2009		2008	
	SEK millions	%	SEK millions	%	SEK millions	%
To customers in:						
Sweden	849	3.4	840	3.2	961	3.5
Other EU	6,879	27.8	7,941	30.6	9,339	33.6
Other Europe	1,953	7.9	1,829	7.0	2,402	8.6
USA	3,354	13.6	3,736	14.3	3,680	13.2
Other North America	757	3.1	575	2.2	711	2.6
Latin America	1,531	6.2	1,432	5.5	1,711	6.1
Africa	242	1.0	259	1.0	229	0.8
China	3,144	12.7	2,876	11.0	2,935	10.5
Other Asia	5,648	22.8	6,238	24.0	5,467	19.6
Oceania	363	1.5	313	1.2	415	1.5
Total	**24,720**	**100.0**	**26,039**	**100.0**	**27,850**	**100.0**

Non-current assets

Consolidated

	2010		2009	
	SEK millions	%	SEK millions	%
Sweden	1,598	11.7	1,725	12.6
Other EU	4,679	34.4	4,745	34.5
Other Europe	349	2.6	379	2.8
USA	2,016	14.8	1,935	14.1
Other North America	125	0.9	128	0.9
Latin America	167	1.2	178	1.3
Africa	1	0.0	1	0.0
Asia	3,045	22.4	3,039	22.1
Oceania	97	0.7	90	0.7
Subtotal	12,077	88.7	12,220	89.0
Pension assets	235	1.7	136	1.0
Deferred tax asset	1,301	9.6	1,367	10.0
Total	**13,613**	**100.0**	**13,723**	**100.0**

Investments

Consolidated

	2010		2009		2008	
	SEK millions	%	SEK millions	%	SEK millions	%
Sweden	54	12.6	78	17.2	134	17.9
Denmark	53	12.4	27	6.1	41	5.5
France	34	7.9	82	18.1	188	25.2
Italy	68	15.9	61	13.5	47	6.4
Other EU	39	9.0	54	12.0	80	10.6
Other Europe	25	5.8	13	2.8	14	1.9
North America	39	9.0	31	6.9	46	6.2
Latin America	7	1.6	3	0.7	34	4.5
Africa	0	0.0	0	0.0	0	0.1
China	37	8.6	29	6.5	81	10.8
Other Asia	70	16.5	72	16.0	81	10.8
Oceania	3	0.7	1	0.2	1	0.1
Total	**429**	**100.0**	**451**	**100.0**	**747**	**100.0**

Note 3. Information about products and services

Net sales by product/service

Consolidated

SEK millions	2010	2009	2008
Own products within:			
Separation	6,043	6,586	6,391
Heat transfer	13,092	13,866	16,023
Fluid handling	2,700	2,427	2,426
Other	550	615	349
Associated products	1,144	1,339	1,553
Services	1,191	1,206	1,108
Total	**24,720**	**26,039**	**27,850**

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

Note 4. Information about major customers

Alfa Laval does not have any customer that accounts for 10 percent or more of net sales. Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with about 4 percent of net sales. See Note 34 for more information.

Note 5. Employees

Average number of employees – total

Consolidated

	Number of female employees			Total number of employees		
	2010	2009	2008	2010	2009	2008
Parent company	–	–	–	–	–	–
Subsidiaries in Sweden (9)	439	463	485	2,042	2,216	2,356
Total in Sweden (9)	439	463	485	2,042	2,216	2,356
Total abroad (122)	1,913	1,902	1,906	10,036	9,557	9,465
Total (131)	**2,352**	**2,365**	**2,391**	**12,078**	**11,773**	**11,821**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2010.

Average number of employees – in Sweden by municipality

Consolidated

	2010	2009	2008
Botkyrka	428	455	471
Eskilstuna	199	215	236
Lund	958	1,037	1,131
Ronneby	245	271	322
Stockholm	12	12	14
Vänersborg	129	134	141
Other *	71	92	41
Total	**2,042**	**2,216**	**2,356**

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

Average number of employees – by country

Consolidated

	Number of female employees			Total number of employees		
	2010	2009	2008	2010	2009	2008
Argentina	7	7	7	33	34	45
Australia	12	10	12	64	64	66
Belgium	3	8	8	43	67	69
Brazil	25	40	31	162	145	142
Bulgaria	9	10	10	40	41	26
Chile	8	6	8	29	29	29
Colombia	4	4	4	16	13	13
Denmark	301	321	337	1,127	1,145	1,224
Estonia	–	0	1	–	0	3
Philippines	2	2	2	11	13	14
Finland	35	40	45	205	213	220
France	144	159	156	787	816	882
United Arab Emirates	12	12	15	98	96	91
Greece	8	9	2	23	23	5
Hong Kong	6	5	5	27	28	28
India	56	58	59	1,402	1,410	1,362
Indonesia	11	12	16	60	62	66
Iran	3	2	2	14	14	15
Italy	113	125	115	644	606	607
Japan	38	41	43	211	213	211
Canada	18	19	22	81	80	74
China	367	203	228	1,435	969	935
Korea	42	80	25	299	209	102
Latvia	7	7	4	13	14	8
Lithuania	–	0	2	–	0	4
Malaysia	22	24	24	65	62	64
Mexico	12	12	9	55	55	38
Netherlands	36	24	29	187	219	226
Norway	8	8	9	42	46	46
New Zeeland	4	3	4	18	21	23
Panama	–	–	–	1	–	–
Peru	6	7	9	25	27	30
Poland	36	39	29	195	201	195
Portugal	5	5	5	12	12	12
Romania	5	8	8	15	18	17
Russia	101	114	131	279	292	316
Switzerland	5	5	3	18	18	18
Singapore	28	30	20	70	71	53
Slovakia	2	2	2	11	11	11
Spain	21	25	32	82	92	98
UK	38	54	53	281	296	310
Sweden	439	463	485	2,042	2,216	2,356
South Africa	8	9	11	38	42	44
Taiwan	10	10	13	32	33	35
Thailand	20	18	22	57	59	65
Czech Republic	12	13	15	56	68	75
Turkey	7	8	8	36	39	39
Germany	66	72	76	328	320	261
Ukraine	6	7	6	18	18	21
Hungary	5	5	6	14	16	20
USA	207	206	210	1,238	1,167	1,150
Venezuela	6	7	6	13	18	21
Austria	6	7	7	26	32	36
Total	**2,352**	**2,365**	**2,391**	**12,078**	**11,773**	**11,821**

Sick leave among Swedish employees

Consolidated

Percent	2010	2009	2008
Sick leave in percent of total normal working hours for each category, for:			
all employees	2.5	2.8	3.6
all employees during 60 consecutive days or more	0.6	1.0	1.4
female employees	2.6	2.6	3.6
male employees	2.4	2.9	3.5
employees at the age of 29 or younger	2.0	2.4	2.8
employees between 30 and 49 years of age	2.3	2.6	2.9
employees at the age of 50 or more	3.1	3.4	5.0

Gender distribution among managers

Consolidated

	2010			2009			2008		
	Total number	Male %	Female %	Total number	Male %	Female %	Total number	Male %	Female %
Board members (excluding deputies)	11	72.7	27.3	11	72.7	27.3	11	72.7	27.3
President and other executive officers	10	90.0	10.0	10	90.0	10.0	11	100.0	0.0
Managers in Sweden	278	82.0	18.0	302	81.8	18.2	296	82.1	17.9
Managers outside Sweden	1,394	84.8	15.2	1,086	86.2	13.8	921	86.1	13.9
Managers total	1,672	84.3	15.7	1,388	85.2	14.8	1,217	85.1	14.9
Employees in Sweden	2,042	78.5	21.5	2,216	79.1	20.9	2,356	79.4	20.6
Employees outside Sweden	10,036	80.9	19.1	9,557	80.1	19.9	9,465	79.9	20.1
Employees total	12,078	80.5	19.5	11,773	79.9	20.1	11,821	79.8	20.2

Note 6. Salaries and remunerations

Salaries and remunerations – total

Consolidated

SEK millions	2010	2009	2008
Board of Directors, Presidents and Vice Presidents	180	189	173
- out of which, variable	20	26	38
Other	4,232	4,386	4,008
Total salaries and remunerations	4,412	4,575	4,181
Social security costs	775	799	760
Pension costs, defined benefit plans	188	175	141
Pension costs, defined contribution plans	305	330	307
Total costs of personnel	**5,680**	**5,879**	**5,389**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 34 (45) (45) million and SEK 277 (288) (282) million respectively. SEK 147 (153) (169) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits
During the period 2008 to 2010 no equity related benefits existed within Alfa Laval.

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

Cash based long term incentive programme
The Annual General Meeting 2008 decided to implement the first step of a cash based long term incentive programme for approximately 75 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The first step covers the period January 1, 2008 – December 31, 2010. The Annual General Meeting 2009 decided to implement the second step for the period January 1, 2009 – December 31, 2011. The Annual General Meeting 2010 decided to implement the third step for the period January 1, 2010 – December 31, 2012. This means that for 2009 the first and second steps of the plan are running in parallel and for 2010 all three steps of the plan are running in parallel.

Each of the steps stretches over three years and the awards under each step are divided into three tranches (one for each year). The maximum award for each three year period is 50 percent of the employee's annual maximum variable remuneration calculated on the base salary at the end of the three year period. This means that if the employee for instance can get up to 15 percent in variable remuneration each step of the long term incentive plan at maximum can result in an additional 7.5 percent of the base salary split into three annual awards of 2.5 percent. The outcome of the plan is linked to the development of earnings per share (EPS) for the Alfa Laval share. The EPS targets for the three tranches within each step are set by the Board of Directors. For each percent up to maximum 20 percent that the EPS exceeds the target EPS, the employee gets 5 percent of one third of the maximum outcome per year. To be entitled to a maximum outcome the EPS value for each year must exceed the target EPS by 20 percent (20 x 5 % x 1/3 x 7.5 % = 2.5 % per year in this case). If the target is exceeded by 10 percent the result in this case would be 10 x 5 % x 1/3 x 7.5 % = 1.25 % per year.

To be eligible for payout the employees must be in service on the award date and the vesting date (except in case of termination of employment due to retirement, death or disability). If the employee resigns or is dismissed before the end of the three year period, the awards will lapse and the employee will not be entitled to any payout. If the employee moves to a position that is not eligible for this plan the tranches that already have been earned are paid out upon the change of position. The awards for the first, second and third steps are payable in April 2011, April 2012 and April 2013 respectively. Based on the reported EPS for 2008, 2009 and 2010 the first, second and third steps resulted in the following awards:

Long term incentive plan

Consolidated

SEK millions, unless otherwise stated	Actual outcome in % of maximum outcome			Payable in percent of base salary based on 15% in variable remuneration	Estimated awards for each step
	2010	2009	2008	Accumulated	Accumulated
Step					
One	11.00%	0.00%	100.00%	2.78%	5
Two	80.25%	58.50%	N/A	3.47%	7
Three	100.00%	N/A	N/A	2.50%	5
Awards per year	9	3	5	Total	17

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

Guidelines for remunerations to executive officers
The remunerations to the Chief Executive Officer/Managing Director and other members of Group Management are decided by the Board of Directors based on proposals from the Remuneration Committee according to the guidelines established by the Annual General Meeting. The principle used when deciding the remunerations to executive officers is that the remuneration package is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a variable remuneration of up to 40 percent of the salary (managing director up to 60 percent of the salary). The size of the variable remuneration depends on the outcome of a number of financial measurements and the result of special projects, all compared with the objectives that have been established for the year. The Annual General Meetings 2008, 2009 and 2010 decided to implement step one, two and three respectively of a cash based long term incentive programme for approximately 75 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Board of Directors will propose the Annual General Meeting 2011 to implement a modified cash based long term incentive programme for the period January 1, 2011 – December 31, 2013. No other changes of these guidelines are proposed by the Board of Directors.

Chief Executive Officer/Managing Director
The Chief Executive Officer and Managing Director Lars Renström receives a remuneration of SEK 10,070,445 (11,062,649) (10,628,302), out of which SEK 2,139,750 (4,050,000) (3,600,000) represent the variable part. The variable part refers to what was paid during the year. The remuneration contains the value of company car, taxable daily allowances, holiday pay and payment for vacation taken in cash.

Lars Renström has a base salary of SEK 7,500,000 (6,750,000) (6,750,000) per annum. In his remuneration package there is a variable element with an un-guaranteed target of 30 (30) (30) percent of the base salary and with a maximum opportunity of 60 (60) (60) percent. He is covered by the cash based long term incentive programme and based on the estimated

base salary at the future time of payment the award for 2010 was SEK 1,498,106 (463,500) (750,000). The amounts for previous years have been changed slightly due to changed estimated base salary at the future time of payment. 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 62. If Lars Renström continues his work in Alfa Laval after the age of 62 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 61 he will receive two years' remuneration, between 61 and 62 he will receive one year's remuneration and from 62 he will receive 6 months' remuneration. During the year, Alfa Laval has recorded costs for pension premiums for retirement and survivors' pension of SEK 4,787,174 (4,399,756) (4,656,423). In addition the company has incurred costs for life insurance, disability insurance and health care insurance of SEK 449,775 (499,412) (499,723).

Alfa Laval's Board of Directors has in February 2011 prolonged the employment contract for Lars Renström until 2015.

Other executive officers

Other executive officers are the nine members of Group Management in addition to the Chief Executive Officer. Their remunerations were SEK 25 (29) (28) million, out of which the variable part was SEK 3 (7) (6) million. The variable part refers to what was paid during the year. They are also covered by the cash based long term incentive programme and based on estimated base salaries at the future time of payment the award for 2010 was SEK 2 (1) (1) million. During 2010, Alfa Laval has recorded costs for pension premiums for retirement and survivors' pension of SEK 18 (17) (11) million for them. In addition the company has incurred costs for life insurance, disability insurance and health care insurance of SEK 1 (1) (1) million.

For these executive officers, early retirement has in some cases been committed from the age of 62. From 2006 a defined contribution solution for early retirement is offered with a premium of 15 percent of the pensionable salary. Early retirement is offered selectively and only after a specific decision in the Remuneration Committee. For salaries above 30 base amounts a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts is offered since 2006. 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 variable remunerations for a temporary old age and family pension.

Alfa Laval has made commitments for severance pay to a limited group of senior executives. The commitments are restricted to a maximum amount of two annual salaries. The commitments define the conditions that must be fulfilled in order for them to become valid.

Board of Directors

For 2010, the Board of Directors receive a total fixed remuneration of SEK 3,485,000 (3,485,000) (3,485,000), which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

Remunerations to Board members *

Consolidated

SEK		2010	2009	2008
Fees by function:				
Chairman of the Board		900,000	900,000	900,000
Other members of the Board		360,000	360,000	360,000
Supplement to:				
Chairman of the Audit Committee		125,000	125,000	125,000
Other members of the Audit Committee		75,000	75,000	75,000
Chairman of the remuneration committee		50,000	50,000	50,000
Other members of the remuneration committee		50,000	50,000	50,000
Fees by name:				
Anders Narvinger	Chairman	1,025,000	1,025,000	1,025,000
Gunilla Berg	Member	435,000	435,000	435,000
Arne Frank	Member	360,000	–	–
Björn Hägglund	Member	410,000	410,000	410,000
Ulla Litzén	Member	360,000	360,000	360,000
Finn Rausing	Member	485,000	485,000	485,000
Jörn Rausing	Member	410,000	410,000	410,000
Waldemar Schmidt	Member	–	360,000	360,000
Total		**3,485,000**	**3,485,000**	**3,485,000**

* Elected at the Annual General Meeting and not employed by the company

The reported remunerations refer to the period between two Annual General Meetings.

The Chairman of the Board does not have any agreement on future retirement or severance pay with Alfa Laval.

Salaries and remunerations – by country

Consolidated

	Board of Directors, Presidents and Vice Presidents			Other employees		
SEK millions	2010	2009	2008	2010	2009	2008
Argentina	1	1	1	5	5	7
Australia	5	4	4	30	28	27
Belgium	0	1	4	51	49	40
Brazil	6	5	4	51	45	39
Bulgaria	1	0	1	6	8	6
Chile	0	0	0	11	9	7
Colombia	1	1	1	3	2	2
Denmark	9	10	9	729	798	726
Estonia	–	0	0	–	0	0
Philippines	0	1	0	2	2	2
Finland	2	3	4	85	98	91
France	9	10	7	289	328	298
United Arab Emirates	2	2	2	40	38	22
Greece	1	0	2	9	11	1
Hong Kong	2	2	1	15	16	15
India	2	2	3	123	109	98
Indonesia	1	1	1	8	8	7
Iran	0	0	0	2	1	2
Italy	3	4	2	232	234	208
Japan	11	11	8	121	116	73
Canada	2	2	2	44	41	39
China	6	6	4	125	107	92
Korea	3	3	1	75	48	32
Latvia	1	1	1	2	3	1
Lithuania	–	0	0	–	0	1
Malaysia	1	1	1	15	13	11
Mexico	2	2	1	11	10	9
Netherlands	1	0	2	86	120	121
Norway	2	2	2	34	33	34
New Zeeland	2	1	1	6	6	6
Peru	–	0	0	5	5	5
Poland	2	3	3	30	28	29
Portugal	–	0	0	4	3	4
Romania	2	3	2	1	2	2
Russia	2	2	2	70	63	73
Switzerland	2	2	2	14	13	12
Singapore	3	2	1	28	26	15
Slovakia	–	0	0	3	3	2
Spain	1	3	2	36	44	45
UK	2	3	2	109	132	133
Sweden	37	37	38	955	1,012	1,011
South Africa	4	3	3	12	12	9
Taiwan	1	1	1	7	7	7
Thailand	2	2	1	11	10	10
Czech Republic	–	0	2	14	16	16
Turkey	1	5	3	12	8	10
Germany	15	12	11	124	129	113
Ukraine	–	0	–	4	4	5
Hungary	1	1	1	3	4	5
USA	27	30	27	563	556	465
Venezuela	–	0	0	3	6	3
Austria	2	4	3	14	17	17
Total	**180**	**189**	**173**	**4,232**	**4,386**	**4,008**

Note 7. 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 millions	2010	2009	2008
Audit engagements			
Ernst & Young	30	26	21
Other audit firms	1	2	1
Total	**31**	**28**	**22**
Audit related services			
Ernst & Young	5	8	6
Other audit firms	2	3	1
Total	**7**	**11**	**7**
Tax services			
Ernst & Young	3	2	2
Other audit firms	3	4	2
Total	**6**	**6**	**4**
Other services			
Ernst & Young	2	3	1
Other audit firms	2	4	4
Total	**4**	**7**	**5**
Expenses			
Ernst & Young	1	0	0
Other audit firms	0	0	0
Total	**1**	**0**	**0**
Total			
Ernst & Young	41	39	30
Other audit firms	8	13	8
Total	**49**	**52**	**38**

An audit engagement includes examining the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an examination in order to give an opinion on the Board's discharge from liability. Audit related services are audit services that are outside the audit engagement. Tax services refer to advices given in connection with various tax matters. All other assignments are defined as other services. Expenses refer to reimbursements of travel costs, secretarial services etc.

Note 8. Advertising costs

Advertising costs have amounted to SEK 76 (56) (93) million. These refer to costs for advertisements in newspapers and technical press, participation in trade fairs and brochures.

Note 9. Comparison distortion items

Comparison distortion items are reported gross in the consolidated comprehensive income statement as a part of other operating income and other operating costs.

Comparison distortion items

Consolidated

SEK millions	2010	2009	2008
Operational			
Other operating income	404	442	420
Comparison distortion items	90	–	102
Total other operating income	**494**	**442**	**522**
Other operating costs	-779	-850	-734
Comparison distortion items	–	-225	-270
Total other operating costs	**-779**	**-1,075**	**-1,004**

Specification of comparison distortion items

Consolidated

SEK millions	2010	2009	2008
Gain on:			
Sale of real estate	10	–	102
Cost for:			
Restructuring programme	80	-225	-270
Net total	**90**	**-225**	**-168**

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

2009 was burdened with SEK -225 million for restructuring measures.

In 2008 a property in Brazil was sold for SEK 113 million with a realised gain of SEK 102 million. The costs for the restructuring programme burdened 2008 with SEK -270 million.

Note 10. Depreciation and amortisation

Split by function

Consolidated

SEK millions	2010	2009	2008
Cost of goods sold	-623	-561	-423
Sales	-46	-48	-47
Administration	-72	-77	-64
Research and development	-10	-6	-5
Other income and costs	-45	-29	-21
Total	**-796**	**-721**	**-560**

Split by type of asset

Consolidated

SEK millions	2010	2009	2008
Patents and unpatented know-how, trademarks, etc.	-303	-234	-161
Machinery and equipment	-405	-408	-326
Financial leasing machinery and equipment	-4	-4	-2
Buildings and ground installations	-78	-71	-70
Financial leasing buildings	-6	-4	-1
Total	**-796**	**-721**	**-560**

Note 11. Dividends and changes in fair value of financial instruments

Split by type

Consolidated

SEK millions	2010	2009	2008
Dividends from other	2	0	4
Fair value changes in securities	0	-1	-2
Total	**2**	**-1**	**2**

Note 12. Interest income/expense and financial exchange rate gains/losses

Split on type of income/expense or gain/loss

Consolidated

SEK millions	2010	2009	2008
Interest income			
Financial leasing	–	0	0
Other interest	35	108	52
Exchange rate gains			
Unrealised	168	229	276
Realised	124	67	69
Total	**327**	**404**	**397**
Interest expenses			
Financial leasing	-1	0	0
Other interest	-146	-315	-235
Exchange rate losses			
Unrealised	-141	-257	-94
Realised	-78	-101	-465
Total	**-366**	**-673**	**-794**

Split on type of income/expense or gain/loss

Parent company

SEK millions	2010	2009	2008
Interest income			
External companies	0	–	0
Subsidiaries	16	11	39
Exchange rate gains			
Unrealised	1	12	11
Total	**17**	**23**	**50**
Interest costs			
External companies	–	-1	–
Subsidiaries	–	0	-3
Exchange rate losses			
Unrealised	-4	-21	-1
Realised	0	0	0
Total	**-4**	**-22**	**-4**

In the Group, reported net exchange differences of SEK 99 (220) (-468) million relating to debts in foreign currencies have been charged to other comprehensive income. These debts finance the acquisition of shares in foreign subsidiaries and act as a hedge to the acquired net assets. The amount is charged with tax resulting in a net after tax impact on other comprehensive income of SEK 73 (162) (-345) million.

Note 13. Non-controlling interests

Non-controlling interests relates to ten subsidiaries in Bulgaria, China, France, Germany, India, Russia and South Korea with owners with non-controlling interests.

Note 14. Classification of financial assets and liabilities

Financial assets

Consolidated

	Financial assets at fair value through profit or loss:						Loans and receivables		Available for sale financial assets	
	Designated upon initial recognition		Held for trading		Derivatives used for hedging					
SEK millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Non-current assets										
Other non-current assets										
Other long-term securities	–	–	–	–	–	–	–	–	32	39
Current assets										
Current receivables										
Accounts receivable	–	–	–	–	–	–	4,181	4,123	–	–
Notes receivable	–	–	–	–	–	–	248	379	–	–
Other receivables	–	–	–	–	–	–	798	909	–	–
Accrued income	–	–	–	–	–	–	40	24	–	–
Derivative assets	–	–	339	74	305	257	–	–	–	–
Current deposits										
Deposits with banks	–	–	–	–	–	–	353	76	–	–
Bonds and other securities	210	212	–	–	–	–	–	–	–	–
Other deposits	–	–	–	–	–	–	12	14	–	–
Cash and bank	–	–	–	–	–	–	1,328	1,112	–	–
Total financial assets	**210**	**212**	**339**	**74**	**305**	**257**	**6,960**	**6,637**	**32**	**39**

The Group does not have any financial assets that represent held-to-maturity investments.

Financial liabilities

Consolidated

	Financial liabilities at fair value through profit or loss:				Loans	
	Held for trading		Derivatives used for hedging			
SEK millions	2010	2009	2010	2009	2010	2009
Non-current liabilities						
Liabilities to credit institutions	–	–	–	–	292	832
Private placement	–	–	–	–	749	794
Current liabilities						
Liabilities to credit institutions	–	–	–	–	173	165
Accounts payable	–	–	–	–	2,120	1,630
Notes payable	–	–	–	–	119	203
Other liabilities	–	–	–	–	1,339	986
Accrued costs	–	–	–	–	1,506	1,279
Derivative liabilities	74	137	76	150	–	–
Total financial liabilities	**74**	**137**	**76**	**150**	**6,298**	**5,889**

The Group does not have any financial liabilities at fair value through profit and loss designated upon initial recognition.

All of the financial instruments above sum up either to the corresponding item in the statement on financial position or to the item specified in the notes referred to in the statement on financial position. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 84–89.

Result of financial instruments

The result of the financial assets designated upon recognition is found in Note 11 as fair value changes in securities.

The result of the financial assets held for trading of SEK 275 (36) (14) million has affected cost of goods sold with SEK 47 (35) (2) million, exchange gains in Note 12 with SEK 228 (1) (12) million and interest income in Note 12 with the remaining SEK - (-) (0) million.

The result of the assets under loans and receivables is presented in Note 12 as other interest income for deposits with banks, other deposits and cash and bank. The other assets under loans and receivables do not generate a result but only a cash-in of the principal amount.

The result of the available for sale financial assets is reported as part of other comprehensive income in the consolidated comprehensive income statement.

The result of the financial liabilities held for trading of SEK -23 (-93) (-170) million has affected cost of goods sold with SEK -10 (-6) (-85) million, exchange losses in Note 12 with SEK -11 (-86) (-84) million and interest costs in Note 12 with the remaining SEK -2 (-1) (-1) million.

The result of the liabilities under loans is presented in Note 12 as other interest costs for the liabilities to credit institutions and the private placement. The other liabilities under loans do not generate a result but only a cash-out of the principal amount.

The result of the derivative assets and liabilities used for hedging is reported as part of other comprehensive income in the consolidated comprehensive income statement.

Note 15. Fair value of financial instruments

The fair value changes in shares in external companies are made under other comprehensive income and amounts to SEK 0 (0) (0) million, see the comments to the consolidated comprehensive income statement.

The fair value changes in marketable securities are made on the line dividends and changes in fair value in the consolidated comprehensive income statement and amounts to SEK 0 (-1) (-2) million, see Note 11.

Fair value of derivatives

Consolidated

			Difference between contracted rate and current rate	
SEK millions	Currency pairs		2010	2009
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	12	17
	EUR	SEK	132	58
	EUR	AUD	-13	0
	EUR	CAD	-1	0
	EUR	JPY	-2	3
	USD	CAD	-2	-1
	USD	DKK	2	4
	USD	GBP	0	-2
	USD	SEK	235	-98
	USD	JPY	4	2
	DKK	SEK	6	22
	USD	KRW	-23	-42
	Other	Other	-8	-10
Subtotal			342	-47
Currency options			9	1
Interest Rate Swaps			96	74
Metal forward contacts			30	11
Electricity futures			17	5
Total, corresponding to a net derivative asset (+) or liability (-)			**494**	**44**

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 through other comprehensive income if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made above net income. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the statement on financial position.

Note 16. Current and deferred taxes

Tax on this year's result and other taxes

Consolidated

SEK millions	2010	2009	2008
Major components of the Group's tax costs			
Current tax cost	-1,356	-1,237	-1,509
Adjustment for current taxes on prior periods	110	-26	-8
Deferred tax costs/income on changes in temporary differences	9	186	-48
Deferred tax costs/income on changes in tax rates or new taxes	-5	34	15
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	0	8
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	5	6	23
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-3	20	-9
Other taxes	-8	-6	-6
Total tax cost	**-1,248**	**-1,023**	**-1,534**

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

Tax cost reconciliation

Consolidated

SEK millions	2010	2009	2008
Result after financial items	4,364	3,760	5,341
Tax according to applicable tax rates	-1,279	-1,095	-1,650
Tax effect of:			
Non-deductible costs	-136	-115	-43
Non-taxable income	26	180	135
Tax losses and tax credits	39	39	38
Other	-8	-6	-6
Adjustment for current tax on prior periods	110	-26	-8
Total tax costs	**-1,248**	**-1,023**	**-1,534**

Other taxes are mainly referring to wealth tax.

Temporary differences exist when there is a difference between the book value and the tax base of assets and liabilities. The Group's temporary differences have resulted in a deferred tax asset or a deferred tax liability relating to the following assets and liabilities:

Deferred tax assets and liabilities

Consolidated

	2010		2009	
SEK millions	assets	liabilities	assets	liabilities
Relating to:				
Intangible non-current assets	4	726	15	621
Tangible non-current assets	67	221	69	254
Inventory	238	42	150	16
Other current assets	12	5	11	4
Financial assets	3	16	8	0
Short term liabilities	1,043	139	1,174	104
Tax losses and tax credits *	21	0	27	0
Other	8	563	8	486
Subtotal	1,396	1,712	1,462	1,485
Possible to net	-95	-95	-95	-95
Total deferred taxes	**1,301**	**1,617**	**1,367**	**1,390**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 74 (91) 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 600 (709) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used. The temporary differences are mainly relating to pensions, where the date of payment is so far into the future that considering discounting and uncertainty concerning future tax rules and profit levels no asset is deemed to exist. The unused tax losses and tax grants are essentially not restricted in time, but the tax losses that can be utilised per year can be restricted to a certain proportion of the taxable result or be limited by up-coming structural changes.

The nominal tax rate has changed in the following countries during 2008 to 2010.

Tax rates by country

Consolidated

Percent	2010	2009	2008
Philippines	30	30	35
Greece	24	25	25
India	33	34	34
Indonesia	25	28	30
Canada	31	32	34
China	24	22	18
Malaysia	25	25	26
Mexico	30	30	28
New Zealand	28	30	30
Singapore	17	17	18
UK	28	30	30
Sweden	26	26	28
South Korea	24	22	24
Taiwan	17	20	25
Czech Republic	19	20	21
Germany	30	29	35
Hungary	19	16	16

The Group's normal effective tax rate is approximately 30 (30) (31) 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 17. 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.

Movement schedule

Consolidated

SEK millions	Opening balance 2010	Acquired	Realised	Planned amortisation	Translation difference	Closing balance 2010
Buildings	344	–	–	-21	-13	310
Land and land improvements	-48	–	–	–	-20	-68
Machinery	40	–	–	-39	-1	–
Equipment	154	–	–	-30	-9	115
Inventory	–	37	-10	–	0	27
Patents and unpatented know-how	1,062	276	–	-142	-46	1,150
Trademarks	1,353	269	–	-139	-126	1,357
Subtotal step-up values	2,905	582	-10	-371	-215	2,891
Goodwill	6,143	218	–	–	-409	5,952
Total	**9,048**	**800**	**-10**	**-371**	**-624**	**8,843**

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2010 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 655 (632) million.
For assets sold, net gains or losses are recognised on the costs basis including any related step-up value.

The next table shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2010 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 18 and 19.

Acquisition of businesses since 2000

Consolidated

SEK millions Year/Businesses	Buildings	Land and land improvements	Machinery	Equipment	Inventory	Patents and unpatented know-how	Trademarks	Other	Total step-up values	Goodwill	Total
2000											
Alfa Laval Holding	1,058	-228	548	452	340	1,280	461	112	4,023	3,683	7,706
2002											
Danish Separation Systems	–	–	–	–	–	–	–	–	–	118	118
2003											
Toftejorg	1	–	–	–	–	–	–	–	1	35	36
2005											
Packinox	–	–	–	–	6	99	183	–	288	253	541
2006											
Tranter	17	–	–	–	6	180	265	–	468	530	998
2007											
AGC Engineering	–	–	–	–	–	–	12	–	12	20	32
Helpman	9	8	–	–	–	36	–	–	53	4	57
Public offer Alfa Laval (India)	–	–	–	–	–	–	–	–	–	441	441
DSO Fluid Handling	–	–	–	–	–	–	39	–	39	42	81
Fincoil	–	–	–	–	–	233	–	–	233	241	474
2008											
Høyer Promix A/S	–	–	–	–	–	–	–	–	–	16	16
Nitrile India Pvt Ltd	–	–	–	–	–	–	–	–	–	6	6
Standard Refrigeration	–	–	–	–	5	166	–	–	171	152	323
Pressko AG	–	–	–	–	1	–	–	–	1	69	70
Hutchison Hayes Separation	–	–	–	–	1	95	49	–	145	46	191
P&D's Plattvärmeväxlarservice	–	–	–	–	–	–	–	–	–	10	10
Ageratec	–	–	–	–	–	–	–	–	–	44	44
2009											
Two providers of parts & service	–	–	–	–	–	–	291	–	291	210	501
Onnuri Industrial Machinery	–	–	–	–	–	40	39	–	79	48	127
HES Heat Exchanger Systems	–	–	–	–	–	83	–	–	83	59	142
Public offer Alfa Laval (India)	–	–	–	–	–	–	–	–	–	311	311
Termatrans	–	–	–	–	–	–	7	–	7	6	13
Tranter acquisitions in Latin America	–	–	–	–	–	–	20	–	20	16	36
ISO Mix	–	–	–	–	–	22	–	–	22	–	22
LHE	–	–	–	–	–	298	297	–	595	344	939
2010											
Champ Products	–	–	–	–	–	15	14	–	29	15	44
A leading U.S. service provider	–	–	–	–	–	–	134	–	134	82	216
G.S Anderson	–	–	–	–	–	35	–	–	35	23	58
Astepo	–	–	–	–	–	24	15	–	39	26	65
Si Fang Stainless Steel Products	–	–	–	–	–	27	16	–	43	37	80
Definox	–	–	–	–	–	4	5	–	9	3	12
Olmi	–	–	–	–	37	171	85	–	293	14	307
Accumulated during the period											
Realised	-524	122	13	-24	-360	–	–	-112	-885	–	-885
Planned amortisation	-252	–	-571	-311	-10	-1,651	-514	–	-3,309	-612	-3,921
Translation difference	1	30	10	-2	1	-7	-61	–	-28	-340	-368
Closing balance	**310**	**-68**	**–**	**115**	**27**	**1,150**	**1,357**	**–**	**2,891**	**5,952**	**8,843**

The acquisition of the Alfa Laval Holding AB group in connection with the acquisition by Industri Kapital of the Alfa Laval Group from Tetra Laval on August 24, 2000 is shown on the first row.

"Other" relates to step up values from 2000 for "Research and development" SEK 54 million and "Capital gain (Industrial Flow)" SEK 42 million that have been fully realised and for "Construction in process" SEK 16 million that has been transferred to "Machinery".

Acquisition of businesses

During 2010

On December 6, 2010 Alfa Laval acquired the Italian company Olmi S.p.A., a leading company specialized in the design and manufacture of shell & tube heat exchangers and air coolers for niche applications in the petrochemical, power and oil & gas industries. The acquisition expands Alfa Laval's product portfolio. The intention is to integrate Olmi into Alfa Laval as a competence centre based on their unique know-how. The purchase price is SEK 714 million, out of which SEK 546 million has been paid in cash and the rest is retained for a period of 1-6 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 2 million. The impact on the cash flow was thus SEK -548 million. Out of the difference between the purchase price paid and the net assets acquired SEK 171 million was allocated to patents and un-patented know-how, SEK 85 million was allocated to the Olmi trademark and SEK 37 million to accrued gross margin in work in progress, while the residual SEK 14 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Olmi'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 amortised over 10 years. The step up for accrued gross margin in work in progress is expensed when the inventory is turned over. Olmi's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 302 million and SEK 24 million respectively. If Olmi had been acquired at January 1, 2010 the corresponding figures would have been SEK 971 million and SEK 164 million respectively. At the end of 2010 the number of employees was 247.

On November 1, 2010 Alfa Laval acquired the Definox activities from Defontaine. Definox designs and manufactures stainless steel valves and equipment for the food processing, pharmaceutical and cosmetic industries. Definox will continue to offer its own product range, under its own brand and through its own sales network. Definox has offices and manufacturing in Gétigné close to Nantes in France and subsidiaries in the U.S. and China. The purchase price is SEK 49 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 4 million. The impact on the cash flow was thus SEK -53 million. Out of the difference between the purchase price paid and the net assets acquired SEK 4 million was allocated to patents and un-patented know-how and SEK 5 million was allocated to the Definox trademark, while the residual SEK 3 million was allocated to goodwill. The goodwill is relating to Definox's ability to over time recreate its

intangible assets. 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 amortised over 10 years. Definox's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 33 million and SEK 1 million respectively. If Definox had been acquired at January 1, 2010 the corresponding figures would have been SEK 239 million and SEK 12 million respectively. At the end of 2010 the number of employees was 111.

On April 1, 2010 Alfa Laval acquired Astepo S.r.l. in Italy. The company is recognized for its solid know-how in aseptic technology, with key products such as bag-in-box fillers and heat exchangers targeting the global fruit juice concentrate industry. The purchase price is SEK 61 million, out of which SEK 34 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 3 million. The impact on the cash flow was thus SEK -37 million. Out of the difference between the purchase price paid and the net assets acquired SEK 24 million was allocated to patents and un-patented know-how and SEK 15 million was allocated to the Astepo trademark, while the residual SEK 26 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Astepo's ability to over time recreate its intangible assets. 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 amortised over 10 years. Astepo's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 49 million and SEK 1 million respectively. If Astepo had been acquired at January 1, 2010 the corresponding figures would have been SEK 62 million and SEK -1 million respectively. At the end of 2010 the number of employees was 23. During 2010 the company has been renamed to Alfa Laval Parma S.r.l..

On April 1, 2010 Alfa Laval acquired 65 percent of the shares in Si Fang Stainless Steel Products Co. Ltd in China, which is a leading fluid handling company in China. The company targets the food and beverage market in China with its sanitary product portfolio, including pumps, valves and fittings. Si Fang will continue to offer its own product range, under its own brand and through its own sales network. The purchase price is SEK 121 million, out of which SEK 82 million has been paid in cash and the rest is retained for a period of 1 year. 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 13 million. The impact on the cash flow was thus SEK -95 million. Out of the difference between the purchase price paid and the net assets acquired SEK 27 million was allocated to patents and un-patented know-how and SEK 16 million was allocated to the Si Fang trademark, while the residual SEK 37 million was allocated to goodwill. The goodwill is relating to Si Fang's ability to over time recreate its intangible assets. 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 amortised over 10 years. Si Fang's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 138 million and SEK 19 million respectively. If Si Fang had been acquired at January 1, 2010 the corresponding figures would have been SEK 167 million and SEK 23 million respectively. At the end of 2010 the number of employees was 420.

On January 6, 2010 Alfa Laval acquired a well established service company in the U.S., that is a leading service provider on the North American market specialized in plate heat exchangers. The company will remain a separate organisation as they will continue to offer their own products and services to the industry under their own brand. The purchase price is SEK 226 million, out of which SEK 145 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 3 million. The impact on the cash flow was thus SEK -148 million. Out of the difference between the purchase price paid and the net assets acquired SEK 134 million was allocated to the company's trademark, while the residual SEK 82 million was allocated to goodwill. The goodwill is relating to the company's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step up value for the trademark is amortised over 10 years. The company's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 163 million and SEK 40 million respectively. If the company had been acquired at January 1, 2010 the corresponding figures would have been SEK 163 million and SEK 40 million respectively. At the end of 2010 the number of employees was 76.

On January 5, 2010 Alfa Laval acquired Champ Products Inc., based in Sarasota, Florida, the U.S.. The company is recognized for its deep knowledge of engine cooling and is today perceived as a leading company in the North American market. The purchase price is SEK 70 million, out of which SEK 35 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 2 million. The impact on the cash flow was thus SEK -37 million. Out of the difference between the purchase price paid and the net assets acquired SEK 15 million was allocated to patents and un-patented know-how and SEK 14 million was allocated to the Champ trademark, while the residual SEK 15 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Champ's ability to over time recreate its intangible assets. 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 amortised over 10 years. Champ's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 111 million and SEK 11 million respectively. If Champ had been acquired at January 1, 2010 the corresponding figures would have been SEK 111 million and SEK 11 million respectively. At the end of 2010 the number of employees was 88. During 2010 the company has been renamed to Alfa Laval Champ Inc.

In addition yet one minor acquisition has been made during 2010:

On February 10, 2010 Alfa Laval acquired the German company G.S. Anderson GmbH. The purchase price is SEK 49 million, out of which SEK 26 million has been paid in cash and the rest is retained for a period of 1-5 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 1 million. The impact on the cash flow was thus SEK -27 million. Out of the difference between the purchase price paid and the net assets acquired SEK 35 million was allocated to patents and un-patented know-how, while the residual SEK 23 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and G.S. Anderson's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step up value for patents and un-patented know-how is amortised over 10 years. G.S. Anderson's net sales and adjusted EBITA for 2010 from the date of the acquisition are SEK 10 million and SEK -8 million respectively. If G.S. Anderson had been acquired at January 1, 2010 the corresponding figures would have been SEK 10 million and SEK -8 million respectively. At the end of 2010 the number of employees was 10. During 2010 the company has been renamed to Alfa Laval Dortmund GmbH.

Payment of retained parts of the purchase price from previous acquisitions constitutes the remaining part of the cash flow related to acquisition of businesses.

During 2009

On September 1, 2009 Alfa Laval acquired 90 percent of the shares in LHE Co., Ltd in South Korea – a leading heat exchanger company in South Korea. The company targets the compact plate heat exchanger market. LHE will continue to offer its own product range, under the LHE brand, through its own sales network. The purchase price is SEK 1,084 million, out of which SEK 1,014 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 2 million. The impact on the cash flow was thus SEK -1,016 million. Out of the difference between the purchase price paid and the net assets acquired SEK 298 million was allocated to patents and un-patented know-how and SEK 297 million was allocated to the LHE trademark, while the residual SEK 347 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and LHE's ability to over time recreate its intangible assets. In connection with the finalisation of the value of the goodwill in 2010 it has been decreased by SEK 3 million. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. LHE's net sales and adjusted EBITA for 2009 from the date of the acquisition are SEK 235 million and SEK 89 million respectively. If LHE had been acquired at January 1, 2009 the corresponding figures would have been SEK 593 million and SEK 168 million respectively. At the end of 2009 the number of employees was 180.

On August 14, 2009 Alfa Laval acquired PHE Indústria e Comércio de Equipamentos Ltda in Brazil, a company that services plate heat exchangers in a variety of industries. It will be integrated into Tranter. The company is consolidated in the Alfa Laval Group from August 1, 2009. In addition, on February 22, 2009 Alfa Laval acquired another minor business in Latin America that also will be integrated in Tranter. These businesses are presented together. The purchase price is SEK 64 million, out of which SEK 55 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 -55 million. Out of the difference between the purchase price paid and the net assets acquired SEK 20 million was allocated to trademark, while the residual SEK 16 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate their intangible assets. The value of the goodwill has been finalised in 2010. The step up value for the trademark is amortised over 20 years. The companies' net sales and adjusted EBITA for 2009 from the date of the acquisition are SEK 25 million and SEK 7 million respectively. If the companies had been acquired at January 1, 2009 the corresponding figures would have been SEK 44 million and SEK 15 million respectively. At the end of 2009 the number of employees was 45.

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 almost 2.2 million shares

corresponding to approximately 12 percent of the total number of shares accepted to sell their shares. This means that the ownership in the Indian subsidiary has increased from 76.7 percent to 88.8 percent. The total cost for the acquisition was SEK 367 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 9 million. The impact on the cash flow was thus SEK -376 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 311 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 non-controlling interests' part of the consolidated net income and equity.

On February 1, 2009 Alfa Laval acquired HES GmbH Heat Exchanger Systems in Germany, a company with focus on spiral heat exchangers mainly to the process industry. The company will be integrated into Tranter. The purchase price is SEK 108 million, out of which SEK 86 million has been paid in cash and the rest is retained for a period of 1-3 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 -90 million. Out of the difference between the purchase price paid and the net assets acquired SEK 83 million was allocated to patents and un-patented know-how, while the residual SEK 59 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and HES's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2010. The step up value for patents and un-patented know-how is amortised over 10 years. HES's net sales and adjusted EBITA for 2009 from the date of the acquisition are SEK 90 million and SEK 22 million respectively. If HES had been acquired at January 1, 2009 the corresponding figures would have been SEK 99 million and SEK 20 million respectively. At the end of 2009 the number of employees was 47.

On January 16, 2009 Alfa Laval acquired Onnuri Industrial Machinery Co., Ltd, a South Korean system provider to the shipbuilding and diesel power markets. Onnuri will remain a separate company as it will continue to offer its own systems under the Onnuri brand. The company is consolidated in the Alfa Laval Group from January 1, 2009. The purchase price is SEK 131 million, out of which SEK 105 million has been paid in cash and the rest is retained for a period of 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 2 million. The impact on the cash flow was thus SEK -107 million. Out of the difference between the purchase price paid and the net assets acquired SEK 40 million was allocated to patents and un-patented know-how and SEK 39 million was allocated to the Onnuri trademark, while the residual SEK 48 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Onnuri's ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2010. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. Onnuri's net sales and adjusted EBITA for 2009 from the date of the acquisition are SEK 81 million and SEK 23 million respectively. The figures for the full year 2009 are identical. At the end of 2009 the number of employees was 42.

On January 14, 2009 Alfa Laval announced that it had acquired one company and signed an agreement to acquire another, both major providers of parts and service for a variety of products, applications and geographical areas. Both companies will remain separate organisations as they continue to offer their own products and services to the industry, under their own brands. One company is consolidated in the Alfa Laval Group from January 1, 2009 and the other company from January 30, 2009. These businesses are presented together. The purchase price is SEK 526 million, out of which SEK 503 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 6 million. After deducting acquired cash and bank the impact on the cash flow was thus SEK -503 million. Out of the difference between the purchase price paid and the net assets acquired SEK 291 million was allocated to trademarks, while the residual SEK 189 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate their intangible assets. In connection with the finalisation of the value of the goodwill in 2010 it has been increased by SEK 21 million. The step up value for the trademarks is amortised over 10 years. The companies' net sales and adjusted EBITA for 2009 from the date of the acquisition are SEK 245 million and SEK 34 million respectively. If both companies had been acquired at January 1, 2009 the corresponding figures would have been SEK 258 million and SEK 34 million respectively. At the end of 2009 the number of employees was 133.

In addition yet three minor acquisitions have been made during 2009:

On February 4, 2009 Alfa Laval acquired the Polish company Termatrans that has been acting as Tranter's distributor in Poland. It will be integrated into Tranter. The purchase price is SEK 20 million, out of which SEK 17 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 1 million. The impact on the cash flow was thus SEK -18 million. Out of the difference between the purchase price paid and the net assets acquired SEK 7 million was allocated to the Termatrans trademark, while the residual SEK 6 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Termatrans' ability to over time recreate its intangible assets. The value of the goodwill has been finalised in 2010. The step up value for the trademark is amortised over 10 years. Termatrans' net sales and adjusted EBITA for 2009 from the date of the acquisition are SEK 12 million and SEK 5 million respectively. If Termatrans had been acquired at January 1, 2009 the corresponding figures would have been SEK 18 million and SEK 5 million respectively. At the end of 2009 the number of employees was 16.

On July 15, 2009 Alfa Laval acquired the assets in the Danish company ISO-MIX A/S. The business has been integrated into the Danish company Alfa Laval Tank Equipment A/S. The purchase price is SEK 34 million, out of which SEK 9 million has been paid in cash and the rest is retained for a period of 1-6 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 -9 million. Out of the difference between the purchase price paid and the net assets acquired SEK 22 million was allocated to patents and un-patented know-how. The step up value for patents and un-patented know-how is amortised over 10 years. The net sales and adjusted EBITA of the business for 2009 from the date of the acquisition are SEK 1 million and SEK -3 million respectively. If the business had been acquired at January 1, 2009 the corresponding figures would have been the same. At the end of 2009 the number of employees was 4.

On November 9, 2009 Alfa Laval acquired the remaining 9 percent of the Indian company MCD Nitrile India Pvt Ltd, which thereby became a wholly owned subsidiary. The purchase price is SEK 1 million. This has not affected the original goodwill. The impact on the cash flow was SEK -1 million.

Payment of retained parts of the purchase price from previous acquisitions constitutes the remaining part of the cash flow related to acquisition of businesses.

During 2008

On August 15, 2008 Alfa Laval acquired the U.S. company Hutchison Hayes Separation, which is a leading provider of separation equipment, parts and services, mainly to the U.S. 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 U.S.. 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 has been finalised in 2009. The step up value for patents and un-patented know-how as well as the step up value for the trademark are amortised over 10 years. The step up for accrued gross margin in work in progress 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 has been finalised in 2009. 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, 2008 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 has been finalised in 2009. 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 U.S. 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 has been finalised in 2009. The step up value for patents and un-patented know-how is amortised 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 has been finalised in 2009. 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 has been finalised in 2009. 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 value of the goodwill has been finalised in 2009. 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.

Impairment testing

An impairment test has been performed at the end of 2010 indicating that there is not any need to write down the goodwill.

Two of Alfa Laval's operating segments, 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 2011 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 2012 and 2013 is based on Management's general assumptions concerning the business cycle, volume growth, market initiatives, product mix, currency rates, cost development, cost structure, R&D etc.

– The projection for the years 2014 to 2030 is based on the perceived expected average industry growth rate.

The reason why a longer period than 5 years has been used for the calculation of the net present value is that Management considers 5 years to be a too short period for an operation where applying the going concern concept can be justified.

The assumptions used for the projections reflect past experiences or information from external sources.

The used discount rate is the pre-tax weighted average cost of capital (WACC) of 11.23 (10.93) (9.35) 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:

Goodwill

Consolidated		
SEK millions	2010	2009
Equipment	3,376	3,529
Process Technology	2,576	2,614
Total	**5,952**	**6,143**

Note 18. Intangible non-current assets

Patents and unpatented know-how

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	2,745	2,419
Purchases	2	9
Acquisition of businesses	0	7
Sales/disposals	-1	0
Reclassifications	1	-37
Step-up values	276	443
Translation difference	-220	-96
Closing balance	**2,803**	**2,745**
Accumulated amortisation		
Opening balance	-1,606	-1,558
Acquisition of businesses	0	-2
Amortisation of step-up value	-142	-114
Amortisation for the year	-9	-6
Translation difference	134	74
Closing balance	**-1,623**	**-1,606**
Closing balance, net book value	**1,180**	**1,139**

Trademarks

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	1,709	1,119
Purchases	2	–
Step-up values	269	654
Translation difference	-99	-64
Closing balance	**1,881**	**1,709**
Accumulated amortisation		
Opening balance	-412	-329
Amortisation of step-up value	-139	-102
Translation difference	27	19
Closing balance	**-524**	**-412**
Closing balance, net book value	**1,357**	**1,297**

Licenses, renting rights and similar rights

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	215	366
Purchases	31	4
Acquisition of businesses	2	24
Sales/disposals	-34	–
Reclassifications	–	-170
Translation difference	-29	-9
Closing balance	**185**	**215**
Accumulated amortisation		
Opening balance	-161	-127
Acquisition of businesses	-2	-14
Sales/disposals	16	–
Reclassifications	0	-12
Amortisation for the year	-13	-12
Translation difference	19	4
Closing balance	**-141**	**-161**
Closing balance, net book value	**44**	**54**

Alfa Laval does not have any internally generated intangible assets.

Goodwill

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	6,737	6,002
Goodwill in connection with acquisition of businesses	218	976
Translation difference	-450	-241
Closing balance	**6,505**	**6,737**
Accumulated amortisation		
Opening balance	-594	-619
Translation difference	41	25
Closing balance	**-553**	**-594**
Closing balance, net book value	**5,952**	**6,143**

Note 19. Property, plant and equipment

Real estate

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	2,118	2,027
Purchases	31	62
Acquisition of businesses	253	103
Sales/disposal	-14	-5
Reclassifications	-12	-153
Translation difference	-133	84
Closing balance	**2,243**	**2,118**
Accumulated depreciation		
Opening balance	-889	-857
Sales/disposals	8	2
Acquisition of businesses	-49	-7
Reclassifications	-20	55
Depreciation of step-up value	-21	-22
Depreciation for the year	-57	-49
Translation difference	59	-11
Closing balance	**-969**	**-889**
Closing balance, net book value	**1,274**	**1,229**

The tax assessment value of the Swedish real estate at December 31, 2010 amounted to SEK 202 (199) million, out of which SEK 49 (47) million referred to land and land improvements and SEK 153 (152) million to buildings. The book values of the Swedish real estate amounted to SEK 157 (163) million, out of which land and land improvements were SEK 32 (32) million and buildings SEK 125 (131) million.

Non-current assets held for sale

Within Alfa Laval these assets are normally relating to real estate. One small property in France is planned for sale. It is empty and has been for sale for several years. It is not expected to be sold within the next year. This means that no property has been re-classified as current assets held for sale. The situation was the same at the end of 2010.

Machinery and other technical installations

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	3,991	3,689
Purchases	204	259
Acquisition of businesses	293	151
Sales/disposal	-65	-93
Reclassifications	134	131
Translation difference	-252	-146
Closing balance	**4,305**	**3,991**
Accumulated depreciation		
Opening balance	-2,634	-2,462
Sales/disposals	48	84
Acquisition of businesses	-201	-79
Reclassifications	-80	131
Depreciation of step-up value	-39	-60
Depreciation for the year	-228	-211
Translation difference	171	-37
Closing balance	**-2,963**	**-2,634**
Closing balance, net book value	**1,342**	**1,357**

Equipment, tools and installations

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	2,252	2,226
Purchases	87	94
Acquisition of businesses	30	39
Sales/disposal	-169	-76
Reclassifications	-103	39
Translation difference	-146	-70
Closing balance	**1,951**	**2,252**
Accumulated depreciation		
Opening balance	-1,596	-1,561
Sales/disposals	161	69
Acquisition of businesses	-26	-23
Reclassifications	117	2
Depreciation of step-up value	-30	-32
Depreciation for the year	-108	-105
Translation difference	100	54
Closing balance	**-1,382**	**-1,596**
Closing balance, net book value	**569**	**656**

Construction in progress and advances to suppliers concerning property, plant and equipment

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	138	419
Purchases	72	23
Acquisition of businesses	8	14
Reclassifications	-41	-298
Translation difference	-11	-20
Closing balance	**166**	**138**
Closing balance, net book value	**166**	**138**

Leased real estate

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	145	61
Purchases	23	88
Reclassifications	3	–
Translation difference	-20	-4
Closing balance	**151**	**145**
Accumulated depreciation		
Opening balance	-8	-3
Depreciation for the year	-6	-4
Translation difference	1	-1
Closing balance	**-13**	**-8**
Closing balance, net book value	**138**	**137**

Leased machinery

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	39	10
Purchases	–	29
Translation difference	-5	–
Closing balance	**34**	**39**
Accumulated depreciation		
Opening balance	-12	-10
Depreciation for the year	-3	-2
Translation difference	2	–
Closing balance	**-13**	**-12**
Closing balance, net book value	**21**	**27**

Leased equipment, tools and installations

Consolidated

SEK millions	2010	2009
Accumulated acquisition values		
Opening balance	9	12
Sales/disposal	-3	-2
Translation difference	–	-1
Closing balance	**6**	**9**
Accumulated depreciation		
Opening balance	-5	-5
Sales/disposals	2	1
Depreciation for the year	-1	-2
Translation difference	–	1
Closing balance	**-4**	**-5**
Closing balance, net book value	**2**	**4**

Leased real estate, machinery and equipment relate to fixed assets which are leased and where the leasing agreement has been considered to be a financial lease. These financial leases are capitalised in the statement on financial position.

Note 20. Other non-current assets

Shares in subsidiaries and other companies

	Consolidated		Parent company	
SEK millions	2010	2009	2010	2009
Shares in subsidiaries	–	–	4,669	4,669
Shares in other companies	32	39	–	–
Total	**32**	**39**	**4,669**	**4,669**

The below specification of shares contains some simplifications, for instance in connection with ownership in multiple layers or when the ownership is split on several owners or at cross-holdings. This is in order not to unnecessarily burden the presentation. A complete specification of shares can be ordered by contacting Alfa Laval's head office in Lund or via Bolagsverket.

Specification of shares in subsidiaries

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Holding AB	556587-8062	Lund, Sweden	8,191,000	100	4,461
Alfa Laval NV		Maarssen, Netherlands	887,753	100	–
Alfa Laval Inc		Newmarket, Canada	1,000,000	67	–
Alfa Laval S.A. DE C.V.		Tlalnepantla, Mexico	45,057,057	100	–
Alfa Laval S.A.		San Isidro, Argentina	1,223,967	95	–
Alfa Laval Ltda		Sao Paulo, Brazil	21,129,068	100	–
Roston do Brasil Ltda		Sao 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	–
Liyang Sifang Stainless Steel Products Co., Ltd.		Liyang City, China		65	–
Changzhou Henghao Packaging Machinery Co., Ltd		Liyang City, China		65	–
Jiangsu Fu Li Stainless Steel Precision Welded Pipe Co., Ltd		Liyang City, China		65	–
Jiangsu Wintech Stainless Steel Products Co., Ltd		Liyang City, China		65	–
Alfa Laval Iran Ltd		Teheran, Iran	2,199	100	–
Alfa Laval Industry (PVT) Ltd		Lahore, Pakistan	119,110	100	–
Alfa Laval Philippines Inc		Makati, Philippines	72,000	100	–
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	–
Alfa Laval (Thailand) Ltd		Bangkok, Thailand	792,000	100	–
Alfa Laval Middle East Ltd		Nicosia, Cyprus	40,000	100	–
Alfa Laval Service Operations Qatar LLC		Doha, Qatar	9,800	49	–
Alfa Laval Benelux NV/SA		Brussels, Belgium	98,284	100	–
Alfa Laval Ltd		Sofia, Bulgaria	100	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		1	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		20	–
Alfa Laval Nordic OY		Espoo, Finland	20,000	100	–
Alfa Laval Vantaa OY		Vantaa, Finland	7,000	100	–
Alfa Laval Nederland 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 Latin America S.A. de C.V.		Queretaro, Mexico	49,999	100	–
Tranter Indùstria de Máquinas e Equipamentos Ltda		Sao Paulo, Brazil		100	–
MCD Nitrile India Pvt Ltd		Falta, India	2,432	9	–
Tranter India Pvt Ltd		Poona, India	3,009,999	100	–
Alfa Laval Korea Ltd		Seoul, South Korea	36,400	10	–
Alfa Laval Korea Holding Company Ltd		Chungnam, South Korea	13,318,600	100	–
Alfa Laval Korea Ltd		Seoul, South Korea	327,600	90	–
Onnuri Industrial Machinery Co. Ltd		Masan, South Korea	100,000	100	–
LHE Co. Ltd		Gim Hae, South Korea	4,104,000	90	–
LHE (Qing Dao) Heat Exchanger Co.Ltd.		Qing Dao, China		100	–
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	1,963	100	–
Breezewind AB	556773-6532	Lund, Sweden	1,000	100	–
OOO Tranter CIS		Moscow, Russia		100	–
Alfa Laval Nordic AB	556243-2061	Tumba, Sweden	1,000	100	–
Alfa Laval Corporate AB	556007-7785	Lund, Sweden	13,920,000	100	–
Alfa Laval S.A.		San Isidro, Argentina	64,419	5	–
Definox (Beijing) Stainless Steel Equipment Ltd		Beijing, China		100	–
Alfa Laval (India) Ltd		Poona, India	16,120,281	89	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval Support Services Pvt Ltd		Poona, India	10	0	–
Tranter India Pvt Ltd		Poona, India	1	0	–
PT Alfa Laval Indonesia		Jakarta, Indonesia	1,000	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 Parma Srl		Parma, Italy	114,000	100	–
Olmi S.p.A.		Suisio, Italy	500,000	100	–
Alfa Laval Nordic A/S		Oslo, Norway	10,000	100	–
Tranter Poland Sp.z.o.o.		Pruszków, Poland	2,000	100	–
AlfaWall AB	556723-6715	Botkyrka, Sweden	500	50	–
Alfa Laval Oilfield C.A.		Caracas, Venezuela	47	19	–
Alfa Laval Treasury International AB	556432-2484	Lund, Sweden	50,000	100	–
Alfa Laval Europe AB	556128-7847	Lund, Sweden	500	100	–
Alfa Laval Lund AB	556016-8642	Lund, Sweden	100	100	–
Alfa Laval International Engineering AB	556039-8934	Lund, Sweden	4,500	100	–
Alfa Laval Tumba AB	556021-3893	Tumba, Sweden	1,000	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	27,001,755	99	–
Alfa Laval SIA		Riga, Latvia	125	100	–
Alfa Laval UAB Ltd		Vilnius, Lithuania	2,009	100	–
Alfa Laval Australia Pty Ltd		Homebush, Australia	2,088,076	100	–
Tranter Heat Exchanger Pty Ltd		Sydney, Australia	600,000	100	–
Alfa Laval New Zeeland Pty Ltd		Hamilton, New Zeeland	1,000	100	–
Alfa Laval Holding BV		Maarssen, Netherlands	60,035,631	100	–
Alfa Laval (Pty) Ltd		Isando, South Africa	2,000	100	–
Alfa Laval Slovakia S.R.O.		Bratislava, Slovakia		99	–
Alfa Laval Spol S.R.O.		Prague, Czech Republic		80	–
Alfa Laval France SAS		Saint-Priest, France	2,000,000	100	–
Alfa Laval SAS		Saint-Priest, France	560,000	92	–
Alfa Laval Moatti SAS		Elancourt, 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		Saint-Priest, France	46,700	8	–
Packinox SA		Paris, France	348,115	100	–
Ziepack SA		Paris, France	37,701	51	–
Tranter SAS		Nanterre, France		100	–
Definox SAS		Lyon, France	10,000	100	–
Alfa Laval Holding GmbH		Glinde, Germany	1	100	–
Alfa Laval Mid Europe GmbH		Wiener Neudorf, Austria		100	–
Tranter Warmetauscher GmbH		Guntramsdorf, Austria		100	–
Alfa Laval Mid Europe GmbH		Glinde, Germany	1	100	–
Alfa Laval Dortmund GmbH		Artern, Germany	2	100	–
Tranter GmbH		Hildesheim, Germany		100	–
Tranter Pressko GmbH		Artern, Germany	60,000	100	–
Tranter Solarice GmbH		Artern, Germany		67	–
Tranter HES GmbH		Schopfheim, Germany	2,500	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.		Warsaw, Poland	7,600	100	–
Alfa Laval Kraków Sp. z o.o.		Krakow, Poland	80,080	100	–
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal		1	–
Alfa Laval SRL		Bucharest, Romania	38,566	100	–
Alfa Laval Iberia SA		Madrid, Spain	99,999	100	–
Alfa Laval (Portugal) Ltd		Linda-A-Velha, Portugal	1	99	–
Alfa Laval Holdings Ltd		Camberley, UK	14,053,262	100	–
Alfa Laval Eastbourne Ltd		Eastbourne, UK	10,000	100	–
Alfa Laval 2000		Camberley, UK	28,106	100	–
Alfa Laval Ltd		Camberley, UK	11,700,000	100	–
Alfa Laval Finance Co Ltd		Camberley, UK	856,000	100	–
Rolls Laval Heat Exchangers Ltd		Wolverhampton, UK	5,000	50	–

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Tranter Ltd		Doncaster, UK	10,000	100	–
Alfa Laval Makine Sanayii ve Ticaret Ltd Sti		Istanbul, Turkey	1	1	–
Alfa Laval USA Inc		Richmond, Virginia, USA	1,000	100	–
Alfa Laval US Holding Inc		Richmond, Virginia, USA	180	100	–
Alfa Laval Inc		Richmond, Virginia, USA	44,000	100	–
Alfa Laval 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 Champ Inc		Sarasota, Florida, USA	1,000	100	–
Definox Inc		New Berlin, Wisconsin, USA	1,000	100	–
AO Alfa Laval Potok		Koroljov, Russia	31,077,504	100	–
Alfa Laval Försäkrings AB	516406-0682	Lund, Sweden	50,000	100	–
Alfdex AB	556647-7278	Botkyrka, Sweden	1,000	50	–
Alfa Laval Support Services Pvt Ltd		Poona, India	99,990	100	–
MCD Nitrile India Pvt Ltd		Falta, India	24,593	91	–
Alfa Laval Ukraine		Kiev, Ukraine		100	–
Alfa Laval SpA		Monza, Italy	20,124	1	–
Alfa Laval KK		Tokyo, Japan	1,200,000	100	208
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 thousands
Liyang Sifang Stainless Steel Prod. Co Ltd				
Nanjing Kacheng	China			103
Alfa Laval KK				
Chugairo	Japan	5,250		131
Orugano	Japan	769		40
ADEKA	Japan	15,354		1,232
LHE Co. Ltd.				
Viser	South Korea	15,400	39	14,928
KME	South Korea	10,700	30	1,647
Kenus	South Korea		45	1,495
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		13
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		279
Suomen Talotekniikka KK	Finland	10		27
Helsinki Halli	Finland	4		126
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		0
Mikkelin Puhelin Oyj	Finland	5		36
Alfa Laval France SAS				
SEMACLA	France	10		0
Alfa Laval HES SA				
Thermothec	France	9,130		0
Alfa Laval Parma S.r.l				
Parmalat	Italy	4,413		88
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		135
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	500	49	10,157
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	43	801
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		400
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) N.V.	Curacao	36,129		0
Multiprogress	Hungary	100	3	0
Kurose Chemical Equipment Ltd	Japan	180,000	11	0
Poljopriveda	former Yugoslavia			0
Tecnica Argo-Industrial S.A.	Mexico	490	49	0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0	0
Adela Investment Co S.A.	Luxembourg	1,911	0	0
Mas Dairies Ltd	Pakistan	125,000	5	0
Total				**31,638**

Note 21. Inventories

Type of inventory

Consolidated

SEK millions	2010	2009
Raw materials and consumables	1,788	1,800
Work in progress	1,453	1,373
Finished goods & goods for resale, new sales	979	891
Finished goods & goods for resale, spare parts	450	363
Advance payments to suppliers	99	58
Total	**4,769**	**4,485**

A considerable part of the inventory for spare parts is carried at fair value.

Obsolescence related to inventories amounts to and has changed as follows:

Obsolescence

Consolidated

SEK millions	January 1	Translation difference	Acquired	Write-down	Reversal of previous write-down	December 31
Year:						
2009	821	-20	–	440	-136	1,105
2010	1,105	-35	0	153	-266	957

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 2010 amounts to SEK 365 (402) million.

Note 22. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 192 (208) million have not been accounted for as non-current assets as they are not intended for permanent use.

Accounts receivable are reported net of provisions for bad debts. The provision for bad debts amounts to and has changed as follows:

Bad Debts

Consolidated

SEK millions	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
Year:								
2009	293	-10	3	172	-51	-64	0	343
2010	343	-21	9	112	-96	-67	0	280

The amount of accounts receivable being overdue is an indication of the risk the company runs for ending up in bad debts. The percentage is in relation to the total amount of accounts receivable.

Accounts receivable – overdue

Consolidated

SEK millions	2010	%	2009	%
Overdue:				
Maximum 30 days	437	10.5	433	10.5
More than 30 days but maximum 90 days	246	5.9	219	5.3
More than 90 days	282	6.7	390	9.5
Total	**965**	**23.1**	**1,042**	**25.3**

Note 23. Other short-term receivables

Split on type and maturity

Consolidated		
SEK millions	2010	2009
Notes receivable	248	379
Current tax asset	832	694
Financial leasing receivables	0	0
Other receivables	798	909
Total	**1,878**	**1,982**
Of which, not due within one year:		
Notes receivable	8	2
Other receivables	18	49
Total	**26**	**51**

Note 24. Prepaid expenses and accrued income

Split on type

Consolidated		
SEK millions	2010	2009
Prepaid expenses	141	124
Accrued income	40	24
Total	**181**	**148**

Note 25. Other current deposits

Split on type and maturity

Consolidated		
SEK millions	2010	2009
Deposits with banks	353	76
Bonds and other securities	210	212
Other deposits	12	14
Total	**575**	**302**
Of which, not due within one year:		
Deposits with banks	37	30
Other deposits	6	8
Total	**43**	**38**

Note 26. Cash and bank

The item cash and bank in the statement on financial position and in the cash-flow statement is mainly relating to bank deposits. Cash and bank includes a bank deposit in the publicly listed subsidiary Alfa Laval (India) Ltd of about SEK 77 (59) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 88.8 percent.

Note 27. Impact on cash-flow due to acquisition of businesses

For a more detailed description of the acquisitions during the period 2010-2008, please see Note 17 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. With the exception of the acquisition of Olmi in 2010 and LHE in 2009 the many minor acquisitions during 2010, 2009 and 2008 are reported together since a split per acquisition would have been too fragmented and rather would have burdened the presentation than increased clarity.

Acquisitions 2010

Consolidated

	Olmi			Others			Total
SEK millions	Book value	Adjustment to fair value	Adjusted fair value	Book value	Adjustment to fair value	Adjusted fair value	Adjusted fair value
Property, plant and equipment	247	–	247	53	–	53	300
Patents and unpatented know-how	–	171	171	–	105	105	276
Trademarks	–	85	85	–	184	184	269
Licenses, renting rights and similar rights	–	–	–	1	–	1	1
Inventory	285	37	322	158	–	158	480
Accounts receivable	160	–	160	70	–	70	230
Other receivables	56	–	56	31	–	31	87
Current deposits	116		116	–		–	116
Liquid assets	–	–	–	10	–	10	10
Other provisions	–	–	–	–	–	–	–
Accounts payable	-105	–	-105	-38	–	-38	-143
Advance payments and other liabilities	-261	–	-261	-90	–	-90	-351
Tax liabilities	–	–	–	-3	–	-3	-3
Deferred tax	–	-91	-91	-1	-87	-88	-179
Acquired net assets	**498**	**202**	**700**	**191**	**202**	**393**	**1,093**
Goodwill			14			204	218
Purchase price			-714			-597	-1,311
Costs directly linked to the acquisitions			-2			-26	-28
Retained part of purchase price			168			212	380
Liquid assets in the acquired businesses			–			10	10
Payment of amounts retained in prior years			–			-70	-70
Effect on the Group's liquid assets			**-548**			**-471**	**-1,019**

Acquisitions 2009

Consolidated

	LHE			Others			Total
SEK millions	Book value	Adjustment to fair value	Adjusted fair value	Book value	Adjustment to fair value	Adjusted fair value	Adjusted fair value
Property, plant and equipment	126	–	126	58	–	58	184
Patents and unpatented know-how	–	298	298	15	145	160	458
Trademarks	–	297	297	–	357	357	654
Licenses, renting rights and similar rights	6	–	6	0	–	0	6
Inventory	132	–	132	120	–	120	252
Accounts receivable	128	–	128	51	–	51	179
Other receivables	1	–	1	72	–	72	73
Liquid assets	–	–	–	6	–	6	6
Accounts payable	-43	–	-43	-31	–	-31	-74
Advance payments and other liabilities	-55	–	-55	-34	–	-34	-89
Tax liabilities	-9	–	-9	-1	–	-1	-10
Deferred tax	–	-142	-142	–	-119	-119	-261
Acquired net assets	**286**	**453**	**739**	**256**	**383**	**639**	**1,378**
Goodwill			347			629	976
Purchase price			-1,084			-1,246	-2,330
Costs directly linked to the acquisitions			-2			-22	-24
Retained part of purchase price			70			101	171
Liquid assets in the acquired businesses			–			6	6
Effect on the Group's liquid assets			**-1,016**			**-1,161**	**-2,177**

Acquisitions 2008

Consolidated

SEK millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	69	–	69
Patents and unpatented know-how	12	261	273
Trademarks	–	49	49
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**

Note 28. 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 following table presents how the net defined benefit liability is arrived at out of the present values of the different defined benefit plans, less the unrecognised actuarial losses, the unrecognised past service costs and the fair value of the plan assets.

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

Net defined benefit liability

Consolidated			
SEK millions	2010	2009	2008
Present value of defined benefit obligation, unfunded	-873	-934	-1,141
Present value of defined benefit obligation, funded	-2,702	-2,838	-2,429
Present value of defined benefit obligation at year end	-3,575	-3,772	-3,570
Unrecognised actuarial losses	727	814	745
Unrecognised past service cost	3	8	1
Fair value of plan assets	2,233	2,166	1,974
Defined benefit liability	-612	-784	-850
Less amount disallowed	0	0	0
(-) liability/(+) asset at December 31	**-612**	**-784**	**-850**

The net plan cost for the defined benefit plans describes the different cost elements of the plans and the expected return on the plan assets. The net plan cost is reported in the consolidated comprehensive income statement on the lines where personnel costs are reported. The interest cost and the expected return are not part of the financial net, but instead just a way to categorize the components of the net plan cost.

Net plan cost

Consolidated			
SEK millions	2010	2009	2008
Current service cost	-33	-37	-40
Interest cost	-176	-193	-196
Expected return on plan assets	126	124	162
Actuarial losses	-67	-41	-24
Past service cost	0	0	0
Effect of any curtailments or settlements	3	-21	23
(-) cost/(+) income	**-147**	**-168**	**-75**

The following table presents how the present value of the defined benefit liability has changed during the year and lists the different components of the change.

Present value of defined benefit liability

Consolidated			
SEK millions	2010	2009	2008
Present value of defined benefit liability at January 1	-3,772	-3,570	-3,496
Translation difference	271	123	-184
Current service cost	-33	-37	-40
Interest cost	-176	-193	-196
Employee contributions	-4	-6	-5
Current year change in actuarial losses	-61	-270	129
Past service cost	0	0	0
Effect of any curtailments or settlements	3	-21	23
Benefit payments	197	202	199
(-) liability at December 31	**-3,575**	**-3,772**	**-3,570**

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

Fair value of plan assets

Consolidated			
SEK millions	2010	2009	2008
Fair value of plan assets at January 1	2,166	1,974	2,288
Translation difference	-162	-46	47
Employer contributions	201	186	152
Employee contributions	4	6	5
Actual return on plan assets	221	248	-319
Benefit payments	-197	-202	-199
(+) asset at December 31	**2,233**	**2,166**	**1,974**

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

Net defined benefit liability/asset

Consolidated			
SEK millions	2010	2009	2008
Defined benefit liability/asset at January 1	-784	-850	-771
Translation difference	115	51	-128
Net plan cost	-147	-168	-75
Employer contributions	201	186	152
Change in unrecognised actuarial gains/losses	3	-3	-4
Change in unrecognised past service cost	0	0	-24
Change in disallowed asset amount	0	0	0
(-) liability/(+) asset at December 31	**-612**	**-784**	**-850**

The gross plan assets and gross defined benefit liabilities of each plan are to be reported as a net amount. The following table shows how the net asset and the net liability are calculated.

Gross defined benefit liability/asset

Consolidated			
SEK millions	2010	2009	2008
Assets			
Fair value of plan assets	2,233	2,166	1,974
Less amount disallowed	0	0	0
	2,233	2,166	1,974
Netting	-1,998	-2,030	-1,834
Assets in statement on financial position	**235**	**136**	**140**
Liabilities			
Present value of defined benefit obligation at year end	-3,575	-3,772	-3,570
Unrecognised actuarial gains (less losses)	727	814	745
Unrecognised past service costs	3	8	1
	-2,845	-2,950	-2,824
Netting	1,998	2,030	1,834
Provision in statement on financial position	**-847**	**-920**	**-990**

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

Actuarial assumptions

Consolidated			
Percent	2010	2009	2008
Discount rate	5	6	6
Expected return on investment	6	9	9
Expected wage increase	3	4	4
Change in health care costs	8	8	9
Change of index for future increase of remunerations	3	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:

Effects of change in health care costs

Consolidated

SEK millions	2010		2009	
Change	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-2	2	-2	2
Present value of the defined benefit obligation	-43	37	-47	41

The following table presents how the defined benefit pension schemes are distributed on different countries.

Regional split

Consolidated

SEK millions, unless otherwise stated	United States	United Kingdom	Nether-lands	Germany	Norway	Italy	Belgium	Other	**Total**
Net defined benefit liability									
Present value of the defined benefit obligation, unfunded	-490	–	0	-153	–	-44	–	-186	**-873**
Present value of the defined benefit obligation, funded	-865	-1,312	-220	–	-107	–	-63	-135	**-2,702**
Present value of the defined benefit obligation at year end	-1,355	-1,312	-220	-153	-107	-44	-63	-321	**-3,575**
Unrecognised actuarial losses	343	307	22	15	36	0	9	-5	**727**
Unrecognised past service cost	–	–	–	–	–	–	0	3	**3**
Fair value of plan assets	682	1,088	224	–	85	–	52	102	**2,233**
Defined benefit liability	-330	83	26	-138	14	-44	-2	-221	**-612**
Less amount disallowed	0	0	0	0	0	0	0	0	**0**
(-) liability/(+) asset	-330	83	26	-138	14	-44	-2	-221	**-612**
Net plan cost	**-54**	**-46**	**-9**	**-14**	**-5**	**-2**	**-10**	**-7**	**-147**
Sensitivity analysis									
Increase in the present value of the defined obligations at Dec 31 at a decrease by 1 percent of the discount rate	-113	-240	-39	-3	-21	0	-1	-23	**-440**
Increase in the plan cost due to this *	-8	0	-4	-3	-3	0	-1	-17	**-36**
Increase in the present value of the defined obligations at Dec 31 at an increase by 1 percent in medical costs	-43	–	–	–	–	–	–	–	**-43**
Increase in the plan cost due to this *	-2	–	–	–	–	–	–	–	**-2**
Increase in plan cost in 2011 if the plan assets decrease in value by 10 percent in 2010 *	-5	-10	-1	–	-1	–	0	-8	**-25**
Cost for actuarial services	**-2**	**0**	**0**	**0**	**0**	**0**	**0**	**-1**	**-3**
Number of participants in the plans at December 31									
Current employees (active members)	647	173	118	17	30	–	46	2,364	**3,395**
Current employees (only vested value for closed plans)	–	–	–	–	–	478	–	16	**494**
Former employees that are yet not pensioners	495	647	186	32	–	–	57	4	**1,421**
Pensioners	1,966	550	58	330	26	–	–	165	**3,095**
Total	**3,108**	**1,370**	**362**	**379**	**56**	**478**	**103**	**2,549**	**8,405**
Remaining service period									
Average remaining service period for active members (years)	15	11	19	4	12	–	19	14	**14**

* all other things being equal

Note 29. Other provisions

Movement schedule

Consolidated

SEK millions	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2009							
Claims & warranty	1,263	-25	–	521	-363	-136	1,260
Deferred costs	198	-11	–	128	-47	-27	241
Restructuring	296	-2	–	294	-185	-37	366
Onerous contracts	130	-2	–	38	-72	-1	93
Litigations	147	3	–	48	-21	-1	176
Other	218	-9	–	141	-99	-22	229
Total	**2,252**	**-46**	**–**	**1,170**	**-787**	**-224**	**2,365**
Of which:							
current	1,849						1,926
non-current	403						439
2010							
Claims & warranty	1,260	-33	1	559	-453	-101	1,233
Deferred costs	241	-23	–	53	-26	-50	195
Restructuring	366	-9	–	113	-200	-104	166
Onerous contracts	93	-1	–	23	-25	–	90
Litigations	176	-1	–	77	-35	-5	212
Other	229	-10	1	121	-85	-24	232
Total	**2,365**	**-77**	**2**	**946**	**-824**	**-284**	**2,128**
Of which:							
current	1,926						1,496
non-current	439						632

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 100 (480) 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 30. Borrowings and net debt

Net debt

Consolidated

SEK millions	2010	2009
Credit institutions	465	997
Private placement	749	794
Capitalised financial leases	137	154
Interest-bearing pension liabilities	1	2
Total debt	1,352	1,947
Cash, bank and current deposits	-1,903	-1,414
Net debt	**-551**	**533**

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 276 (250) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 88.8 percent.

The loans from credit institutions and the private placement are distributed among currencies as follows:

Maturity of loans by currency

Consolidated

	Current		Non-current	
SEK millions	2010	2009	2010	2009
Currency:				
BRL	15	9	–	–
CAD	–	10	–	–
CNY	29	53	–	–
DKK	–	–	20	16
EUR	66	49	441	747
INR	17	3	31	49
KRW	18	–	–	–
SEK	–	12	–	–
USD	23	26	549	814
Other	5	3	–	–
Total	**173**	**165**	**1,041**	**1,626**
Of which, not due within five years:			749	794

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 4,776 million. At December 31, 2010, the facility was not utilised. The facility matures in April 2012.

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.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 225 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 2010 the interest for the bilateral term loan was 1.65 percent. At the end of 2009 and 2008 the loans were accruing interest in the range of 0.48 % - 1.37 % and 2.49 % - 4.68 %. The average interest rate at the end of 2010 was 2.50 (2.82) (3.92) percent. The Group has chosen to hedge 60 (63) (63) percent of the loans to fixed interest rate, with a duration of 23.2 months. The average interest and currency duration including derivatives is 18.5 (14.4) months at the end of 2010.

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 0 (0) million. The current year's cost for the fee amortisation is SEK -0 (-3) (-8) million.

Private placement

In 2006 Alfa Laval made a private placement in the U.S.. The offer was over-subscribed and was closed at USD 110 million 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.

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

Financial covenants

The syndicated loan and the bilateral term loan are linked to three financial covenants that must be fulfilled throughout the life of the loans. These covenants refer to the relationship between net debt and EBITDA, the interest coverage ratio and the debt ratio, see table below.

The private placement is linked to two financial covenants that must be fulfilled throughout the life of the loan. These covenants refer to the relationship between net debt and EBITDA and the interest coverage ratio, see table below.

If the covenants are not fulfilled, the lenders are entitled to demand immediate repayment of the loans, provided that the breach is not temporary. Alfa Laval has fulfilled the covenants with a good margin ever since the loans were raised.

Financial covenants and outcome

Consolidated	Financial covenants		Outcome		
Times	Syndicated loan & bilateral term loan	Private placement	2010	2009	2008
Net debt to EBITDA	<2.75	< 3.00	-0,1	0,1	0,3
Interest coverage ratio	>3.00	>3.00	35,9	15,2	26,2
Debt ratio	<1.70	N/A	-0,04	0,04	0,20

Note 31. Other current liabilities

Split by type

Consolidated		
SEK millions	2010	2009
Financial lessee payable	137	154
Other non-interest bearing liabilities	1,339	986
Total	**1,476**	**1,140**

Note 32. Accrued costs and prepaid income

Split by type and maturity

Consolidated		
SEK millions	2010	2009
Accruals for social security	258	255
Reserve for severance pay	123	123
Accrued interest expenses	9	9
Other accrued expenses	1,116	892
Prepaid income	18	24
Total	**1,524**	**1,303**
Of which, not due within one year:		
Accruals for social security	27	25
Reserve for severance pay	86	87
Other accrued expenses	29	57
Total	**142**	**169**

Note 33. Pledged assets and contingent liabilities

Split by type

Consolidated		
SEK millions	2010	2009
Pledged assets		
Other pledges and similar commitments	25	7
Total	**25**	**7**
Contingent liabilities		
Discounted bills	60	79
Performance guarantees	1,360	1,342
Other contingent liabilities	273	336
Total	**1,693**	**1,757**

As of December 31, 2010 the Group had sold receivables with recourse totalling SEK 60 (79) million. These are disclosed as discounted bills above.

Other contingent liabilities are among other items referring to bid guarantees, payment guarantees to suppliers and retention money guarantees.

Note 34. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 4.0 (3.4) (3.7) percent of net sales. In June 1999, Tetra Pak entered into a purchasing agreement with Alfa Laval that governs the distribution, research and development, market and sales information, use of trademarks and intellectual property. The following areas shall be agreed upon from time to time between representatives of the parties: products that are subject to the agreement, prices and discounts of such products, geographical markets and product areas where Tetra Pak is Alfa Laval's preferred distributor, the right of Tetra Pak to affix its trademarks to Alfa Laval products, sales goals for Tetra Pak in defined geographical markets, products and technologies that are the focus of joint research and development and the ownership rights of the research and development result and use of market and sales information. The agreement aims at the applications within liquid food where Tetra Pak has a natural market presence through the deliveries of packaging equipment and packaging material.

The agreement was prolonged by two years from December 31, 2010. 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.

Until March 31, 2009 Alfa Laval purchased facility management services relating to the real estate in Lund in Sweden from Tetra Pak Business Support AB for SEK - (1) (4) million. Alfa Laval rents premises to DeLaval in Russia and until 2008 Alfa Laval also rented premises to DeLaval in Germany and Tetra Pak in Russia. The total rent income for this amounts to SEK 4 (8) (12) million.

The Board of Directors for Alfa Laval AB has two representatives from Tetra Laval - Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

Receivables on/payables to related parties

Consolidated

SEK millions	2010	2009
Receivables:		
Accounts receivable	81	61
Other receivables	84	77
Liabilities:		
Accounts payable	1	1
Other liabilities	–	4

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

Revenues/expenses from related parties

Consolidated

SEK millions	2010	2009	2008
Net sales	985	889	1,017
Other operating income	4	8	12
Other operating costs	–	-1	-4

Note 35. Interests in joint ventures

Alfa Laval owns 50 percent in three different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Alfdex AB with Haldex as partner and AlfaWall AB with Wallenius as partner.

These joint ventures are part of the consolidated financial position with the following assets and liabilities and of the consolidated comprehensive income with the following revenues and expenses:

Assets/liabilities

Consolidated

SEK millions	2010	2009
Current assets	18	10
Non-current assets	1	1
Current liabilities	7	9
Non-current liabilities	0	0

Revenues/expenses

Consolidated

SEK millions	2010	2009	2008
Net sales	1	3	0
Other operating income	26	20	24
Other operating costs	-25	-19	-22

Note 36. Work in progress on plant projects

Impact of percentage of completion method

Consolidated

SEK millions	2010	2009	2008
Result items			
Amount of recognised project sales revenue	641	486	496
Work performed on ongoing projects			
Aggregate amount of costs incurred and recognised profits (less recognised losses)	926	767	942
Assets			
Retentions	46	54	50
Gross amount due from customers for work in progress	301	14	6
Liabilities			
Advances received	353	294	354
Gross amount due to customers for work in progress	45	56	34

Note 37. 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 379 (380) (352) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 23 (117) million. See Note 19 for information on the capitalised value of finance leases.

The future minimum leasing fees concerning non-cancellable operating leases, distributed on maturity dates, amount to:

Future minimum leasing fees for operating leases

Consolidated

SEK millions	2010	2009	2008
Maturity in year:			
2009	N/A	N/A	228
2010	N/A	236	200
2011	223	196	176
2012	194	149	140
2013	163	133	123
2014	136	118	N/A
2015	120	N/A	N/A
Later	179	162	208
Total	**1,015**	**994**	**1,075**

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

Financial leases

Consolidated

	Future minimum leasing fees for financial leases			Present value of financial leases		
SEK millions	2010	2009	2008	2010	2009	2008
Maturity in year:						
2009	N/A	N/A	7	N/A	N/A	7
2010	N/A	27	7	N/A	26	6
2011	21	21	6	21	20	5
2012	18	18	5	17	17	4
2013	17	16	5	16	15	4
2014	16	15	N/A	14	14	N/A
2015	15	N/A	N/A	13	N/A	N/A
Later	51	58	29	44	49	20
Total	**138**	**155**	**59**	**125**	**141**	**46**

Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Profit brought forward	6,265,910,227
Repurchase of shares	-253,373,045
Net income 2010	2,951,439,099
	8,963,976,281

The Board of Directors propose a dividend of SEK 3.00 (2.50) per share corresponding to SEK 1,258,368,945 (1,055,098,665) and that the remaining income of SEK 7,705,607,336 (6,265,910,227) 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, March 2, 2011

Anders Narvinger
Chairman

Gunilla Berg
Director

Arne Frank
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

Lars Renström
Managing Director

Our Auditors' Report concerning this Annual Report has been issued on March 4, 2011.

Kerstin Mouchard
Authorised Public Accountant

Staffan Landén
Authorised Public Accountant

Audit Report

To the annual meeting of the shareholders of Alfa Laval AB
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 for the financial year 2010. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 49–119. 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 statement of comprehensive income and the statement of financial position for 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 4, 2011

Kerstin Mouchard
Authorized Public Accountant

Staffan Landén
Authorized Public Accountant

Contents – Corporate Governance Report

Introduction by the Board Chairman

Sound corporate governance means that a company is managed with the owners' interests in mind. However, this alone is not sufficient. Owners, the capital markets and the general public must have access to adequate information to themselves be able to determine if this is the case, something which requires transparency. Only through openness can people outside the company make a sound assessment of how well the Board of Directors and management live up to the responsibilities assigned to them.

In recent years, we have seen both an economic downturn and upturn in our operating environment and we have had occasion to note that times of economic unrest tend to increase demand for clarity and transparency. However, the requirement for transparency cannot be limited to times of adversity. Alfa Laval's business principles require openness to be at the core of all dialogue, this applies equally in upturns and downturns, just as we strive to maintain the highest levels of quality and maximum clarity in respect of leadership, control and supervision at every single opportunity.

At the start of 2010, Alfa Laval had come through both a financial crisis and two savings programs that were implemented to adapt capacity and costs to a new, lower level of demand. At the end of the year, we could look back on 2010 as a year in which demand recovered; a positive trend that also impacted the work of the Board. The strategy remained firm, also in regard to acquisitions, and the work during the year was thus characterized by a forceful element that resulted in a number of acquisitions, some of which were very substantial. Through acquisitions, we not only consolidate our positions, but build completely new ones, something we are convinced will strengthen Alfa Laval's future growth in value.

Lund, Sweden, March 2011
Anders Narvinger
Chairman of the Board

Corporate Governance Report 2010

Alfa Laval is a public company listed on the NASDAQ OMX Exchange Stockholm. The company's governance is therefore based on the Swedish Companies Act, the Annual Accounts Act and the rules of the exchange. It also complies, with only one exception, with the Swedish Code of Corporate Governance. Alfa Laval's Corporate Governance Report for 2010 is presented below, and has been reviewed by the company's auditors. The report provides a detailed description of the division of areas of responsibility in Alfa Laval and also how the company's three decision-making bodies – The Annual General Meeting, the Board of Directors and the President – act and interact. The report is available on www.alfalaval.com.

Shareholders

Alfa Laval's share was listed as early as 1901, but was delisted when the company was bought out from the Stockholm Stock Exchange in 1991. The company remained in private ownership until 2002, when it was relisted on the NASDAQ OMX Exchange Stockholm. The number of shares outstanding amounts to 422,039,466 and the number of shareholders totalled 33,565 at December 30, 2010. Tetra Laval was the largest owner with a share stake of 18.7 percent and the only owner with a stake larger than 10 percent. Legal entities accounted for about 93 percent of holdings, while individuals represented slightly less than 7 percent.

Alfa Laval – the company

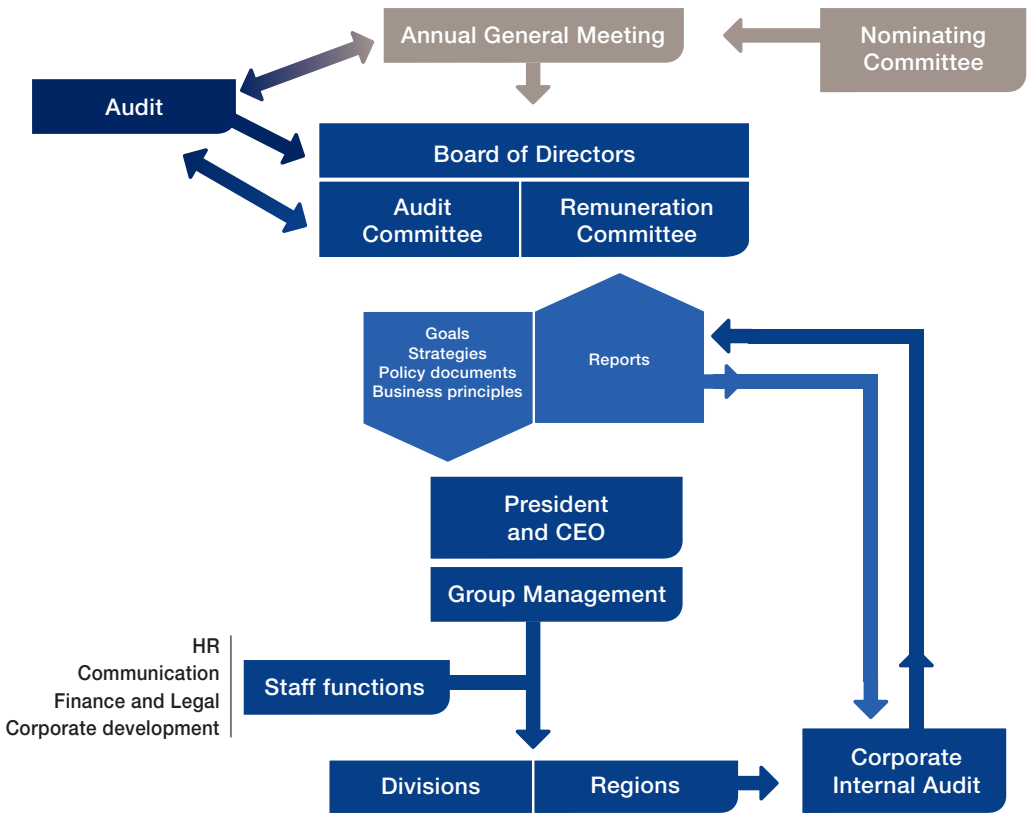
In accordance with Alfa Laval's Articles of Association, the registered name of the company is Alfa Laval AB. The registered office of the Board of Directors of the company shall be in Lund Municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more 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 to, directly or through subsidiaries and joint venture companies in and outside Sweden, develop, manufacture and sell equipment and installations, primarily in the areas of separation, heat transfer and flow technology, and to administer fixed and movable property, and other related operations. The Articles of Association does not include any limitations regarding the number of votes a shareholder can cast at an AGM. Nor does it include any specific rules regarding the appointment and dismissal of board members or changes in the Articles of Association. The Articles of Association are available in their entirety on 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 that, each year, appoints the members and Chairman of the Board of Directors, based on proposals from the Nominating Committee.

All shareholders are entitled to participate at the AGM and each share has one vote. According to Alfa Laval's Articles of Association, the Annual General Meeting

Governance Model



shall be held annually within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the AGM takes place in April or May in Lund.

The AGM for the 2009 fiscal year was held at Färs och Frosta Sparbank Arena in Lund on April 26, 2010. The AGM was attended by 469 shareholders, in person or by proxy, and represented 56.78 percent of the total number of shares and votes. Both of the company's external auditors attended.

Board Chairman Anders Narvinger was elected as the Meeting Chairman.

The full register of all resolutions made at the AGM is available as minutes published on Alfa Laval's website. A number of the resolutions are listed below:

– The AGM adopted the income statement and balance sheet and resolved that the Board of Directors and President be discharged from liability.

– The AGM resolved in accordance with the Board's proposal that a dividend of SEK 2.50 per share be paid for fiscal year 2009.

– A resolution was passed for the re-election of Board members Gunilla Berg, Björn Hägglund, Anders Narvinger, Finn Rausing, Jörn Rausing, Lars Renström and Ulla Litzén, and, the election of Arne Frank who replaced Waldemar Schmidt, who declined re-election.

– A resolution was passed that fees paid to non-executive directors on the Board shall amount to SEK 3,060,000. In addition, fees to Board members that are the Chairman or a member of the Audit Committee and Remuneration Committee, shall be paid as follows: to the Chairman of the Audit Committee SEK 125,000, to members of the Audit Committee SEK 75,000 and to the Chairman and members of the Remuneration Committee SEK 50,000.

– A resolution was passed accepting the Board's proposal for principles for remuneration to company management.

– A resolution was passed empowering the Board, on one or more occasions before the next AGM, to buy back a maximum of 5 percent of the company's shares outstanding.

Nominating Committee

For the 2011 AGM

In accordance with a resolution passed at Alfa Laval AB's Annual General Meeting 2010, the Chairman of the Board was instructed to contact the company's largest shareholders at the end of the third quarter and to encourage them to each appoint one member of the Nominating Committee before the AGM on April 27, 2011.

The composition of the Nominating Committee, as communicated by a press release and on Alfa Laval's website on October 19, 2010 is as follows: Jörn Rausing (Tetra Laval), Lars-Åke Bokenberger (appointed by AMF Pension), Jan Andersson (appointed by Swedbank Robur Funds), Bo Selling (appointed by Alecta) and Peter Rönström (appointed by Lannebo Funds). The Chairman of the Nominating Committee is Jörn Rausing. The Nominating Committee appointed Board Chairman Anders Narvinger to be a member of the Nominating Committee and its secretary. The Nominating Committee represented just over 38 percent of the number of shares outstanding at September 30, 2010. Jörn Rausing's position as Chairman of the Nominating Committee is a deviation from the Swedish Code of Corporate Governance. The reason for this is that the Nominating Committee considers Jörn Rausing as exceptionally suitable to efficiently lead its work and thus achieve the optimal result for the company's shareholders.

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.

Composition of the Nominating Committee

The Nominating Committee shall not comprise more than five members, of which the majority may not be Board members. The Chairman of the Board shall contact representatives of the major shareholders at the end of the third quarter and invite them to each appoint one member. In addition, the Nominating Committee can decide to include the Chairman of the Board and other Board members. If any of the five largest shareholders resigns their right to appoint a member then the next largest shareholder in terms of size is provided the opportunity to appoint a member. If several shareholders waive their right to appoint a member to the Nominating Committee, then no more than the eight largest shareholders need to be approached, unless this is required to ensure the Nominating Committee comprises at least three members. If a member resigns from the Nominating Committee before the work of the Committee is completed, the shareholder that appointed said member shall be entitled to appoint a replacement.

The Chairman of the Nominating Committee shall be an owner representative who can also be Board member. However, the Chairman of the Board of Directors shall not serve as Chairman of the Nominating Committee. The composition of the Nominating Committee must be published at least six months prior to the AGM. Should an owner represented on the Nominating Committee significantly reduce its shareholding and no longer qualify for a seat on the Nominating Committee, and providing that the Nominating Committee so decides, the representative of the owner shall be dismissed and another of the company's largest shareholders shall be offered the opportunity to appoint a member.

The work of the Nominating Committee

The Nominating Committee shall prepare and submit proposals to shareholders at the AGM regarding the election of Board members, Chairman of the Board and, if applicable, auditors. It shall also submit proposals in respect of remuneration of the Board and members of the Board committees.

The annual evaluation of the work of the Board, which is initiated by the Chairman of the Board, comprises part of the supporting documentation utilized by the Nominating Committee for the nomination of Board members and for proposing remuneration levels. The Nominating Committee can call upon the assistance of external resources in its search for suitable candidates.

The Board of Directors

The Board of Directors, whose responsibilities are governed by laws and regulations as well as by its own rules of procedure, bears responsibility for setting the long-term goals and strategy for the company. Alfa Laval's Board consists of a minimum of four and maximum of ten members with a maximum

Composition of the Nominating Committee for the 2011 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval[1], %
Jörn Rausing, Chairman	Tetra Laval	18.71
Bo Selling	Alecta	8.93
Jan Andersson	Swedbank Robur Fonder	5.56
Lars-Åke Bokenberger	AMF Pension	3.54
Peter Rönström	Lannebo Fonder	1.98
Anders Narvinger	Board Chairman	
Total		**38.72**

[1] As of September 30, 2010

of four deputy members. Today the board consists of eight members 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 employee representatives and three deputy employee representatives. Salaried employees in the company are invited to Board meetings as presenters and experts. The company's Chief Financial Officer, Thomas Thuresson participates in all meetings and Alfa Laval's Chief Legal Counsel, Mikael Wahlgren, serves as Board Secretary. For further information about the Board's members, see pages 128–129.

Arne Frank was elected a new member of the Board in 2010 since Waldemar Schmidt declined re-election. The other Board members were reelected. Every new member of the Board is offered an introductory program. In addition, every year, a combined educational and study trip is undertaken to one of Alfa Laval's plants around the world. In 2010, the trip was to Alonte, Italy.

The Board's formal work plan
The work of the Board is governed by a formal work plan which is determined annually following the AGM. This formal work plan describes the Board's work assignments and the division of responsibility between the Board and the President. It also defines the role of the Board Chairman and stipulates that the Board has a Remuneration Committee and an Audit Committee.

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 material 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, must reach the Board members not later than one week prior to the date of the meeting.

The formal work plan contains particular instruction for the company's President regarding the financial reporting required by the Board so that it can make ongoing judgments of the financial situation. Minutes from Board meetings are numbered, and all Board members receive copies. The President is responsible for the safe storage of the original of the minutes. Matters discussed by the Board are by definition confidential, and every Board member is subject to a duty of confidentiality.

Board work during 2010
During 2010, the number of Board meetings held totaled 19 (eight were regularly scheduled meetings). Each regular meeting lasted four hours on average and was held in Lund or Stockholm. One circular meeting was held and 10 were held by phone. The normal agenda items for Board meetings include earnings results, order trends, investments, acquisitions and shareholder developments. Board decisions are made based on open discussions led by the Chairman.

In light of the mandate given to the Board by the AGM, a committee was commissioned consisting of Anders Narvinger, Finn Rausing and Ulla Litzén to execute the buyback of shares, via the Group management, during the period up to the next AGM.

Evaluation of the Board's work
The Chairman of the Board ensures that an annual evaluation is conducted of the work of the Board. This is carried out through open discussions and interviews with the individual members. The evaluation focuses on the Board's work methods, its work climate and the access to and need for particular Board competence. The evaluation forms part of the supporting documentation for the Nominating Committee when nominating Board members and proposing remuneration levels.

The Board's responsibilities
In line with 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 and deciding on major investments and significant changes in Alfa Laval's organization and operations.

Additionally, the Board (through its Audit Committee) procures auditing services and maintains ongoing contact with the company's auditors. The Board appoints the President and defines the instructions that the President must follow. The Board (through the Remuneration Committee) determines salaries and remuneration to the President and members of the executive management.

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 ensuring that the other members receive, on an ongoing basis, information necessary for Board work to be performed in the most effective manner. The Chairman is responsible for evaluating the Board's work 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 elected by the AGM are considered independent of the company, except Lars Renström, who is President and CEO of the company. All members are also considered independent of the company's major shareholders, except Finn Rausing and Jörn Rausing. They cannot be considered independent due to their relation to Tetra Laval, which, on December 31, 2010, owned 18.7 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 required to further the interests of the company and its shareholders in the best possible manner.

Audit Committee
The Audit Committee formulates guidelines for the company's financial reporting and follow-up, it also has the right to determine the focus of the internal audit. The Committee examines the procedures for reporting and financial controls, the work of the external auditors, their qualifications and independence. In addition, it follows up the effectiveness of the internal controls, evaluates and discusses significant issues in the areas of accounting and financial reporting as well as monitoring other significant issues connected with the 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. Members of the Audit Committee are appointed annually at the Board of Directors statutory meeting. During 2010, it comprised Finn Rausing (Chairman), Gunilla Berg and Anders Narvinger. Alfa Laval's General Counsel, Mikael Wahlgren, is the Committee secretary.

During 2010, three meetings were held that averaged two hours in length. Minutes are kept of each meeting and distributed to the Board members. Thomas Thuresson, Chief Financial Officer, Jacques Christens, Head of internal audit, and the company's auditors were also present at all meetings.

Remuneration Committee
The Remuneration Committee acts in conjunction with recruitment and appointments and is involved when other conditions of employment relating to the President or members of Group Management require discussion. The Committee's assignment is to prepare the guidelines for remuneration to senior executives to be resolved on by the Annual General Meeting and to submit proposals to the Board of Directors regarding

salary and employment terms and conditions for the President.

In addition, the Committee handles matters for the Board regarding salary and employment terms and conditions for senior executives who report directly to the President. Alfa Laval's Remuneration Committee is appointed on an annual basis at the Board's inaugural meeting. In 2010, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Björn Hägglund. The Remuneration Committee held three meetings at which all members were in attendance. Minutes are kept at all meetings and the contents are distributed to the Board members.

Remuneration to the Board

Remuneration to the Board members elected by the AGM is determined by the AGM based on the proposals submitted by the Nominating Committee. The Chairman and members of the Audit Committee and the Remuneration Committee receive supplementary remuneration. No Board member is entitled to pension payments from the company, except Lars Renström, who is President and CEO. The table further down summarizes the remuneration paid by Alfa Laval to Board members for the period from the 2010 AGM until the 2011 AGM.

President and Group Management

The President directs the daily operations and is responsible for ensuring that the Board receives information and the necessary supporting documentation for decision-making. The President is also responsible for ensuring that the company's accounting complies with applicable laws and provisions. In support of sound corporate governance and to ensure the requisite guidelines are instilled in the company's actions, Alfa Laval has produced and implemented a number of business principles. These affect how the company and its employees act in respect of the Group's environmental impact, social responsibility, business ethics and transparency. The principles are described in full on Alfa Laval's website, www.alfalaval.com.

The President has the support of the management group, an executive management, to which responsibilities and powers are delegated. The members of the management group are responsible for their respective areas of operation, which comprise divisions or geographic regions, and collectively for the Group as a whole. The Group's management comprises the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board. For further information regarding the management group, see pages 130–131.

The management group held six minuted meetings during 2010. In addition, quarterly reviews are held of business development in the company's divisions and geographical regions, which deal with items including the business situation, earnings, earnings projections for the next 12 months and specific issues for the respective business areas.

Attendance at Board meetings and committee meetings

	Name	Board	Remuneration Committee	Audit Committee
Elected by the AGM	Anders Narvinger	● 19	● 3	3
	Gunilla Berg	17	–	3
	Björn Hägglund	19	3	–
	Ulla Litzén	16	–	–
	Finn Rausing	19	–	● 3
	Jörn Rausing	18	3	–
	Lars Renström	19	–	–
	Waldemar Schmidt *Resigned in conjunction with AGM in April*	3	–	–
	Arne Frank	9	–	–
Employee representatives	Arne Kastö	17	–	–
	Jan Nilsson	18	–	–
	Susanna Norrby	14	–	–
	Number of meetings	**19**	**3**	**3**

● Chairman

Remuneration, pensions and severance pay/termination of employment

The principles of remuneration to the President and other members of the management group are determined by the AGM. For additional information, see pages 93 and 94.

The Company's Auditors

Alfa Laval's auditors constitute a supervisory body appointed by the AGM. 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 second quarter. The result of the audit, that is the auditor's report, is communicated to shareholders in the annual report and at the AGM. Additionally, the auditors make a statement of opinion regarding the granting of discharge of liability for the Board of Directors. The number of auditors must be a minimum of one and maximum of two with at most two deputies. An authorized public accountant or registered auditing firm is appointed as auditor and where applicable as deputy auditor. The 2008 AGM elected the company's auditors for a period of four years. Authorized Public Accountants Kerstin Mouchard and Staffan Landén are the company's auditors. Authorized Public Accountants Håkan Olsson and Thomas Swenson are the company's deputy auditors. All are Authorized Public Accountants with Ernst & Young AB. 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 to auditors

(refer to Note 7 on page 95)

Remuneration to the Board

Name	Board	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
Arne Frank	360,000	0	0
Total	**3,060,000**	**150,000**	**275,000**

Remuneration is fixed. No variable portion exists. No remuneration is paid to elected Board members who are employees of the company.

Board of Directors' report on internal control

The Board is responsible for ensuring that a strong internal control function is in place. The overriding aim is to safeguard the company's assets and thus the shareholders' investments. The internal control function shall ensure the reliability of Alfa Laval's financial reporting, and its compliance with legislation, regulations, the applicable accounting policies and the company's business principles.

Control environment

To ensure good internal control, the Board has established clear operating processes and formal work plans that cover the work of the Board and its Committees. The Board has also prepared a clear internal distribution of tasks:

The Board monitors and bears overall responsibility for the company's financial reporting. Another key component of the Board's work is the formulation and approval of fundamental rules and guidelines aimed at creating the basis for good internal control. These guidelines and rules, which are regularly revised and updated, apply to such aspects as the company's finance policy, its business principles, rules for resolving on investments, requirements on financial reporting and its communications policy. The Board shall also ensure that the organizational structure is logical and transparent, and that it clearly defines roles, responsibilities and processes. The Board shall also assess the operations' performances and earnings through a package of reports that include results, forecasts and analyses of key indicators. The Board administers the company's interim reports and its year-end report.

The Board's Audit Committee is tasked with ensuring compliance with the principles for financial reporting and internal control. This Committee also evaluates and manages the company's relationships with its external auditors. The Audit Committee examines the company's financial reports and reviews its risk reports, the information from risk assessments, disputes and potential improprieties. The Audit Committee holds meetings with the internal auditors, the external auditors and various specialists in the executive management and its support functions. The Board receives feedback from these meetings. The Audit Committee's work also includes regularly reviewing the efficiency of the internal controls, and evaluating and discussing key auditing and reporting matters. In 2010, the entire Board received reports from the company's external auditors on two occasions. On one occasion, this was conducted without the presence of the President or members of the executive management. The Board's Audit Committee has separately received additional reports from the company's external auditors on three occasions.

The President is subject to instructions issued by the Board and shall ensure the existence of an efficient control environment. The President is also responsible for regular work on the internal control. The executive management shall manage and maintain the internal control systems required to manage key risks in the company's operating activities. The management shall also clearly ensure that all employees understand the requirements for, and the individual's role in, maintaining a strong internal control.

The internal auditors report to the CFO and comprise the function that practically reviews and pursues improvements to the internal control function, reports these results to the Audit Committee and proposes plans for the coming six to eight months. The internal auditors also issue reports from individual audits to the members of executive management concerned. A procedure to perform regular reviews of the agreed actions is in place to ensure that specific actions are taken following the internal audit. This is based on a schedule agreed on with the party responsible for the individual activities.

The internal audit function comprises two internal auditors, supplemented by internal specialist company resources and auditors from the auditing company KPMG. In 2010, 32 internal audits were performed. These encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining such aspects as:

- Compliance with the systems, guidelines, policies and processes established for the Group's business operations.
- The existence of systems to ensure that financial transactions are implemented, archived and reported in an accurate and lawful manner.
- Opportunities to improve management control, the company's profitability and the organization, which may be identified during audits.

Risk assessment

Within the framework of the company's operating activities and review functions, procedures are in place for risk assessments pertaining to the financial reporting. These procedures aim to identify and evaluate the risks that may affect internal control. This identification process creates stronger opportunities for accurate financial reporting. The procedures encompass risk assessments in conjunction with strategic planning, forecasts and acquisition activities, as well as processes to identify amendments to the accounting policies to ensure that these amendments are accurately reflected in the financial reporting.

Control structures

The control structures have been designed to manage risks that the Board and management consider to be significant to the business operations, internal control and financial reporting.

The control structures comprise (i) an organization with clearly defined roles that enable an effective, and from an internal control perspective, appropriate division of responsibility, and (ii) specific control activities that are intended for discovery and timely prevention of risks becoming reality. Examples of control activities include clearly

defined decision-making processes and the policy for decision-making in relation to, for example, investments, agreements, acquisitions and divestments, earnings analyses and other forms of analytical reviews, reconciliations, inventory-taking and automatic controls in the IT systems.

Governance instruments

As governance instruments, the Board deploys a number of policy documents, which are used in the company's daily operations. These encompass such instruments as the Board's operating procedures, the President's instructions, reporting instructions, business principles, investment policies, and the finance and communications policy. The Board annually reviews how relevant and current these instruments are.

A feedback function, known as an annual sign-off, is also in place, which is geared toward the company's senior executives. This feedback function shall ensure that Alfa Laval's internal instructions and rules are fully implemented. All managers who report directly to Group management shall review the guidelines and rules that apply to their respective areas on an annual basis. They must sign and submit a document confirming their understanding of the significance of and compliance with these guidelines. If there are any deviations compared with the instructions, they must specify what actions they intend to take to ensure compliance. This process also aims to increase transparency and thus facilitate assessments by external and internal auditors.

Information and communication

The company's principal governing documents in terms of regulations, guidelines and manuals are communicated through several internal channels. In addition, all other guidelines that exist to ensure good control are communicated. 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.

For communication with external parties, a clearly defined policy has been formulated, including guidelines on how this communication is to be conducted. The aim is to ensure that all obligations with regard to information are met in a correct and complete manner.

Review

The internal control process is mainly monitored by two entities: the Audit Committee and Internal audit. The Audit Committee establishes the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations. The Audit Committee also meets with the external auditors to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits.

The Audit Committee 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 and continuously to Group Management so that any necessary measures may be taken. The scope of the internal audit includes operational efficiency, compliance with regulations and guidelines and the quality of financial reporting from the subsidiaries. The report not only comprises a description of how internal control is organized, but also an opinion on how well it functions.

Lund, March 2011
The Board of Directors

Auditors' statement on the corporate governance report

To the annual meeting of the shareholders of Alfa Laval AB, corporate identity number 556587-8054

Assignment and allocation of responsibilities

We have examined the Corporate Governance Report (pages 120–127) for Alfa Laval AB for 2010. The Board of Directors bears responsibility for the Corporate Governance Report and its compliance with the Annual Accounts Act. Our responsibility is to express an opinion on the Corporate Governance Report based on our audit.

The objective and scope of the audit

The audit has been performed in accordance with RevU 16, Auditors' review of the corporate governance report. This requires that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the Corporate Governance Report is free of material misstatement. An audit includes examining, on a test basis, a selection of the underlying evidence for the Corporate Governance Report. We believe that our audit provides us with a reasonable basis for our opinion set out below.

Opinion

The Corporate Governance Report has been prepared and is consistent with the annual accounts and consolidated accounts.

Lund, March 4, 2011

Kerstin Mouchard
Authorized Public Accountant

Staffan Landén
Authorized Public Accountant

Board of Directors and Auditors

Elected by the Annual General Meeting

Anders Narvinger

Chairman since 2003.

Born: 1948.
Formerly President of Teknikföretagen and formerly President and CEO of ABB Sweden.
Education: BSc. Eng from the Faculty of Engineering at Lund University, BSc. Econ from Uppsala University.
Chairman of TeliaSonera AB, Trelleborg AB and Coor Service Management AB.
Board member of JM AB and Pernod Ricard SA.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 40,000* (40,000**).

Gunilla Berg

Board member since 2004.

Born: 1960.
Former positions include Executive Vice President and CFO of the SAS Group and Executive Vice President and CFO of the KF Group.
Education: BSc. Econ from the Stockholm School of Economics.
Board member of L E Lundbergföretagen AB and DnB NOR ASA.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 1,000* (0**).

Björn Hägglund

Board member since 2005.

Born: 1945.
Former positions include Deputy CEO of Stora Enso.
Education: PhD (For.)
Board Chairman of the Swedish Industrial Institute for Economics and Social Research, SweTree Technologies and the World Wide Fund for Nature, Sweden.
Board member of, among others, Bergvik Skog AB, the Knut and Alice Wallenberg Foundation and AB Karl Hedin.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 12,000* (12,000**).

Ulla Litzén

Board member since 2006.

Born: 1956.
Former positions include President of W Capital Management and various executive positions at Investor.
Education: BSc. Econ from the Stockholm School of Economics, MBA from the Massachusetts Institute of Technology.
Board member of, among others, Atlas Copco AB, Boliden AB, Husqvarna AB, NCC AB and SKF AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 15,600* (15,600**).

Finn Rausing

Board member since 2000.

Born: 1955.
Education: B.L., MBA from 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 and TeliaSonera AB.
Independent of major shareholders.
Number of shares in Alfa Laval: 40,400* (40,400**).

Arne Frank

Board member since 2010.

Born: 1958
President and CEO of AarhusKarlshamn AB
Education: BSc. Eng in industrial economics from Linköping Institute of Technology
Chairman of the Board of Contex Holding A/S
Independent of the company and major shareholders.
Number of shares in Alfa Laval: 8,000* (0**)

Waldemar Schmidt

Board member since 2000.

Stepped down in conjunction with the 2010 Annual General Meeting.

* Holdings as of December 31, 2010.
** Holdings as of December 31, 2009.

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* (5,000**).

Deputy employee representatives

Henrik Nielsen
Deputy member since 2008.
Born: 1968.
Employed by Alfa Laval since 2005.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

Leif Norkvist
Deputy member since 2009.
Born: 1961.
Employed by Alfa Laval since 1993.
Deputy employee representative for the Swedish Metal Workers' Union (IF Metall).

Stefan Sandell
Deputy member since 2005.
Born: 1971.
Employed by Alfa Laval since 1989.
Deputy employee representative for the Swedish Organization for Managers (Ledarna).

Auditors

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 long experience in auditing exchange-listed and internationally active companies. Among other assignments, she is auditor for Cardo AB, Profilgruppen AB, Strålfors AB and a number of companies in the Lantmännen Group.

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 and internationally active companies. Among other assignments, he is auditor for Capio AB, Papyrus AB, Academedia AB, Lindab AB and Bure Equity AB.

Deputy auditors

Håkan Olsson
Authorized Public Accountant, Ernst & Young AB, Malmö.
Born: 1961.
Deputy auditor for Alfa Laval since 2000.

Thomas Swenson
Authorized Public Accountant, Ernst & Young AB, Malmö.
Born: 1957.
Deputy auditor for Alfa Laval since 2004.

* Holdings as of December 31, 2010.
** Holdings as of December 31, 2009.

Group Management

Lars Renström
President and CEO.
Born: 1951.
CEO since October 1, 2004.
Former positions include President and CEO of Seco Tools AB, Division Manager at Ericsson AB and Atlas Copco AB.
Board member of ASSA ABLOY AB and TeliaSonera AB.
Education: BSc. Eng, BSc. Econ.
Number of shares in Alfa Laval: 40,400* (40,400**).

Thomas Thuresson
Chief Financial Officer.
Born: 1957.
Employed by Alfa Laval since 1988.
CFO since 1995. Former assignments include Controller of the Flow business area and Group Controller of the Alfa Laval Group.
Board member of PartnerTech AB.
Education: BSc. Econ., IMD (BPSE)
Number of shares in Alfa Laval: 140,800* (140,800**).

Göran Mathiasson
President, Operations Division
Born: 1953.
Employed by Alfa Laval since 1979.
President of the Operations Division since April 2003.
Previously in charge of Alfa Laval Manufacturing and Thermal Technology, including Research and Development, production development, system development and purchasing.
Board member of Heatex AB.
Education: BSc. Eng.
Number of shares in Alfa Laval: 6,588* (6,588**).

Svante Karlsson
President, Process Technology Division.
Born: 1955.
Employed by Alfa Laval since 1984.
Former President of the Equipment division, head of the Thermal business area and President of Marine & Power.
Education: BSc. Econ.
Number of shares in Alfa Laval: 82,744* (82,744**).

Susanne Pahlén Åklundh
President, Equipment Division.
Born: 1960.
Employed by Alfa Laval since 1983.
President of the Equipment Division since 2009.
Previously responsible for Mid Europe, Nordic and the Process Industry segment.
Education: MSc. Eng.
Number of shares in Alfa Laval: 756* (756**).

Peter Leifland
Executive Vice President in charge of the Western Europe, North America, and India Region.
Born: 1954.
Employed by Alfa Laval since 1985.
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* (480,000**).

Lars Henriksson
Executive Vice President in charge of the Central and Eastern Europe, Latin America, Middle East and Africa Region.

Born: 1950.
Employed by Alfa Laval since 1977.
Regional manager since September 1, 2004. Prior to this, he was President of Alfa Laval Inc. in Canada and held executive positions in Alfa Laval in Sweden, Spain and Brazil.
Education: BSc. Eng.
Number of shares in Alfa Laval: 24,000* (24,000**).

Ray Field
Executive Vice President in charge of the Asia and Oceania Region.

Born: 1954.
Employed by Alfa Laval since 1985.
Regional manager since September 1, 2004. Prior to this, he served as President of Alfa Laval China for more than ten years.
Education: BSc. Eng.
Number of shares in Alfa Laval: 54,588* (54,588**).

Peter Torstensson
Senior Vice President, Corporate Communications.

Born: 1955.
Employed by Alfa Laval since 1999.
Senior Vice President, Corporate Communications since 1999. Formerly held such positions as President of Borstahusen Informationsdesign.
Board member of LU Food Science AB.
Number of shares in Alfa Laval: 76,000* (76,000**).

Peter Bailliere
Senior Vice President, Human Resources.

Born: 1963.
Employed by Alfa Laval since 2007.
Senior Vice President, Human Resources, since July 1, 2007.
Many years of experience with Volvo Cars, most recently as head of Group Human Resources.
Education: Master of Sociology.

* Holdings as of December 31, 2010.
** Holdings as of December 31, 2009.

Ten-year overview

Ten-year overview

Consolidated

SEK millions, unless otherwise stated	2010	2009	2008	2007	2006	2005	2004 *	2003 **	2002	2001
Profit and loss										
Net sales	24,720	26,039	27,850	24,849	19,802	16,330	14,986	13,909	14,595	15,830
Comparison distortion items	90	-225	-168	54	-120	-73	37	6	-29	5
Operating income	4,401	4,030	5,736	4,691	2,552	1,377	1,438	1,138	1,220	1,231
Financial net	-37	-270	-395	-134	-177	-278	-177	-321	-848	-1,189
Result after financial items	4,364	3,760	5,341	4,557	2,375	1,099	1,261	817	372	42
Non-controlling interests								-41	-34	-32
Taxes	-1,248	-1,023	-1,534	-1,377	-650	-171	-421	-130	-218	26
Net income for the year	**3,116**	**2,737**	**3,807**	**3,180**	**1,725**	**928**	**840**	**646**	**120**	**36**
Financial position										
Goodwill	5,952	6,143	5,383	4,459	3,706	3,531	2,978	3,099	3,369	3,373
Other intangible assets	2,581	2,490	1,890	1,275	1,191	1,067	924	1,101	1,334	1,641
Property, plant and equipment	3,512	3,548	3,546	2,824	2,514	2,553	2,480	2,756	3,083	3,599
Financial long-term assets	1,568	1,542	1,376	1,128	784	676	601	671	752	1,102
Inventories	4,769	4,485	5,972	5,086	3,793	3,091	2,453	2,218	2,279	2,624
Current receivables	6,884	6,584	9,238	7,420	5,987	4,467	3,976	3,631	3,590	4,334
Current deposits	575	302	544	190	229	342	257	659	414	293
Cash and bank	1,328	1,112	1,083	856	546	479	415	555	606	666
TOTAL ASSETS	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**	**14,690**	**15,427**	**17,632**
Equity	13,582	12,229	10,493	7,937	6,831	5,811	5,269	4,897	4,512	1,445
Non-controlling interests								104	108	132
Provisions for pensions etc.	847	920	990	877	941	903	789	755	721	775
Provisions for taxes	1,617	1,390	1,161	1,090	949	767	760	817	990	1,144
Other provisions	2,128	2,365	2,252	1,810	1,281	957	948	891	989	1,063
Non-current liabilities	1,041	1,626	3,394	3,068	2,006	2,702	2,307	3,492	4,234	8,321
Current liabilities	7,954	7,676	10,742	8,456	6,742	5,066	4,011	3,734	3,873	4,752
TOTAL EQUITY & LIABILITIES	**27,169**	**26,206**	**29,032**	**23,238**	**18,750**	**16,206**	**14,084**	**14,690**	**15,427**	**17,632**

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP.

Changes in accounting standards

A reader of the ten-year overview should observe that accounting standards have changed repeatedly over this period of time.

All listed companies within the European Union were obliged to change to IFRS as of January 1, 2005. International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB).

Alfa Laval was a first time applicant under IFRS 1 in 2005. IFRS 1 covered the transitional provisions for the implementation of IFRS. The adoption to IFRS was however already in place since Alfa Laval had implemented all relevant IAS standards since year 2000, except IAS 39 that was implemented as of January 1, 2005.

Ten-year overview

Consolidated

SEK millions, unless otherwise stated	2010	2009	2008	2007	2006	2005	2004 *	2003 **	2002	2001
Key ratios										
Orders received	23,869	21,539	27,464	27,553	24,018	18,516	15,740	14,145	14,675	15,894
Order backlog at year end	11,552	11,906	14,310	14,730	12,359	7,497	4,763	4,021	4,340	4,314
EBITA	4,772	4,360	5,992	5,034	2,891	1,692	1,732	1,633	1,726	1,743
EBITDA	5,197	4,751	6,296	5,299	3,153	1,957	1,993	1,926	2,058	2,144
EBITA-margin %	19.3%	16.7%	21.5%	20.3%	14.6%	10.4%	11.6%	11.7%	11.8%	11.0%
EBITDA-margin %	21.0%	18.2%	22.6%	21.3%	15.9%	12.0%	13.3%	13.8%	14.1%	13.5%
Adjusted EBITA	4,682	4,585	6,160	4,980	3,010	1,765	1,695	1,627	1,755	1,738
Adjusted EBITDA	5,107	4,976	6,464	5,245	3,273	2,030	1,956	1,920	2,087	2,138
Adjusted EBITA-margin %	18.9%	17.6%	22.1%	20.0%	15.2%	10.8%	11.3%	11.7%	12.0%	11.0%
Adjusted EBITDA-margin %	20.7%	19.1%	23.2%	21.1%	16.5%	12.4%	13.1%	13.8%	14.3%	13.5%
Profit margin %	17.7%	14.4%	19.2%	18.3%	12.0%	6.7%	8.4%	5.9%	2.5%	0.3%
Excl. Goodwill and step-up values										
Capital turnover rate, times	5.6	5.2	5.6	6.4	6.3	5.5	5.3	5.0	4.4	4.1
Capital employed	4,399	5,052	4,973	3,863	3,137	2,958	2,822	2,807	3,283	3,901
Return on capital employed %	108.5%	86.3%	120.5%	130.3%	92.2%	57.2%	61.4%	58.2%	52.6%	44.7%
Incl. Goodwill and step-up values										
Capital turnover rate, times	1.9	2.0	2.5	2.7	2.5	2.2	2.0	1.8	1.7	1.7
Capital employed	12,752	12,976	11,144	9,289	8,062	7,470	7,317	7,667	8,565	9,401
Return on capital employed %	37.4%	33.6%	53.8%	54.2%	35.9%	22.7%	23.7%	21.3%	20.2%	18.5%
Return on equity %	24.4%	24.5%	42.8%	44.1%	25.3%	16.0%	15.9%	13.2%	2.7%	2.5%
Solidity %	50.0%	46.7%	36.1%	34.2%	36.4%	35.9%	37.4%	33.3%	29.2%	8.2%
Net debt	-551	533	2,074	2,397	1,478	2,013	1,884	2,401	3,499	7,778
Net debt to EBITDA, times	-0.1	0.1	0.3	0.5	0.5	1.0	0.9	1.2	1.7	3.6
Debt ratio, times	-0.04	0.04	0.20	0.30	0.22	0.35	0.36	0.49	0.78	5.38
Interest coverage ratio, times	35.9	15.2	26.2	23.7	14.4	6.9	7.4	5.0	3.0	1.9
Cash flow from:										
operating activities	4,098	5,347	4,062	3,264	2,619	1,617	1,203	1,654	1,924	1,999
investing activities	-1,417	-2,620	-1,333	-1,676	-1,578	-665	36	-457	-548	115
financing activities	-2,431	-2,667	-2,599	-1,291	-935	-973	-1,353	-1,167	-1,320	-2,095
Investments	429	451	747	556	373	324	388	259	277	275
Average number of employees	12,078	11,773	11,821	10,804	9,923	9,524	9,400	9,194	9,292	9,693
Earnings per share, SEK ***	7.34	6.42	8.83	7.12	3.78	1.98	1.78	1.45	0.35	0.96
Free cash flow per share, SEK ***	6.38	6.46	6.38	3.60	2.33	2.13	2.78	2.68	4.03	56.37

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP. *** The figures for 2008 until 2002 have been recalculated due do the 4:1 split.

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Production: Alfa Laval AB / Bysted AB
Articles: The articles on pages 13 and 37 are based on material in Alfa Laval's customer magazine Here. Original texts written by Paul Redstone and Jack Jackson.
Photo: Kennet Ruona, Joakim Lloyd Raboff, Shutterstock, Getty Images
Prepress and printing: JMS Mediasystem

Definitions

Net sales
Revenues from goods sold and services performed that are part of the ordinary operations of the Group, after deduction for given discounts, value added tax and other tax directly linked to the sales.

Comparison distortion items
Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature, where a reporting together with other items in the consolidated comprehensive income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations for an outside viewer.

Orders received
Incoming orders during the year, calculated in the same way as net sales. The orders received give an indication of the current demand for the Group's products and services, that with a varying delay appear in net sales.

Order backlog at year-end
Incoming orders that not yet have been invoiced. The order backlog at the end of the year is equal to the sum of the order backlog at the beginning of the year plus the orders received during the year less the net sales for the year. It gives an indication of how the net sales can be expected to develop in the future.

EBITA
"Earnings Before Interest, Taxes and Amortisation" or operating income before amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of step-up values that from time to time burden the Group.

EBITDA
"Earnings Before Interest, Taxes, Depreciation and Amortisation" or operating income before depreciation and amortisation of step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of step-up values that from time to time burden the Group.

EBITA-margin %
Operating income before amortisation of step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %
Operating income before depreciation and amortisation of step-up values (EBITDA) in relation to net sales, expressed in percent.

Adjusted EBITA
Same as EBITA, but adjusted for comparison distortion items.

Adjusted EBITDA
Same as EBITDA, but adjusted for comparison distortion items.

Adjusted EBITA-margin %
Same as EBITA-margin, but adjusted for comparison distortion items.

Adjusted EBITDA-margin %
Same as EBITDA-margin, but adjusted for comparison distortion items.

Profit margin %
Result after financial items in relation to net sales, expressed in percent.

Capital turnover rate, times
Net sales in relation to average capital employed, expressed as a multiple of capital employed. Shown excluding and including goodwill, step-up values and the corresponding deferred tax liability.

Capital employed
Average total assets less liquid funds, other long-term securities, accrued interest income, operating liabilities and other non-interest bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability. Shows the capital that is used in the operations. The capital employed for the Group differs from the net capital for the segments concerning taxes, deferred taxes and pensions.

Return on capital employed %
EBITA in relation to average capital employed, expressed in percent. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability.

Return on equity %
Net income for the year in relation to average equity, expressed in percent.

Solidity %
Equity in relation to total assets, expressed in percent.

Net debt
Interest-bearing liabilities including interest-bearing pension liabilities and capitalised finance leases less liquid funds.

Net debt to EBITDA, times
Net debt in relation to EBITDA is one of the covenants of Alfa Laval's syndicated loan and an important key figure when reviewing the proposed dividend.

Debt ratio, times
Net debt in relation to equity, expressed as a multiple of the equity.

Interest coverage ratio, times
EBITDA plus financial net increased by interest costs in relation to interest costs. Expressed as a multiple of interest costs. Gives an expression for the Group's ability to pay interest. The reason EBITDA is used as the starting point is that this forms the starting point for a cash flow perspective on the ability to pay interest. Financial items classified as comparison distorting are excluded from the calculation.

Cash flow from operating activities
Shows the Group's cash flow from operating activities, that is the cash flow generated in the daily operational activities.

Cash flow from investing activities
Shows the Group's cash flow from investing activities, i.e. the cash flow generated by mainly the Group's divestments and acquisitions of businesses and divestments of real estate.

Cash flow from financing activities
Shows the Group's cash flow from financing activities, that is mainly the cash flow impact of the Group's loans in terms of interest payments and amortisation.

Investments
Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group.

Average number of employees
The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives an indication of the cost rationalisation that is taking place.

Earnings per share
Net income for the year attributable to the equity holders of the parent divided by the average number of shares.

Free cash flow per share
The sum of cash flows from operating and investing activities for the year divided by the average number of shares. This represents the cash flow available for interest payments, amortisation and dividends to investors.

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development.

The website – www.alfalaval.com/investors – is updated continuously with annual reports, quarterly reports, press releases and presentations. Annual reports are sent to those shareholders who have notified the company that they wish to receive a copy.

Press conferences and analyst meetings are arranged by Alfa Laval in conjunction with the publication of the company's quarterly reports and each year, a capital markets day is organized, at which representatives from the financial market are offered more in-depth information regarding the company's operations.

In addition, representatives of Group management meet with analysts, investors and journalists on an ongoing basis to ensure that these parties have correct and current information. Pursuant to the company's agreement with NASDAQ OMX Stockholm, information that could have an effect on the share price that is not yet publicly known is never disclosed in conjunction with these types of meetings or contacts.

Alfa Laval employs a so-called silent period of three weeks prior to publication of a quarterly report. The President and Chief Financial Officer do not meet or speak to representatives of the financial market during this period.

Financial information during 2011

Alfa Laval will publish quarterly reports during 2011 on the following dates:

First-quarter report	April 27
Second-quarter report	July 19
Third-quarter report	October 21

Shareholder information

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Annual General Meeting 2011

The Annual General Meeting of Alfa Laval AB (publ) will be held on Wednesday, April 27, 2011 at 4:00 p.m. at Färs & Frosta Sparbank Arena, Klostergården's sports area, Stattenavägen, in Lund. Light refreshments will be served after the Meeting.

In accordance with the company's Articles of Association, notice of the Annual General Meeting is inserted as an announcement in The Swedish Official Gazette and on the company's website not more than six and not less than four weeks prior to the Meeting. An announcement that notification has been issued is placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting is sent to them by conventional mail.

The information below concerning the Meeting does not constitute legal notice.

Notification of participation
Shareholders who wish to participate in the Meeting and be entitled to vote must be entered in the share register maintained by Euroclear Sweden AB not later than Tuesday, April 19, 2011, and register their intention to participate, along with any assistants, not later than Tuesday, April 19, 2011 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 19. Shareholders must request such registration a few working days prior to the deadline.

Notification of participation shall be made to:
– Alfa Laval AB, Group Staff Legal, Box 73, SE-221 00 Lund, Sweden
– E-mail: arsstamma.lund@alfalaval.com
– Fax: +46 (0)46-36 71 87
– Website: www.alfalaval.com
– Telephone: +46 (0)46-36 74 00 or +46 (0)46-36 65 00.

Shareholders must state their name, personal ID number and telephone number on the notice of participation. If participation is by proxy, a power of attorney or authorization must be submitted to the company prior to the Meeting.

Meeting program

1:30 p.m.	Bus departs from Färs & Frosta Sparbank Arena for Alfa Laval's production unit for heat exchangers in Lund
3:30 p.m.	Registration starts
4:00 p.m.	Start of Meeting

Tour of production facility in Lund
Prior to the Annual General Meeting, participants will have an opportunity to view the production of plate heat exchangers at the plant in Lund. The tour 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 must be made in conjunction with registration for participation in the Annual General Meeting. Please note that the number of participants is limited.

Dividend
The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 3.00 per share be paid. The proposed record date for this dividend is Monday, May 2, 2011. If the meeting approves the proposal, the dividend is expected to be distributed on Thursday, May 5, 2011. However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

Alfa Laval in brief

Alfa Laval is a leading global provider of specialized products and engineered solutions.

The company's equipment, systems and services are dedicated to helping customers 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 optimize their processes.

More information on the Internet

Alfa Laval's website is continuously updated with new information, including contact details for all countries. Visit the investor pages for a digital version of the 2010 Annual Report.

Read more at www.alfalaval.com and www.alfalaval.com/investors

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