



Annual Report 2011

Leadership on  
the seven seas



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### Message in a bottle:

More than half of the ships in the world are equipped with Alfa Laval products and solutions. For the benefit of the ship itself: cleaning, conditioning and handling of fuel and lube oil. For the benefit of passengers and crew: purification of sea water, and air-conditioning systems to create the perfect climate on board. For the benefit of the environment: effective tank cleaning, advanced waste management, and economies in the use of energy. But our involvement in the marine industry goes further than that. We have a worldwide network for marine service in all major ports and provide the necessary assistance for ship owners who want their fleet to be moving full steam ahead.

**Pure Performance:** Oil. Water. Chemicals. Starch. Beverages. Foodstuffs. Pharmaceuticals. You name it. Alfa Laval is helping most types of industries to purify and refine their products and to optimize the performance of their processes. Time and time again. Our equipment, systems and service are hand at work in more than 100 countries. Helping to create better, more comfortable living conditions for mankind. Both at sea and on land.

## Alfa Laval in brief

# Food Energy Environment

Alfa Laval has developed products since the 1880s, with the vision of creating better everyday conditions for people. Alfa Laval's products are particularly topical in today's world, where increasing focus is being placed on identifying ways to save energy and protect the environment. This involves treating water, reducing carbon emissions and minimizing water and energy consumption, as well as heating, cooling, separating and transporting food – areas that impact us all in various ways.

## Three key technologies to fulfill 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, boilers, separators, pumps and valves – 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 also reduce the consumption of energy and water and minimize carbon emissions.



1. Heat transfer



2. Separation



3. Fluid handling

## Optimizing processes in some 100 countries

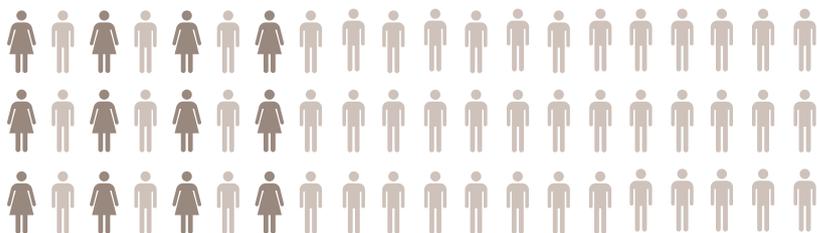
Alfa Laval's worldwide organization helps customers in some 100 countries to optimize their processes. The company has 37 major production units (19 in Europe, 12 in Asia, 4 in the US and 2 in Latin America).

## Market-adapted organization

For many years, Alfa Laval has had two sales divisions – Equipment and Process Technology – as well as a third division known as Operations, which is responsible for product-related purchasing, manufacturing and distribution. Following the acquisition of Aalborg Industries, an additional sales division known as Marine & Diesel was established in the autumn. This new structure will be reflected in the company's public financial reporting as of January 2012. The three divisions have separate business models, each of which will be further optimized by the new structure. The pace of business in the Equipment Division is fast since it involves the sale of components to customers with recurring requirements, mainly through various sales channels. Process Technology is characterized by longer lead times and focuses on selling solutions, systems and modules directly to the end customer. Business in the Marine & Diesel Division is driven by the need for products, systems, modules and service for the marine and offshore markets and for land-based diesel power.

## Aftermarket focus

All three sales divisions have well-structured organizations responsible for managing the need for spare parts and service for the installed base of products worldwide. The Parts & Service sector accounted for 26.1 percent of the Group's total order intake in 2011 and Alfa Laval had 99 service centers at year-end.



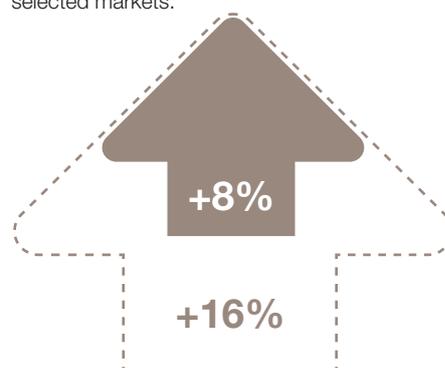
14,667 employees, the majority of whom are located in Sweden (2,138), Denmark (1,515), India (1,420), China (2,353), the US (1,329) and France (876).

## Research and development – always a crucial component

A link exists between new products and profitable growth. Accordingly, Alfa Laval works continuously on the research and development of new products and services. Maintaining a high rate of new development boosts competitiveness and enables the company to maintain its leading position. Alfa Laval launches between 35 and 40 new products every year. In 2011, 2.3 percent of the company's sales were invested in research and development initiatives.

## New growth target

Alfa Laval's growth target was revised at the beginning of the year. According to the new target, the company should achieve an average annual growth rate of at least 8 percent over a business cycle, with acquisitions accounting for 3–4 percentage points. The company's growth strategy focuses on organic growth through existing products and services, as well as acquisitions that contribute complementary products, geographic regions and sales channels, thereby further bolstering the company's leading position in selected markets.



## Outcome for 2011

Order intake increased 20 percent during the year to SEK 28,671 million and sales rose 16 percent to SEK 28,652 million. Aalborg Industries contributed SEK 1,765 million in order intake and SEK 2,143 million in sales.



## Acquisitions

Two acquisitions were completed and consolidated during the year. The first was a US company specializing in the maintenance of products for centrifugal separation. The second was Aalborg Industries, a Danish supplier of products, systems and service solutions, mainly to the marine and offshore markets, but also to power companies and other industrial end markets.

# FACTORS FOR FUTURE GROWTH

If an annual report were to be prepared on the state of the world, quite a few items could be entered on the plus side: average life expectancy is constantly increasing, reaching nearly 70 years, and global poverty is continuously decreasing.

However, everything is related and on the minus side are the negative effects on the environment. Emissions generated by industry, international trade and growing urbanization are thus being met by increasing numbers of regulatory systems and laws in the field of energy and the environment.

For Alfa Laval, all of these are factors for future growth. The company's products and expertise contribute to improving conditions for people in their everyday lives. This involves treating water, reducing carbon emissions, reducing water and energy consumption, and heating, cooling, separating and transporting food.

Alfa Laval's factors for future growth have thus been established in four defined areas: Energy, Food, Globalization (International Trade) and the Environment. You can read more about these areas in four theme sections in this Annual Report. They are areas crucial to human development in which we already make or can make an even more positive impact.

# 1

**GROWING DEMAND  
FOR ENERGY  
REQUIRES  
EFFICIENT  
SOLUTIONS**

# 2

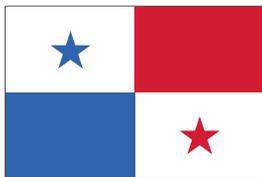
**HIGHER STANDARD  
OF LIVING BOOSTS  
DEMAND FOR  
PROCESSED FOOD**

# 3

**MORE  
INTERNATIONAL  
TRADE DRIVES  
DEMAND FOR  
TRANSPORTATION**

# 4

**INTENSIFIED  
FOCUS ON THE  
ENVIRONMENT  
GENERATES  
OPPORTUNITIES  
FOR ALFA LAVAL**



### January

Alfa Laval opens a sales and service office in Panama which, from a geographical perspective, is a natural hub for serving customers in Central America and the Caribbean.



### February

Alfa Laval receives an order worth SEK 50 million to provide a complete solution to a vegetable oil plant in India. The project is India's first complete, integrated edible oil complex for refining various types of crude oils – for example, from sunflowers and soya beans – into high-quality oils.



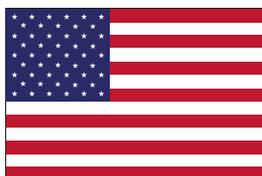
### March

Alfa Laval secures an order to supply heat exchangers to a refinery in Saudi Arabia. The order is worth approximately SEK 75 million and includes Alfa Laval Packinox heat exchangers to be used in a catalytic reforming unit for the production of gasoline.



### April

Alfa Laval signs a five-year multi-currency revolving credit facility totaling SEK 5.3 billion. The new facility includes two one-year extension options. It replaces and refinances an existing credit facility from 2005. It will also be used for general corporate financing purposes.



### May

Alfa Laval receives an order in the US to provide heat exchangers to the world's largest concentrated solar power plant. The Alfa Laval Packinox heat exchangers will be the heart of the thermal storage system, where heat from solar power is stored in molten salt, thereby enabling electricity production even on rainy days or at night. Alfa Laval has developed solutions for solar power pilot plants over several years and has a number of references from countries in the world's solar belt.



### June

Alfa Laval introduces a version of its Virtual showroom [www.alfalaval.com/showroom](http://www.alfalaval.com/showroom), especially developed for smartphones. The new solution enables easy access to information about Alfa Laval's recent innovations, wherever you are.



### July

Alfa Laval is named one of China's 50 best workplaces. The award refers to the year 2010, but is announced and handed out in 2011. The prize is awarded by one of China's top business media groups, publisher of both the China Business News and the monthly magazine Staffer. The award is based on several different parameters, including how well the company manages to educate and develop its employees, recognize their achievements and safeguard good relationships in the workplace.



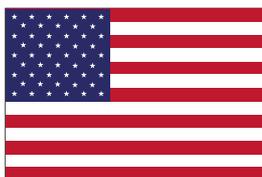
### August

Several large orders are secured during the month: a SEK 50 million energy-efficiency order in China, a SEK 60 million heat exchanger order to the first nuclear power plant in the United Arab Emirates and a SEK 110 million heat exchanger order in Singapore.



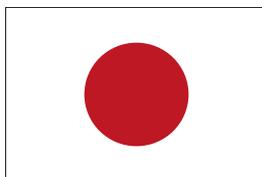
### September

Alfa Laval celebrates 100 years in Italy. In 1911, the first site was opened in Milan for the purpose of selling milk separators and De Laval industrial centrifuges. Today, Alfa Laval has about 800 employees in the country and offices in Monza, Alonte, Florence, Genoa, Parma and Suisio, and offers a wide range of technical solutions to numerous industries.



### October

Alfa Laval is featured on "World's Greatest!" and is named "World's Greatest Separation, Heat Transfer and Fluid Handling Company." "World's Greatest!" is a US television show that aims to entertain, educate and inform. It features companies, products, people and travel destinations that are considered particularly amazing and unique.



### November

Inauguration of Alfa Laval's fourth service center in Japan. The new factory in Onomichi will mainly provide maintenance and service support for heat exchangers. During the day, the 50 customers that participated were offered an opportunity to view an exhibition showing parts of Alfa Laval's product range for the marine industry. They could also join a guided tour of the factory and view repair works/reconditioning for plate heat exchangers on site. A welcome reception was held after the guided tour.

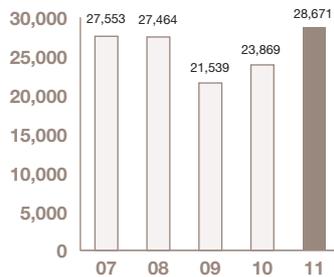


### December

Alfa Laval is named one of the world's 100 most innovative companies by Thomson Reuters. The Thomson Reuters 2011 Top Global Innovators program evaluates performance in three areas: companies that pursue innovation on a significant scale, companies that conduct development work that is acknowledged as innovative by their peers and patent offices around the world and companies whose inventions are globally protected due to their importance.

## 2011 in brief

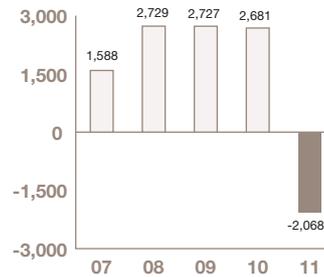
## Order intake



Order intake totalled SEK 28,671 million in 2011, compared with SEK 27,553 million in 2007. Order intake rose 28 percent\* in 2011 compared with 2010.

\* Excluding exchange-rate variations.

## Free cash flow



Alfa Laval generated free cash flow amounting to negative SEK 2,068 million (2,681) in 2011. The change compared with 2010 was mainly attributable to an increase in acquisitions of businesses during 2011.

## Operating margin



The adjusted EBITA margin, or operating margin, amounted to 18.5 percent in 2011, compared with 18.9 percent in 2010.

## Amounts in SEK million unless otherwise stated

	+/- % <sup>6)</sup>	2011	2010	2009	2008	2007
Order intake	20	28,671	23,869	21,539	27,464	27,553
Net sales	16	28,652	24,720	26,039	27,850	24,849
Adjusted EBITDA <sup>1)</sup>	12	5,736	5,107	4,976	6,464	5,245
Adjusted EBITA <sup>2)</sup>	13	5,287	4,682	4,585	6,160	4,980
Operating margin (adjusted EBITA <sup>2)</sup> , %		18.5	18.9	17.6	22.1	20.0
Profit after financial items	7	4,676	4,364	3,760	5,341	4,557
Return on capital employed, %		31.3	37.4	33.6	53.8	54.2
Return on shareholders' equity, %		22.9	24.4	24.5	42.8	44.1
Earnings per share, SEK	5	7.68	7.34	6.42	8.83	7.12
Dividend per share, SEK	8	3.25 <sup>3)</sup>	3.00	2.50	2.25	2.25
Equity per share, SEK	12	36.10	32.30	28.98	24.40	17.80
Free cash flow per share, SEK <sup>4)</sup>	-177	-4.93	6.38	6.46	6.38	3.60
Equity ratio, %		43.9	50	46.7	36.1	34.2
Debt/equity ratio, %		22	-4	4	20	30
Number of employees <sup>5)</sup>	27	16,064	12,618	11,390	12,119	11,395

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 2010 and 2011.

## 2011 – a year of change



The year 2011 started on a strong note with demand growing as the recovery of the global economy gathered further momentum. A record-high order intake of SEK 8.0 billion was reported in the third quarter, compared with a previous top figure of SEK 7.4 billion in 2008. Early in the year, we observed that our customers were increasingly initiating major projects, a trend that was particularly notable in fast-growing markets. This resulted in an upswing in large orders during the first three quarters, with large orders ultimately amounting to more than SEK 1.4 billion for the full year, our highest figure to date.

The increasing macroeconomic uncertainty that characterized both Europe and the US during the summer began to have an impact in the autumn, causing certain customers to adopt a cautious attitude toward new investments. This trend began to impact Sanitary and OEM – Alfa Laval's fastest-paced customer segments – during the third quarter and spread to other segments in the fourth. This resulted in adjustments to the rate of

production in certain operations, while other units were able to continue working at full capacity well into 2012.

All regions displayed favorable full-year growth, with Asia, Latin America and Central/Eastern Europe reporting the strongest trends. These regions jointly accounted for 50 percent of Alfa Laval's order intake. South Korea advanced to become the Group's fourth largest market, thanks to the world-leading position of the Korean shipbuilding industry and the success of Korean contracting companies in the energy and process industry segments.

Despite an initial decline, order intake amounted to SEK 28.7 billion, up 20 percent compared with 2010. All customer segments reported growth, except for one which was unchanged, and the order backlog increased to a near record-high level late in the year. The strongest trend was reported in the Food segment and was mainly attributable to customers with operations in vegetable oil production and the brewery industry. Strong

growth was also noted in the Process Industry segment, partly driven by the refinery sector. The healthy order intake from the shipbuilding industry in 2010 also resulted in a strong order intake for Marine & Diesel.

Revenues rose quickly and amounted to SEK 28.6 billion for the full year, up 16 percent. Operating income increased significantly in absolute terms and the operating margin was 18.5 percent, compared with 18.9 percent in 2010. The positive effect of a higher capacity utilization rate was offset by a shift in the product mix toward a larger share of new sales. Our results were also impacted by project orders taken at lower margins during the recession, as well as negative currency effects. Our investments in research and development and efforts to boost our presence in the BRIC countries still continued unabated, despite the declining economic climate.

### **Multi-brand strategy**

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

### **Stronger aftermarket position**

The aftermarket business is another key component of Alfa Laval's operations. This business generates favorable profitability and involves frequent customer contact, which also provides added support for new sales. It is also less sensitive to economic trends. From a customer perspective, having quick access to service and spare parts when necessary is crucial. In order to meet this need, the Group currently has a well-established network comprising some 100 service centers worldwide. This number has grown by 50 percent in the past five years through both organic expansion and acquisitions. The aftermarket will remain a high-priority area in the future.

### **Revised growth target**

Our multi-brand strategy and focus on the aftermarket business are key components to

achieving our financial targets. Equally important are our investments in research and development and achieving a strong geographic presence. In light of the long-term conditions and potential we see in our environment, we raised our growth target to an average annual growth rate of at least 8 percent over a business cycle, with acquisitions accounting for 3–4 percentage points. Alfa Laval seeks out companies that complement the Group's current business in terms of products and geography or by adding new sales channels. However, organic growth remains the base of Alfa Laval's strategy, supported by technology shifts that are beneficial for the company and global structural changes that contribute to increasing demand for Alfa Laval's products. Globalization, escalating energy needs, growing demand for processed foods due to improved living standards and more stringent environmental laws and regulations all comprise driving forces that are expected to boost long-term demand.

#### Major acquisitions carried out during the year

Acquisitions are a key feature of creating value at Alfa Laval and a fast and efficient method of building new positions in the market. The year 2011 was successful, with acquisitions adding a total of 12 percent to annual sales, corresponding to an annualized amount of SEK 3.4 billion.

The most significant acquisition was Aalborg Industries, which added an annualized SEK 3.2 billion in 2011. The acquisition strengthened Alfa Laval's position in the heat transfer market, as well as the marine, diesel, and oil and gas industries. We also see opportunities for Aalborg's products to be sold in new markets as well as introduced in new applications.

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

In the US, we acquired a major player in the aftermarket for high-speed separators.

#### New business division

As a result of investments in both organic growth and acquisitions, Alfa Laval has doubled in size in the past ten years. In order to create a

more focused and transparent company, a new structure was implemented and the number of sales divisions was increased from two to three. The new Marine & Diesel division, which accounts for about 25 percent of the Group's sales, was formed by combining Alfa Laval's existing business within marine and diesel, with the newly acquired Aalborg Industries. Approximately 35 percent of the new division's sales derive from the stable, profitable aftermarket, while 10 percent is attributable to land-based diesel power stations. Slightly more than 50 percent pertains to new sales to the shipbuilding industry comprising traditional products for shipboard installations, while an increasing share of sales is attributable to various new environmental products. Specialty vessels for offshore oil and gas extraction are also playing an increasingly significant role.

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

#### The share and shareholders

The share price declined 8 percent during the year, which, relatively speaking, was stronger than the trend for the NASDAQ OMX Nordic Exchange as a whole and the engineering index. Alfa Laval's market capitalization at year-end amounted to SEK 55 billion. Late in the year, Alfa Laval's largest shareholder increased its shareholding from 18.7 percent to 26.1 percent. Interest in the share continues to grow and some 25 analysts now track Alfa Laval on a regular basis, while the number of shareholders has increased to slightly more than 36,000.

#### Environmental issues and sustainability

Growing environmental awareness is something that generally benefits Alfa Laval, since we offer products with the capacity to both treat water and reduce emissions. In addition, the laws and regulations aimed at reducing human impact on the environment being introduced in an increasing number of areas are further boosting demand for our products. Our investments in research and development have given us a cutting-edge position and we strive to be involved in various pilot installations on a regular basis.

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

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



#### Research and development pays off

Our investments in research and development affect all areas, with products for environmental applications being one of many focus areas. New and efficient products, combined with a strong geographic presence, will serve as the foundation for continued profitable growth. We see ourselves as an innovation company and our efforts in this area were recognized during the year when Alfa Laval was named one of the world's 100 most innovative companies by Thomson Reuters.

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

Lund, March 2012

A handwritten signature in black ink, appearing to read "Lars Renström". The signature is fluid and cursive, with a horizontal line extending from the end.

Lars Renström  
President and Chief Executive Officer

# Continued stable stock-exchange trend for Alfa Laval

Alfa Laval experienced a stable stock-exchange trend in 2011, despite a turbulent global economy and declining industrial sector. The Alfa Laval share opened the year at SEK 141.7 and declined 8 percent to SEK 130.3. The share is listed on the NASDAQ OMX Exchange Stockholm, which fell 17 percent during the year, while the index for industrial companies on the OMX Nordic Exchange Stockholm (SX Industrials Index) declined 23 percent. The highest price listed for the share was SEK 147.7 at the beginning of the year and the lowest price was SEK 101.4 in October.

The company's market capitalization at year-end was SEK 54.7 billion (59.8). 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, the company's share, including reinvested dividends, has generated a yield of 588 percent. Measured over the 9.5-year period, the average annual yield amounts to 22.6 percent, compared with the SIX Return Index, which has generated an average annual yield of 7.5 percent.

## Share turnover

Alfa Laval's share is not traded exclusively on the NASDAQ OMX Exchange Stockholm, but also on Bats Europe, Burgundy, Chi-X and Turquoise, to name a few of the largest marketplaces. However, the NASDAQ OMX Exchange Stockholm is by far the largest, accounting for 45 percent of the Alfa Laval

shares traded.

The liquidity in the total trading of Alfa Laval's shares is favorable and 957 (808) million shares in the company were traded in 2011 at a combined value of SEK 127 billion (89). This corresponds to a turnover rate of 2.28 (1.92) times the company's total number of outstanding shares. During the year, an average of slightly more than 6,862 (4,200) share transactions were completed in Alfa Laval shares per day.

## 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 2011, the Board has proposed that the Annual General Meeting approve a dividend of SEK 3.25 (3.00). The proposed dividend corresponds to 38.6 percent (37.4) of net profit, adjusted for surplus value.

## Share capital

The par value at year-end totaled SEK 2.84 (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 27, 2011, the Board was granted a mandate to repurchase shares in the company, if the Board deems this to be necessary, up to the next Annual General Meeting. The mandate pertained to the repurchase of up to 5 percent of the outstanding shares for the purpose of

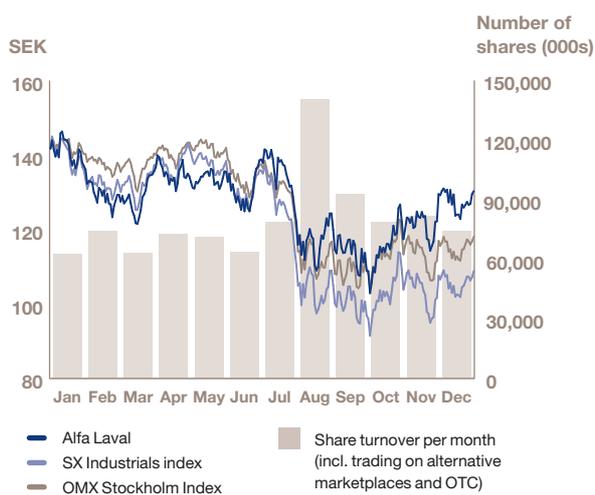
cancelling the repurchased shares and reducing the share capital. The repurchase would be made through purchases on the NASDAQ OMX Exchange Stockholm. Alfa Laval made no repurchases during the year after the Annual General Meeting 2011.

As of March 21, 2011, when the notice of the Annual General Meeting was issued, the number of repurchased shares held in treasury was 2,583,151. The Annual General Meeting 2011 resolved to cancel these repurchased shares. Cancellation entailed a reduction in the share capital of SEK 7 million. In parallel, the Annual General Meeting resolved to increase the share capital through a bonus issue in a corresponding amount, without the issuance of new shares. This restored the share capital and enabled the company to avoid the requirement of obtaining the approval of the Swedish Companies Registration Office or the court's permission for the cancellation of the repurchased shares. Accordingly, the total number of shares decreased during the year from 422,039,466 to 419,456,315.

## Shareholders

At year-end 2011, Alfa Laval had slightly more than 36,600 (33,600) shareholders. A total of 10,400 new shareholders were added during the year, while 7,400 sold their stakes. The ten largest shareholders at year-end 2011 held 53.6 percent (44.2) of the shares. The single largest shareholder was Tetra Laval B.V., which increased its holding during the year to 26.1 percent (18.7) percent. The new shareholders included Foundation Asset Management, which was the third largest shareholder at year-end with 6 percent of the share capital.

Price trend, January 1–December 30, 2011



Total return, May 17, 2002–December 30, 2011



## Ownership distribution by size at December 30, 2011

	No. of share-holders	No. of share-holders, %	No. of shares	Holding, %
1-500	23,395	64.0	4,134,696	0.99
501 - 1,000	5,502	15.0	4,628,775	1.10
1,001 - 5,000	5,620	15.3	13,280,645	3.17
5,001 - 10,000	864	2.4	6,442,307	1.54
10,001 - 15,000	283	0.8	3,567,801	0.85
15,001 - 20,000	177	0.5	3,186,505	0.76
20,001 -	726	2.0	384,215,586	91.60
<b>Total number of shareholders</b>	<b>36,567</b>			

Source: Euroclear

## Data per share

	2011	2010	2009	2008	2007
Market price at year-end, SEK	130.30	141.70	99.00	67.50	91.00
Highest paid, SEK	147.70	142.60	100.20	107.25	125.25
Lowest paid, SEK	101.40	94.95	55.00	46.40	72.75
Shareholders' equity, SEK	36.10	32.40	29.00	24.40	17.80
Earnings per share	7.68	7.34	6.42	8.83	7.12
Dividend, SEK	3.25 <sup>1)</sup>	3.00	2.50	2.25	2.25
Free cash flow, SEK <sup>2)</sup>	6.39	6.38	6.46	6.38	3.60
Price change during the year, %	-8	+43	+47	-23	+18
Dividend as % of EPS, %	42.3	40.9	38.9	25.5	31.6
Direct return, % <sup>3)</sup>	2.5	2.1	2.5	3.3	2.5
Market price/shareholders' equity, times	3.6	4.4	3.4	2.8	5.1
P/E ratio <sup>4)</sup>	17	19	15	8	13
No. of shareholders	36,567	33,565	33,780	28,078	16,090

Source: OMX Nordic Exchange Stockholm

<sup>1)</sup> Board proposal to the Annual General Meeting.<sup>2)</sup> Free cash flow is the sum of cash flow from operating and investing activities.<sup>3)</sup> Measured as proposed dividend in relation to closing price on last trading day.<sup>4)</sup> Closing price on last trading day in relation to earnings per share.

## Ownership categories at December 30, 2011

	No. of shares	Holding, %
Financial companies	109,663,845	26.1
Other financial companies	25,221,075	6.0
Social insurance funds	14,670,150	3.5
Government	1,203,894	0.3
Municipal sector	129,715	0.0
Trade organizations	5,632,583	1.3
Other Swedish legal entities	10,270,007	2.4
Shareholders domiciled abroad (legal entities and individuals)	219,355,843	52.3
Swedish individuals	25,828,395	6.2
Uncategorized legal entities	7,480,808	1.8

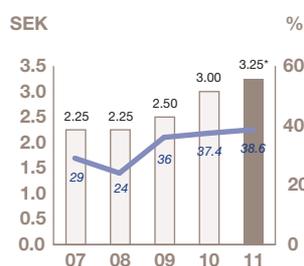
Source: Euroclear

## Ten largest owners at December 30, 2011

	No. of shares	Capital/Voting rights, %	Change in holding in 2011, percentage points
Tetra Laval BV	109,487,736	26.10	7.4
Alecta	30,190,000	7.20	-1.6
Foundation Asset Management AB	25,100,000	5.98	6.0
Swedbank Robur Funds	19,882,705	4.74	-0.5
AMF Insurance and Funds	12,556,000	2.99	-0.3
Lannebo Funds	6,775,736	1.62	-0.4
Folksam	6,101,156	1.45	-0.8
First AP Fund	5,286,709	1.26	0.3
Second AP Fund	4,662,614	1.11	0.2
SEB Investment Management	4,631,193	1.10	0.3
<b>Total ten largest shareholders</b>	<b>224,673,849</b>	<b>53.6</b>	

Source: Euroclear, exkl custodians

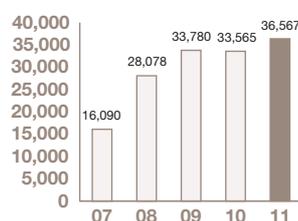
## Dividend and percentage of net profit\*\*



\* Board proposal to AGM.

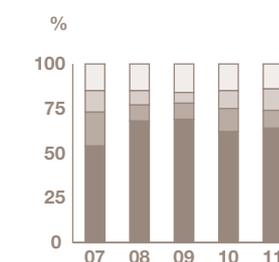
\*\*Adjusted for surplus values.

## Total number of shareholders



Source: Euroclear

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



Excluding Tetra Laval (Netherlands) 26.1%.

Source: Euroclear



THOMSON REUTERS

TOP100

GLOBAL INNOVATOR

## Alfa Laval named one of the world's 100 most innovative companies by Thomson Reuters

The Thomson Reuters 2011 Top Global Innovators Program evaluates performance in three areas: companies that pursue innovation on a significant scale, companies that conduct development work that is acknowledged as innovative by their peers and patent offices around the world and companies whose inventions are globally protected due to their importance.

The corporate culture at Alfa Laval has always been characterized by a significant focus on innovation. Every year, the company invests in research and development in order to strengthen and advance its already leading global position in heat transfer, separation and fluid handling, resulting in the launch of between 35 and 40 new products each year. In order to reap the rewards of these investments, the company also works actively to ensure that its products are patented.

Alfa Laval currently holds more than 400 patents, of which approximately 200 pertain to heat transfer, 170 to separation and slightly fewer than 80 to fluid handling. In China alone, Alfa Laval holds more than 120 registered patents and has submitted several registered patent applications.

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



## Driving force/vision

Alfa Laval's core business concept, and the driving force behind its daily operations, is to help create better everyday conditions for people. This is achieved through the company's products, which meet the basic needs for heating, cooling, separation and fluid handling that arise in most operations. Accordingly, Alfa Laval's products are used in applications in a wide range of industries worldwide, including the production of chemicals, starch, paper, metals, sugar and ethanol. They are also used onboard vessels and in the engineering sector, mining industry and refinery sector, as well as for treating wastewater and creating a comfortable indoor climate. Alfa Laval's products are both efficient and environmentally friendly and can thus reduce energy consumption, thereby minimizing carbon emissions, and treat water and other liquids, which helps to limit the negative environmental effects of customers' processes. Another key factor, particularly in the food and pharmaceutical industries, is Alfa Laval's range of safe and hygienic products and solutions.

## Business concept

Alfa Laval's objective is to optimize the performance of customers' processes, time and time again. In practice, this entails supplying them with products and solutions that can help boost their productivity and competitiveness, while reducing their energy consumption and environmental impact.

## 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 its application know-how. This is supported by the company's global production, sales and aftermarket organization, which directly and indirectly operates in a total of more than 100 countries. Another key factor is Alfa Laval's continuous investment in the further development of its products, markets and sales channels, as well as its aftermarket organization.

### Strategies for continued growth

Alfa Laval's strategy is to develop and expand the company's leading positions in defined market segments. This can be achieved through both organic growth and acquisitions in the following key areas:

- existing technologies, products and services
- the aftermarket business
- new market concepts, complementary key products and supplementary sales channels.



For more information on the growth strategy, see pages 16–17.

# Financial goals and benchmark values

Alfa Laval's operations are conducted according to its financial goals for growth, profitability and return. By achieving or exceeding these goals, Alfa Laval is able to create shareholder value in the form of an annual dividend and by increasing the value of the company. This also enables continuous investments in organic and acquired growth, in line with the company's strategy, as well as investments in research and development.

## 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, %														
<p><b>GOAL</b></p> <p><b>8%</b></p> <p>Minimum average of 8 percent annually over a business cycle.</p>	<table border="1"> <caption>Invoicing growth, % (2007-2011)</caption> <thead> <tr> <th>Year</th> <th>Growth (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>28</td> </tr> <tr> <td>08</td> <td>12</td> </tr> <tr> <td>09</td> <td>-12</td> </tr> <tr> <td>10</td> <td>-2</td> </tr> <tr> <td>11</td> <td>24</td> </tr> </tbody> </table>	Year	Growth (%)	07	28	08	12	09	-12	10	-2	11	24	<p><b>GOAL FULFILLMENT IN 2011</b></p> <p><b>23.7%</b></p> <p>Invoicing rose 23.7 percent*. Organic growth was up 12.7 percent, while acquisitions added 11.0 percent.</p> <p>* Excluding exchange-rate variations</p>
Year	Growth (%)													
07	28													
08	12													
09	-12													
10	-2													
11	24													

Operating margin*, %														
<p><b>GOAL</b></p> <p><b>15%</b></p> <p>15 percent over a business cycle.</p> <p>* Adjusted EBITA</p>	<table border="1"> <caption>Operating margin*, % (2007-2011)</caption> <thead> <tr> <th>Year</th> <th>Margin (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>20</td> </tr> <tr> <td>08</td> <td>22</td> </tr> <tr> <td>09</td> <td>18</td> </tr> <tr> <td>10</td> <td>19</td> </tr> <tr> <td>11</td> <td>19</td> </tr> </tbody> </table>	Year	Margin (%)	07	20	08	22	09	18	10	19	11	19	<p><b>GOAL FULFILLMENT IN 2011</b></p> <p><b>18.5%</b></p>
Year	Margin (%)													
07	20													
08	22													
09	18													
10	19													
11	19													

Return on capital employed														
<p><b>GOAL</b></p> <p><b>25%</b></p> <p>At least 25 percent. This level was set taking into account the relatively low level of capital tied up in operating activities.</p>	<table border="1"> <caption>Return on capital employed (2007-2011)</caption> <thead> <tr> <th>Year</th> <th>Return (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>55</td> </tr> <tr> <td>08</td> <td>55</td> </tr> <tr> <td>09</td> <td>35</td> </tr> <tr> <td>10</td> <td>38</td> </tr> <tr> <td>11</td> <td>32</td> </tr> </tbody> </table>	Year	Return (%)	07	55	08	55	09	35	10	38	11	32	<p><b>GOAL FULFILLMENT IN 2011</b></p> <p><b>31.3%</b></p>
Year	Return (%)													
07	55													
08	55													
09	35													
10	38													
11	32													

### Financial benchmark values

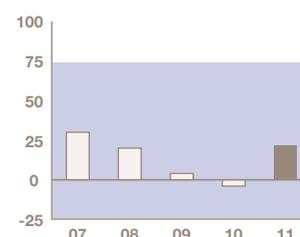
To supplement the Group's financial goals, the Board of Directors has established benchmark values for three key financial ratios, which further specify the framework and goals for the operation of the company.

#### Debt/equity ratio, %

##### BENCHMARK VALUE

# <75%

In the long term, the debt/equity ratio, meaning the capital the company borrows in relation to the carrying amount of shareholders' equity, shall 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 2011, the debt/equity ratio was 22 percent.



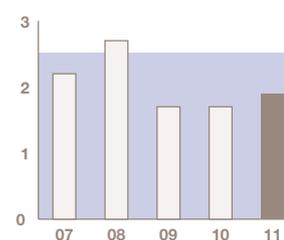
#### Investments, %

##### BENCHMARK VALUE

# 2.5%

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 2011 amounted to 1.9 percent of sales.



#### Cash flow from current operations\*, %

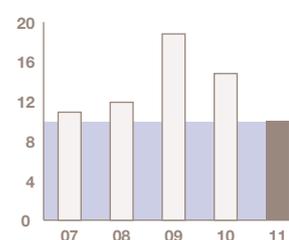
##### BENCHMARK VALUE

# 10%

of sales

\*Including investments in fixed assets.

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 2011, cash flow from current operations amounted to 10 percent.



### Non-financial goals

In addition to the financial goals, Alfa Laval has a number of non-financial goals, which are addressed in other sections of the Annual Report. For example, refer to the section on sustainability on pages 48–50 or the information about employees on pages 44–45.

# Revised target reflects Alfa Laval's focus on organic growth

In 2011, Alfa Laval's growth target was raised to an average annual growth rate of at least 8 percent over a business cycle, compared with the previous target of 5 percent. The target was revised because Alfa Laval had successfully achieved a growth rate of 8 percent for several years by following its existing growth strategies. The new target includes both organic growth and acquisitions, with the latter accounting for approximately 3-4 percentage points. Naturally, growth must also be profitable, since Alfa Laval's goal is to achieve an operating margin of at least 15 percent over a business cycle.

## Focus areas for growth

To achieve its growth target and further strengthen its market position, Alfa Laval plans to pursue growth in the following key areas, either 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 key technologies provide a strong platform for continued profitable growth, since they are of a high quality and are energy efficient. These qualities are becoming increasingly important factors in customers' investment decisions, given that energy prices are high and growing focus is being placed on environmental concerns. In fact, the high efficiency of the company's products is often a key factor when a customer chooses between Alfa Laval's plate heat exchangers and shell-and-tube heat exchangers, the competing traditional

technology. Compared with this technology, Alfa Laval's plate heat exchangers generate significant savings and thus offer a payback period of well under one year. Other key factors include the company's strong market position, broad geographic coverage and organization, which is divided into market-specific segments. This facilitates and enhances the effectiveness of the company's dialog with its customers and increases its ability to understand and fulfill their needs. This customer dialog also provides a solid foundation for the research and development organization, resulting in continuous improvements and updates to the existing offering. Accordingly, consistent investments in research and development boost the company's potential for continued profitable growth.

## Aftermarket business

A fundamental component of Alfa Laval's operations is offering service and spare parts for the continuously expanding base of equipment and systems installed globally. This offering, known as the aftermarket business, not only provides customer value, but also ties in the customers more closely. It generates a healthy profitability, supports new sales and involves frequent customer contact, thereby providing opportunities to identify new requirements and indications of future needs, which can be forwarded to the individual units for research and development. Furthermore, it is less sensitive to the business cycle and thus has a stabilizing effect on invoicing in periods of economic downturn. Alfa Laval prioritizes the continued expansion of the range of products and services offered in the aftermarket business, both organically and through acquisitions. Alfa Laval has not established a target for the share of the company's order intake attributable to the aftermarket since the most important factor is that this business displays consistent growth in absolute terms.

## New market concepts, complementary key products and sales channels

Alfa Laval constantly seeks out new ways to help customers optimize their processes, time and time again. The first step is to consider all requirements, as well as problems, from the customer's perspective. Solutions can then be achieved in various ways, including further development of the existing offering of products and services and identification of new complementary products and solutions. The latter may subsequently result in internal development, as well as acquisitions of companies and technologies. In parallel with this focused product development, Alfa Laval must also invest in the development of sales channels in order to bolster and strengthen its position in various geographic markets.

## Strategy for acquisitions, alliances and divestments

Alfa Laval's acquisition strategy is linked to the three key areas listed above. Accordingly, Alfa Laval aims to conduct 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.

Alfa Laval aims to add between 3 and 4 percent of its annual sales growth through acquisitions. This work is led by a special unit known as Corporate Development. This unit is also responsible for supporting the growth objectives of the various segments and developing new market concepts. Corporate Development also includes the Group's patent division. During the period from 2007 to 2011, Alfa Laval acquired 23 companies with combined sales of SEK 7,235 million, corresponding to average annual growth of SEK 1,447 million.

## 2007

ACQUISITION	REASON*	SALES, SEK MILLION**
 Fincoil, Finland	Product	375
 Helpman, Netherlands	Product	200
 DSO, USA	Geography	50
 AGC Engineering, USA	Geography	70
 Additional 13 percent of the share capital in Alfa Laval India. (Total holding 77 percent)	Geography	Did not affect sales

DIVESTMENTS	REASON*	SALES, SEK MILLION**
-	-	-

## 2008

ACQUISITION	REASON*	SALES, SEK MILLION**
 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	REASON*	SALES, SEK MILLION**
-	-	-

\* 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 sales for the year preceding the acquisition or divestment.

## 2011

**Acquisitions during 2011***Service company, USA*

A leading service supplier for separators in the North American market. The company is expected to contribute sales of approximately SEK 100 million and was consolidated as of May 1. The company will be operated as a separate organization and offer its own products and services under proprietary brands.

*Aalborg Industries*

A leading Danish supplier of products, systems and service solutions for the marine and offshore markets, as well as power companies and other industrial end markets. The acquisition was announced in December 2010 and completed in May 2011, when Alfa Laval obtained the approval of the competition authorities. Aalborg was consolidated as of May 1. In 2010, the company reported sales of slightly more than SEK 3 billion and had 2,500 employees. The acquisition complemented Alfa Laval's offering to the marine market. In addition, Alfa Laval expects to be able to introduce Aalborg's products to new geographic markets.



ACQUISITION	REASON*	SALES, SEK MILLION**
P&S Multibrand	Channel	100
Aalborg Industries A/S, Denmark	Product	3,300
DIVESTMENTS	REASON*	SALES, SEK MILLION**
-	-	-

## 2009

ACQUISITION	REASON*	SALES, SEK MILLION**
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
Additional 12 percent of the share capital in Alfa Laval India. (Total holding 89 percent)	Geography	Did not affect sales
DIVESTMENTS	REASON*	SALES, SEK MILLION**
-	-	-

## 2010

ACQUISITION	REASON*	SALES, SEK MILLION**
Champ Products Inc., USA	Product	100
Servicebolag, USA	Channel	100
Astepo S.r.l., Italy	Product	70
Si Fang, China (65 percent)	Channel	150
Definox, France	Channel	200
Olmi S.p.A, Italy	Product	700
DIVESTMENTS	REASON*	SALES, SEK MILLION**
-	-	-

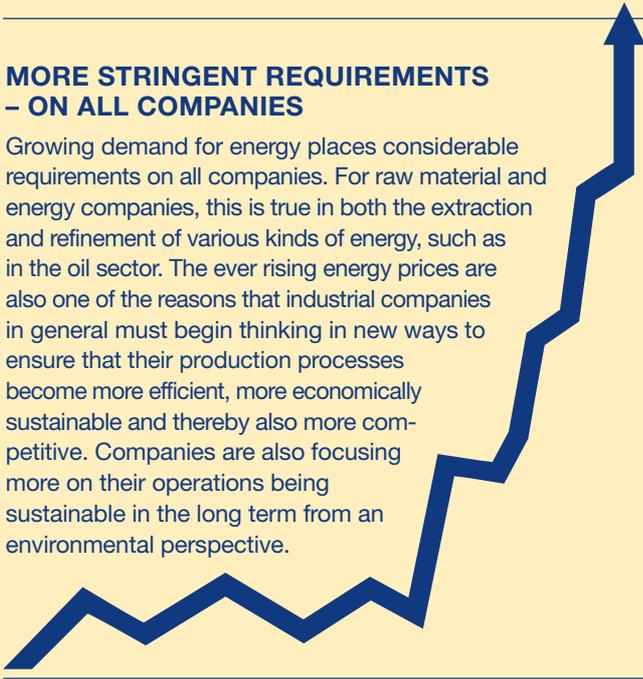
# 1

## **GROWING DEMAND FOR ENERGY REQUIRES EFFICIENT SOLUTIONS**

More and more energy is being consumed by society for heating and transportation, as well as the production of electricity for both private and commercial use. In a global comparison, demand for energy is growing faster in developing nations than in industrialized countries. This is an expected, natural development that follows a higher standard of living and greater prosperity. The need for more energy can be addressed in two ways: increased production in real terms and higher efficiency in each stage, from production to distribution and end use.

## MORE STRINGENT REQUIREMENTS – ON ALL COMPANIES

Growing demand for energy places considerable requirements on all companies. For raw material and energy companies, this is true in both the extraction and refinement of various kinds of energy, such as in the oil sector. The ever rising energy prices are also one of the reasons that industrial companies in general must begin thinking in new ways to ensure that their production processes become more efficient, more economically sustainable and thereby also more competitive. Companies are also focusing more on their operations being sustainable in the long term from an environmental perspective.



## GLOBAL ENERGY NEEDS

According to estimates by the International Energy Agency (IEA), the world's collective energy needs are expected to rise by slightly more than 30 percent between 2010 and 2030. Of this demand, 90 percent is estimated to come from countries outside the OECD, with China accounting for 30 percent. At the same time, USD 38 trillion in global investments in energy infrastructure are estimated to be necessary between 2011 and 2035. The oil and gas sector accounts for USD 20 trillion of this.

# +30%

## ALFA LAVAL HAS THE TECHNOLOGY

Alfa Laval has energy-efficient products and solutions in a number of areas. The clearest example is plate heat exchangers, which provide significant energy savings compared with competing solutions. Continuous efforts are also under way to make separators, decanters, pumps and valves more energy efficient. Alfa Laval's products have a broad area of application. In the oil sector, for instance, they are used for everything from actual extraction in the oil fields to refinement of the oil into various types of fuel in refineries. Refinement is an example of a highly energy-intensive operation, which also means that large cost savings can be generated if energy consumption is optimized.

- A** Energy-efficient solutions for heat transfer and for recovering waste heat can be used in most
- B** industrial processes. Transferring heat or cooling
- C** from one liquid to another is of major signifi-
- D** cance to the total manufacturing processes,
- E** providing major energy gains as a result.
- F** Lower energy consumption also leads to
- G** positive environmental gains.

# -25%

## ADVANTAGE ALFA LAVAL, ENERGY SAVINGS:

The development of compact plate heat exchangers has led to a technology shift away from traditional shell-and-tube heat exchangers. For example, in a refinery, energy may account for 50 percent of the total cost of operations. Replacing traditional heat exchangers with plate heat exchangers can provide energy savings of at least 25 percent.

## ENERGY-EFFICIENT PRODUCTS PROVIDE:



Energy savings



Lower emissions



A shorter payback period on equipment

## ALFA LAVAL'S STARTING POINT IS STRONG

A large part of Alfa Laval's business is related to energy, whether it is a matter of the extraction or refinement of oil and gas or power production. Our heat exchangers and separators are currently used in all of these areas, where they effectively contribute to global energy production. Our heat exchangers can also be used in a large number of other processes where they contribute to lowering both energy consumption and emissions for the individual customer.

To satisfy growing demand for energy, new capacity is being built in the world's fast-growing economies. Other industries that require energy-efficient solutions are also emerging in these same regions. Today, Alfa Laval has a global presence and is well equipped to meet the customers' needs and optimize their processes, time and time again.





## Three technologies with world-leading positions

Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling – all of which are of decisive importance for many industrial processes. In 2011, heat transfer products accounted for 54 percent (53) of sales, separation products for 22 percent (24) and fluid handling products for 10 percent (11). 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 industry, food industry, oil and gas production, power industry, marine industry and construction industry.

MARKET SEGMENTS	COMPETITORS	MARKET POSITION	SALES
<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> INDUSTRIAL EQUIPMENT</li> <li><input checked="" type="checkbox"/> MARINE &amp; DIESEL</li> <li><input checked="" type="checkbox"/> OEM</li> <li><input checked="" type="checkbox"/> SANITARY</li> <li><input checked="" type="checkbox"/> FOOD</li> <li><input checked="" type="checkbox"/> ENERGY &amp; ENVIRONMENT</li> <li><input checked="" type="checkbox"/> PROCESS INDUSTRY</li> </ul>	<ul style="list-style-type: none"> <li> GEA (GERMANY)</li> <li> HISAKA (JAPAN)</li> <li> SPX/APV (USA)</li> <li> SWEP (USA)</li> <li> KANGRIM (KOREA)</li> <li> SAACKE (GERMANY)</li> <li> MUIRA (JAPAN)</li> <li> HEATMASTER (NETHERLANDS)</li> <li> OSAKA (JAPAN)</li> </ul>	<div style="text-align: center;">  <p>MORE THAN 30 PERCENT OF THE WORLD MARKET</p> </div>	<div style="text-align: center;">  <p>54%</p> <p>SHARE OF GROUP SALES</p> </div>

## Plate heat exchangers enable 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 various gases. These products are of vital 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 a very efficient energy utilization, which cuts costs and reduces the environmental impact. 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 have been designed to withstand various forms of pressure and a range of temperatures.

## Shell-and-tube heat exchangers

Alfa Laval has a niche range of shell-and-tube heat exchangers, specially designed for applications in the food and pharmaceutical industries, as well as for cooling. Through the acquisition of Olmi, the company also gained shell-and-tube heat exchangers for the petrochemical, power, oil and gas, and process industries. These heat exchangers are made up of a shell containing a bundle of tubes. The primary liquid (cooling medium) flows through the tubes, while the secondary liquid (normally water) flows through the shell around the tubes to enable heat to be transferred from one liquid to the other. Thanks to their robust configuration, shell-and-tube heat exchangers can withstand extremely high pressure and temperatures.

Following the acquisition of Aalborg Industries,

Alfa Laval also has a range of shell-and-tube heat exchangers for the marine industry. These heat exchangers are used onboard vessels, for example, to heat water, cargo and oil for the engines, but can also be used in such applications as the cooling of steam or oil. The medium is usually steam, synthetic oil or hot water. Other heat exchangers use electricity during the heat transfer process. In such cases, the tubes, which are sealed at one end, contain ceramic heating elements that are heated using electricity.

## Air heat exchangers

Air heat exchangers offer the most efficient method of transferring heat between air and liquid. These heat exchangers generally consist of a series of tubes threaded through corrugated lamellas. Fans force the air between the lamellas, while liquid (water or a cooling medium) flows in the tubes. Alfa Laval's range of air heat exchangers includes air-cooled condensers, air-cooled liquid coolers, dry coolers, and unit coolers for commercial use, as well as industrial cooling, freezing and air-conditioning. They are used in applications ranging from industrial cold stores to power plants, industrial processes, breweries, dairies and office properties.



## Boilers

A boiler is a closed vessel containing thin tubes. The larger the boiler, the more tubes it contains. Alfa Laval's product range includes two different

types of boilers, in which the tubes are heated in different ways: one uses waste heat from the engine exhaust, while the other, which mainly operates when the engine is turned off, derives heat from an oil burner. The heat from the tubes is used, in turn, to heat and vaporize the water in the container, generating steam that can then be used for a number of processes, including heating, cooling, cleaning, generating electricity or producing hot water for people onboard a vessel. This technology is commonly used onboard vessels, but can also be used for industrial applications.



## Thermal fluid systems

A thermal fluid system is a fully closed system that permits the heating medium – a synthetic oil – to circulate in a coiled heating surface. The surface then gathers the heat that is produced, either from waste steam or through a combustion process, and this heat is transferred to the synthetic oil, enabling it to constantly remain in liquid form. Thermal fluid systems are generally used to generate heat for oil tanks, separators and systems for heating fuel. Other typical applications include delivering heat to steam generators, tank cleaning systems and central heating onboard vessels. These systems are also used to heat various types of cargo being transported, such as bitumen, oil-based products and chemicals.

**Design, pressure and temperatures**

The heat exchangers in Alfa Laval's heat transfer offering have been developed over time to withstand increasingly high pressure and temperatures. The range currently encompasses everything from gasketed plate heat exchangers for less demanding processes to fully welded plate heat exchangers and shell-and-tube heat exchangers able to withstand high pressure and temperatures in aggressive environments. These advancements have been achieved gradually through research and development, as well as acquisitions.



**All welded heat exchangers  
AlfaRex**

An effective replacement for shell-and-tube heat exchangers in processes involving aggressive media at high pressure or temperatures. Its fully welded design makes it durable and reliable, with limited maintenance requirements.



**All welded plate heat exchangers**

The fully welded design of this plate heat exchanger allows it to withstand both aggressive media and high temperatures and pressure, which means that it is well suited to handle demanding applications, for example, in the chemical and process industries.

**Compabloc**

Thanks to its high efficiency, this fully welded heat exchanger is so compact that it can be installed essentially anywhere. The pattern on the plates helps generate turbulence, which further enhances the heat transfer efficiency, while reducing the amount of contaminants. Compabloc is ideal for heat recovery in corrosive environments and for handling all types of aggressive liquids at high temperatures.



**Semi-welded plate heat exchangers**

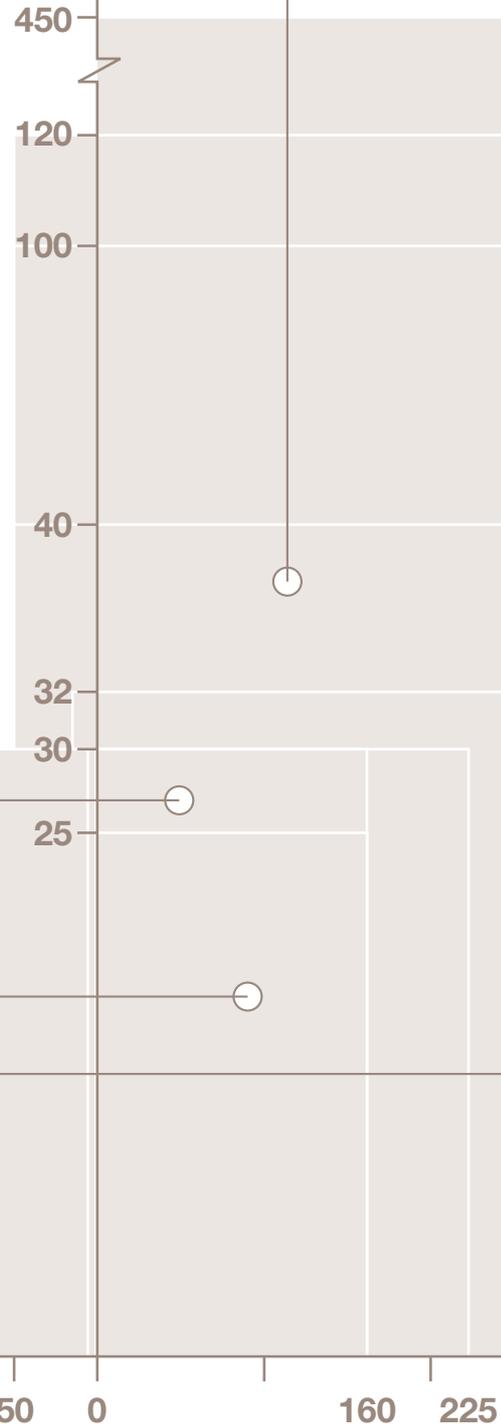
Semi-welded heat exchangers consist of a number of corrugated twin plates, where welded channels alternate with normal gasketed channels. The welded side of these plate heat exchangers can handle most types of cooling media and they are particularly well suited to ammonia applications. Semi-welded heat exchangers are used in such applications as the production of dairy products, beer and wine, cooling of hockey rinks, in the chemical industry and many other areas.



**Gasketed plate heat exchangers**

Gasketed plate heat exchangers are suitable for processes in which low pressure, relatively low temperatures and non-aggressive liquids are common factors. These types of processes are customary in a number of industries and end markets, and include everything from heating high-rise buildings to food and power production. The rubber gaskets, which are used to seal the environment and prevent the two liquids from coming into contact with one another, simplifies the process of servicing and cleaning the heat exchanger itself, since it is easy to open.

**Pressure (barg)**



**Brazed plate heat exchangers**

Brazed heat exchangers consist exclusively of materials that actively contribute to the heat transfer process, thereby further boosting their efficiency. This exceptional efficiency allows for a highly compact product capable of handling large capacities in confined spaces. They are widely used in air-conditioning systems, air compressors, dehumidifiers and gas boilers. Since the heat exchanger is brazed and does not contain rubber gaskets, it is optimally suited to applications involving high pressure or temperatures, such as district heating systems.



**All welded heat exchangers**  
*Packinox*

The world's largest plate heat exchanger, most commonly used for heat recovery in such areas as refinery processes and petrochemical plants. It may be large for a plate heat exchanger, but it is significantly smaller than the competing technology, which generates considerable savings in terms of infrastructure and installation costs. Its high efficiency also enables it to handle very large volumes. A single Packinox is so large that its plates, which can be up to 15 meters long, cannot be stamped using traditional methods. Instead, they are formed through explosions prior to assembly. The heat exchanger's special design provides exceptional durability against heat and pressure since it combines the high efficiency of a plate heat exchanger with the traditional advantages of a shell-and-tube heat exchanger.



**Shell-and-tube heat exchangers**  
*Olmi*

A heat exchanger for niche applications in the petrochemical, power, and oil and gas industries.



**All welded plate heat exchangers**  
*AlfaDisc*

A fully welded circular plate heat exchanger, based on the plate-and-shell concept, making it suitable for uses involving high pressure and temperatures. The AlfaDisc delivers high efficiency in a compact format for environments that would normally require bulky, traditional shell-and-tube heat exchangers, including the refinery and process industries. It works well with aggressive media, such as organic solutions, which are beyond the capabilities of normal gasketed plate heat exchangers, and is used in a number of applications, including heating, cooling, condensation and evaporation.



**Shell-and-tube heat exchangers**  
*Aalborg*

Shell-and-tube heat exchangers for the marine industry. These heat exchangers are used onboard vessels, for example, to heat water, cargo and oil for the engines, but can also be used in such applications as the cooling of steam or oil. The medium is usually steam, synthetic oil or hot water.

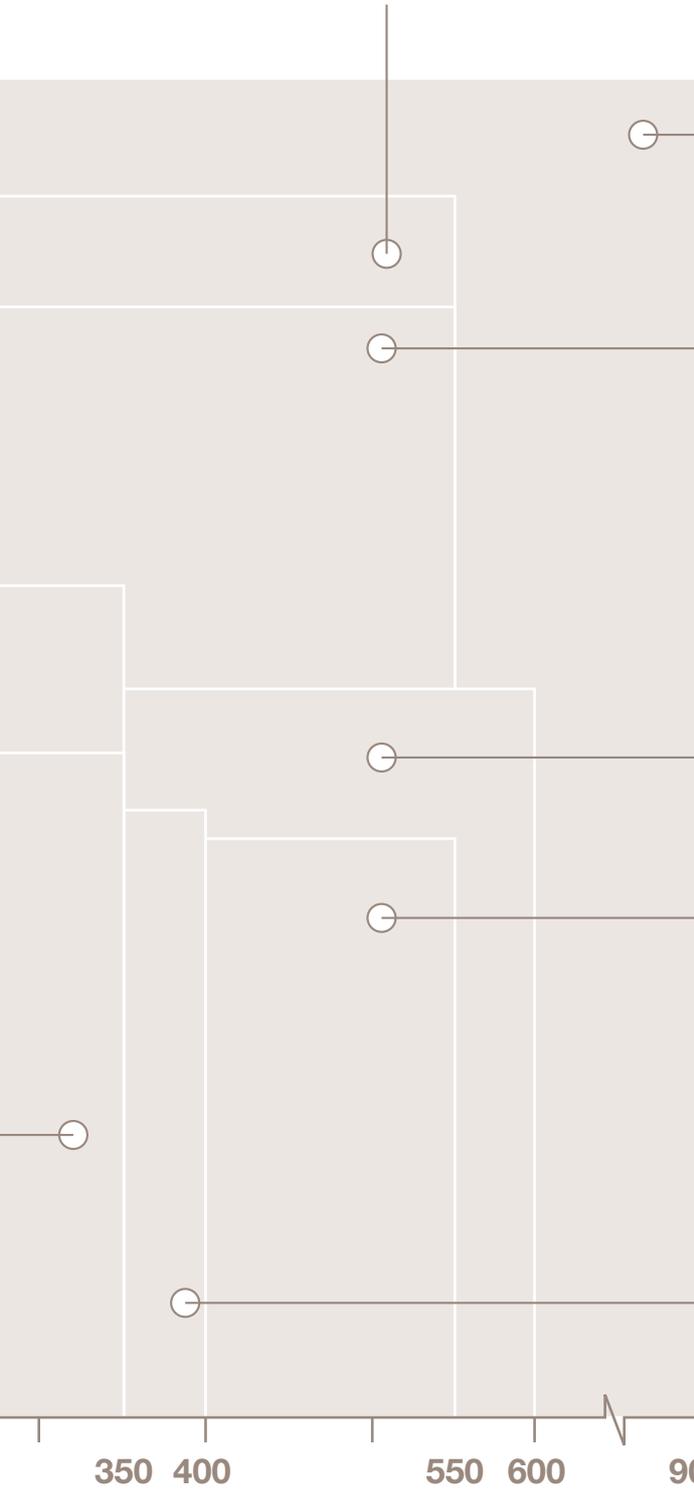
**Fusion-bonded plate heat exchangers**  
*AlfaNova*

This fusion-bonded plate heat exchanger is the first heat exchanger to be made completely of stainless steel, an achievement made possible by a patented technology developed by Alfa Laval. This technology provides a high level of hygiene and corrosion resistance, making AlfaNova practical for use in environments that could potentially destroy a conventional brazed heat exchanger. It is extremely compact in relation to its ability to withstand major strains and is particularly suitable for applications that impose rigorous demands on hygiene, applications that use ammonia and applications where copper or nickel compounds are unacceptable.



**All welded heat exchangers**  
*Spiral heat exchanger*

This type of heat exchanger is exceptionally compact and boasts a self-cleaning design thanks to its unique shape. A spiral heat exchanger is a circular heat exchanger with two concentric spiral channels, one designed for each fluid. The curved channels provide optimal heat transfer and flow conditions for a wide variety of fluids. The spiral heat exchanger is particularly well suited to demanding environments with liquids that may contain solid particles, since its design generates turbulence, which prevents the build-up of impurities, thereby helping reduce the customer's maintenance cost. Accordingly, it is highly suitable for use in such areas as the petrochemical industry, refineries and distilleries.



350 400 550 600 900 Temp (°C)

# Separation



Ever since Alfa Laval was established in 1883, separation technology has been a core operation. This 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.

MARKET SEGMENTS	COMPETITORS	MARKET POSITION	SALES
<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> INDUSTRIAL EQUIPMENT</li> <li><input checked="" type="checkbox"/> MARINE &amp; DIESEL</li> <li><input checked="" type="checkbox"/> OEM</li> <li><input checked="" type="checkbox"/> SANITARY</li> <li><input checked="" type="checkbox"/> FOOD</li> <li><input checked="" type="checkbox"/> ENERGY &amp; ENVIRONMENT</li> <li><input checked="" type="checkbox"/> PROCESS INDUSTRY</li> </ul>	<p>SEPARATORS</p> <ul style="list-style-type: none"> <li> GEA (GERMANY)</li> <li> MITSUBISHI KAKOKI KAISHA (JAPAN)</li> <li> PIERALISI (ITALY)</li> </ul> <p>DECANTERS</p> <ul style="list-style-type: none"> <li> GEA (GERMANY)</li> <li>  GUINARD/ANDRITZ (FRANCE, AUSTRIA)</li> <li> FLOTTWEG (GERMANY)</li> <li> PIERALISI (ITALY)</li> </ul>	 <p>25 TO 30 PERCENT OF THE WORLD MARKET</p>	 <p>22%</p> <p>SHARE OF GROUP SALES</p>



### High-speed separators

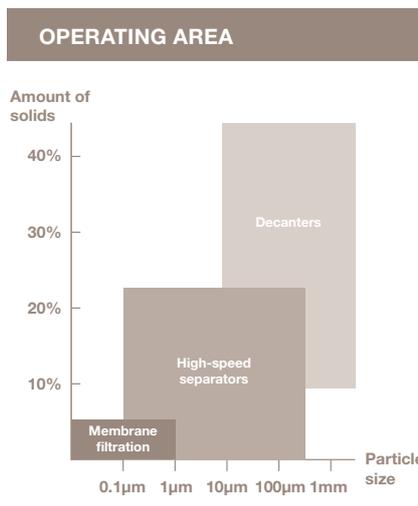
Alfa Laval's products in this technology are dominated by high-speed separators. As indicated by their name, high-speed separators have high rotation speeds and can rotate as quickly as 12,000 revolutions per minute. They are generally mounted vertically and are used primarily for separating liquids from one other. High-speed separators have many areas of application, including the treatment of fuel and lubricating oils onboard vessels, the processing of vegetable oil, the production of pharmaceuticals, milk, beer, wine, juice and other beverages, and in the oil and gas industry and chemical industry.

### Decanters

Decanter centrifuges are normally based on horizontal separation technology, which works at an average speed of 5,000 revolutions per minute. They are used to separate large particles and are thus commonly used in such applications as the dewatering of sludge in wastewater treatment plants, olive oil production, distilleries and handling drilling mud in conjunction with oil extraction.

### Membrane filtration

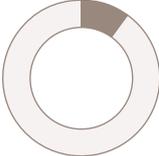
Another separation technique is membrane filtration, which is an established solution for separating very small particles. Membrane filtration cannot be used to separate two liquids from one another.



# 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, such as the food and pharmaceutical industries.

MARKET SEGMENTS	COMPETITORS	MARKET POSITION	SALES
<input type="checkbox"/> INDUSTRIAL EQUIPMENT <input checked="" type="checkbox"/> MARINE & DIESEL <input type="checkbox"/> OEM <input checked="" type="checkbox"/> SANITARY <input checked="" type="checkbox"/> FOOD <input type="checkbox"/> ENERGY & ENVIRONMENT <input checked="" type="checkbox"/> PROCESS INDUSTRY	 GEA (GERMANY)  SPX/APV/ WAUKESHA CHERRY BURRELL (USA)  FRISTAM (GERMANY)	 1 10 TO 20 PERCENT OF THE WORLD MARKET	 10% SHARE OF GROUP SALES



## Providing exact flows

The company's pumps, valves and installation material are used in such applications as the production of beverages, dairy products, food, pharmaceutical products, and health and personal care products. Alfa Laval also offers equipment for tank cleaning. Flow equipment is used to attain exact flows of all types of liquids in various applications. Customers often integrate many of Alfa Laval's products for fluid handling into their systems and thus require continuous product deliveries.

## Pumps and valves

While pumps are used to drive the flow of liquids during various processes, valves are used to guide and direct the flow by opening and closing. For sanitary environments, Alfa Laval mainly offers centrifugal, liquid ring and rotary lobe pumps. The most common types of valves include control valves, constant-pressure valves, butterfly valves and diaphragm valves.

## Tank equipment

Alfa Laval offers hygienic tank equipment primarily designed for use in the food and pharmaceutical industries. The company's range includes everything from mixers to cleaning equipment. Alfa Laval's mixers work well on both high and low-viscosity liquids, ranging from milk, wine and juice to yoghurt, desserts and fruit drinks. One such product is the company's patented Iso-Mix mixer, which provides dual functionality since it offers both safe mixing of various liquids and powders, as well as gas dispersion, and can later be used to clean the tank itself. Iso-Mix is designed for use in breweries and dairies, as well as the production of beverages, personal care products and biopharmaceuticals. Its rotating nozzle and jets save time, water, detergent and energy, and its dual functionality also reduces the customer's investment cost.

# 2

## **HIGHER STANDARD OF LIVING BOOSTS DEMAND FOR PROCESSED FOOD**

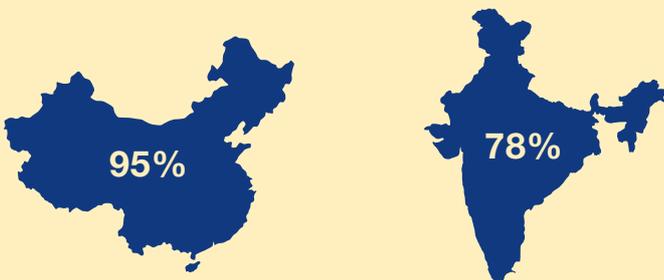
Today, the average global life expectancy is nearly 70 years. At the same time as people are living longer and becoming healthier, the standard of living is improving for growing numbers of people in the world. On October 31, 2011, the world population reached seven billion. According to the UN, the world population will grow to about nine billion by 2050.

## GROWING NUMBERS OF PEOPLE IN THE WORLD WANT TO EAT MORE PROCESSED FOODS



A higher standard of living means that demand for processed food is growing. This is an important growth factor for Alfa Laval. The company's products in the form of pumps, valves, separators and heat exchangers are well established and the company has a rich history of developing products and processes for the processing of many foods. The need for safe, clean processes is now growing in

pace with an increasing standard of living worldwide, mainly in fast-growing economies.



## CHINA AND INDIA, TWO GIANTS WHOSE PEOPLE ARE GAINING AN EVER BETTER STANDARD OF LIVING

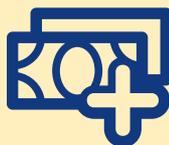
According to the forecast for 2015, 95 percent of the population of China will live above the official poverty line (those living on less than USD 1.25 per day). In India, this figure is estimated at 78 percent.

## SOLID CONDITIONS IN INDIA

India is a good example of a country in which the standard of living is improving. The country also has the necessary conditions for this trend to continue.



Growing and increasingly healthy population



Better national economy



More than 160 million hectares of arable land



Rising disposable income



More urbanization



## GOOD MATCH FOR ALFA LAVAL'S EXPERTISE

The food sector is experiencing strong growth in India. Some product groups are especially prominent: processed fruits and vegetables, beer, vegetable oils and all kinds of dairy products. These are areas that are particularly good matches for Alfa Laval's expertise. However, this growth is not only being driven by quantitative demand in itself, but also by higher safety standards being imposed for production processes. This involves food being handled in a hygienic and thus safe environment. Awareness of and insight into safe food production is growing at the same time as legislation and regulations in the area are expanding. Alfa Laval has both the technology and the expertise to meet these needs, regardless of where the customer is located.

## INDIA'S FOOD SECTOR GROWING

### FOOD SECTOR IN TOTAL

Year	Value (INR billion)
2006 - 2007	8.8
2008 - 2010	11
2014 - 2015	13.2

### PROCESSED FOODS

Year	Value (INR billion)
2006 - 2007	3.74
2008 - 2010	4.84
2014 - 2015	6.60

### DEVELOPMENT OF THREE TYPICAL PRODUCT GROUPS (MARKET VALUE) EUR BILLION



Year	Value (EUR billion)
2003 - 04	0.7
2009 - 10	1.83
2014 - 15	3.22



Year	Value (EUR billion)
2003 - 04	8.25
2009 - 10	11.83
2014 - 15	20.00

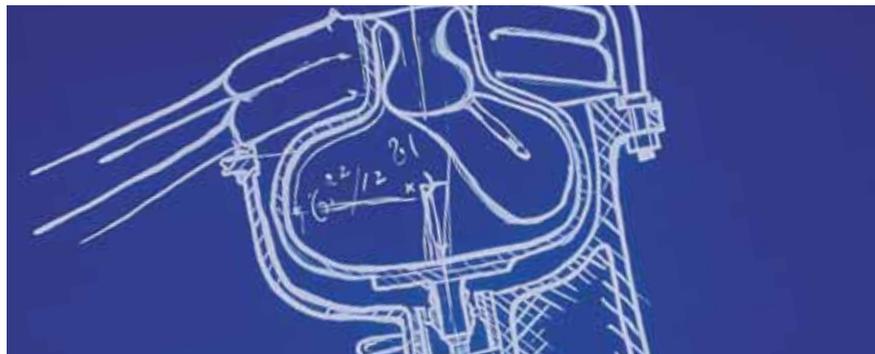


Year	Value (EUR billion)
2003 - 04	0.82
2009 - 10	4.83
2014 - 15	9.12

## ALFA LAVAL'S STARTING POINT IN INDIA IS STRONG

- ✓ Geographic market leader
- ✓ Generally higher demand, stricter requirements and new standards are driving growth
- ✓ Alfa Laval's brand and quality constitute a strong foundation for cultivating existing customers and securing new assignments

## Focus on future solutions



**Gustaf de Laval, founder of AB Separator – the forerunner to Alfa Laval – was an engineer, inventor and industrialist who obtained 92 patents and started 37 companies during his lifetime. With this background, it is not surprising that the corporate culture at Alfa Laval has always been characterized by a significant focus on innovation.**

Understanding customer needs and being the first player to introduce new solutions are crucial to remaining a step ahead of the competition, maintaining favorable pricing and achieving profitable growth. At the core of all research – both 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 the

customer. 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

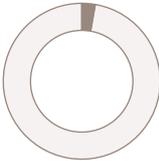
Alfa Laval invests in research and development to strengthen and advance the company’s leading, global positions in heat transfer, separation and fluid handling. In 2011, SEK 648 million (625) was invested in research and development, which represents 2.3 percent (2.5) of the company’s sales. Activities in this area are focused and must meet the internal requirements established to ensure that new or updated products reach the market and become profitable in the shortest time possible. Continuous measurements are performed to monitor the new products’ share of Group sales. The number of initiatives is limited to avoid splitting research and development resources between too many projects simultaneously. Another reason for conducting

focused research and development activities is that the sales organization must be able to handle the existing product range together with all additional products in each local market. Alfa Laval currently maintains a product launch rate of between 35 and 40 products per year and this level is deemed to provide an optimal return.

### Cooperation extends our reach

Alfa Laval promotes cooperation between various organizational units in order to ensure that customer needs are identified, transformed into concepts and ultimately result in efficient and competitive products. This entails the involvement of all new sales segments, as well as the organizations responsible for manufacturing, procurement and the aftermarket. At the core of the development process lie 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 in Western Europe. Research related to the company’s main products is currently conducted in various countries, including Sweden (compact plate heat exchangers and separators), Denmark (decanters, pumps, valves and membranes), Italy (air heat exchangers and brazed heat exchangers) and France (welded heat exchangers). Following the acquisition of Aalborg, Alfa Laval gained additional centers in Denmark (boilers), the Netherlands (inert gas systems) and other locations.

INVESTMENTS IN R&D, SEK MILLION, 2011	SHARE OF SALES	EXAMPLE PRODUCT CENTER
<p style="font-size: 48pt; text-align: center;">648</p>	 <p style="text-align: center;">2.3% OF THE COMPANY'S SALES</p>	<ul style="list-style-type: none"> <li> COMPACT PLATE HEAT EXCHANGERS AND SEPARATORS, SWEDEN</li> <li> DECANTERS, PUMPS, VALVES AND MEHRANES, DENMARK</li> <li> AIR HEAT EXCHANGERS AND BRAZED HEAT EXCHANGERS, ITALY</li> <li> WELDED HEAT EXCHANGERS, FRANCE</li> <li> BOILERS, DENMARK</li> <li> INERT GAS SYSTEMS, THE NETHERLANDS</li> </ul>

# Growing energy demand drives development

The need for energy is continuously growing. To meet this demand, supply will have to increase. This can be achieved in two different ways: by increasing production from either traditional or renewable sources or by learning how to use already produced energy in a better and more efficient way. Alfa Laval has suitable products and solutions, regardless of which alternative you chose, and continuously works to further improve its offering.

## Alfa Laval participates in the development of technology for solar power

Over the course of an hour, the sun's rays send more than enough energy to earth to cover the energy needs of the entire planet's population for a year. The sun is an immeasurable resource and – with its low carbon dioxide emissions – has great potential to be a major technology in alleviating climate change.<sup>1)</sup>

The world relies all too little on solar power as an energy source today; only about 0.5 percent of the total amount of energy produced in the world comes from solar power, but – like other renewable energy sources – solar power is on the rise. By 2050, the International Energy Agency estimates that solar power will represent as much as one-quarter of the world's energy production. An important condition for achieving this, however, is developing cheaper and more efficient solar cells.<sup>2)</sup>

Solar power is chiefly used as a renewable energy source in countries or regions with strong sunshine and clear skies. There are two main technologies: Concentrated Solar Power (CSP) and Photovoltaic (PV). Solar power plants with PV cells turn the sun's rays directly into energy through semiconductors in the solar cells functioning like diodes – when it is lit up, a weak electric current arises. In CSP solar power plants, the sun's rays are concentrated by mirrors and then heat up a thermal oil to high temperatures. The oil heats water to steam, which then produces electricity via a turbine.<sup>3)</sup>

An advantage of CSP solar power plants is that they are similar to most other power plants. Much of the equipment used for conventional power plants running on fossil fuels can thus also be used for solar power plants.<sup>4)</sup> Another major advantage of CSP is that the heat energy can be stored for short periods of time to be converted to electricity later. Solar power plants can thus produce electricity even when clouds block the sun or after the sun has gone down, when the need is greatest.<sup>5)</sup>

The challenge of solar power plants lies in

that they must be located in places that have relatively constant access to the sun – for example, countries located in the Sun Belt. The facilities need large surface areas (for the solar panel arrays) in order to generate sufficient energy and are therefore often located in deserts. At the same time, the cooling systems for the facilities require large amounts of water, which is often in short supply in deserts. Water is also needed to keep the mirrors clean. Reflections can be reduced by 10 percent if the mirrors get dirty, which leads to less energy being generated. Efficient cleaning solutions that also reuse water will become even more important as larger solar panel arrays are built.

## Alfa Laval technology can contribute to energy storage

Over the past five years, Alfa Laval has been involved in projects aimed at producing electricity from renewable sources. The company has participated in a number of solar power pilot projects and has developed solutions that contribute to a more efficient use of both solar energy and water – which is crucial for the commercial success of solar power. Today, Alfa Laval has over twenty credentials around the world.

Alfa Laval's technology for CSP solar power plants contributes to meeting the challenges of solar power by increasing production time by a full 50 percent, from 12 hours to 18 hours per day, thereby enabling production even at

times when the sun is blocked by clouds or after it has gone down. Alfa Laval's technology can also increase energy efficiency and reuse water at facilities, which reduces the need for water.

## Alfa Laval's technology reduces the need for water

### *Reduced need for water in the cooling system*

Solar power plants depend on access to air or water to condense the steam after the steam turbine. If access to water is limited, Alfa Laval has solutions to minimize water consumption. With a closed system consisting of an Alfa Laval air cooler and plate condenser, water loss is minimized compared to the traditional cooling tower.

### *Reduced need for water for cleaning*

Only a thin layer of dirt is needed to lower the generation of energy from the mirrors in solar power plants. To wash all the mirrors in a 280 MW power plant, 5,000 cubic meters of water are needed per wash. The mirrors need to be washed at least twice a month. Alfa Laval has developed a technical solution that makes it possible to recycle 80 percent of cleaning water: a type of low-pressure spray nozzle cleans the mirrors efficiently. The water is collected, and the dirty water is cleaned via a separator so it can be reused. Compared with traditional technology – without water recycling – a 280 MW solar power plant can save 100,000 cubic meters of water per year.

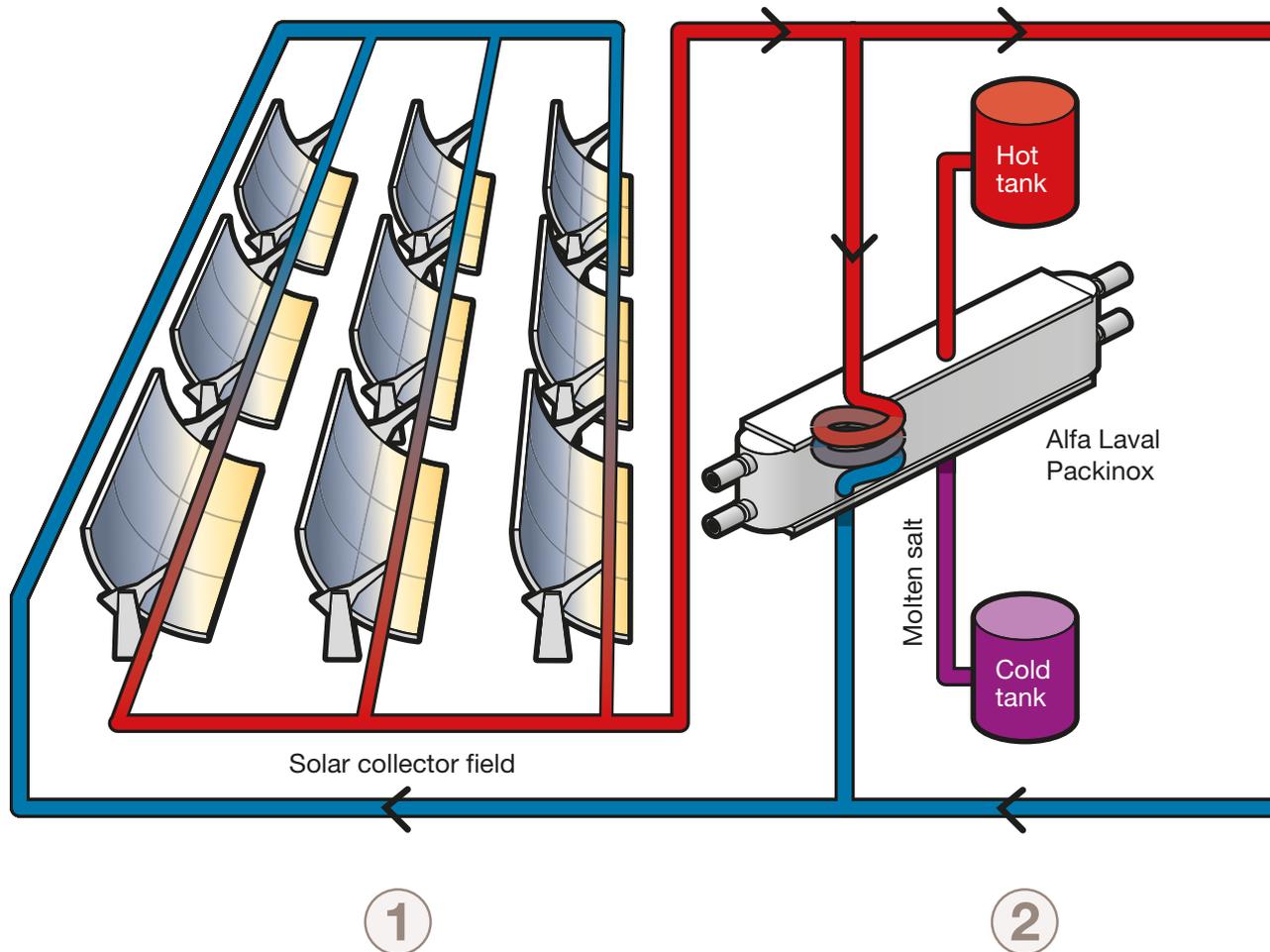


<sup>1)</sup> Ecology Global Network

<sup>2)</sup> International Energy Agency

<sup>3)</sup> National Laboratory of the U.S Department of Energy

<sup>5)</sup> International Energy Agency



### This is how a CSP plant with thermal storage works

**1** When the sun shines, it heats up thermal oil that goes through the solar panel array in a loop. Each solar panel or mirror concentrates the heat onto the focal point of the mirror, through which the thermal oil passes.

A portion of the heated oil goes directly to power generation, where it is used to heat water into the steam that drives the steam turbine, which in turn drives the generator where the electricity is produced.

...and the other portion of the hot oil goes to the thermal storage process.

**2** The heat is stored in salt. The salt is pumped out of the cold tank, through the Alfa Laval Packinox where it is heated by the oil, and into the hot storage tank.

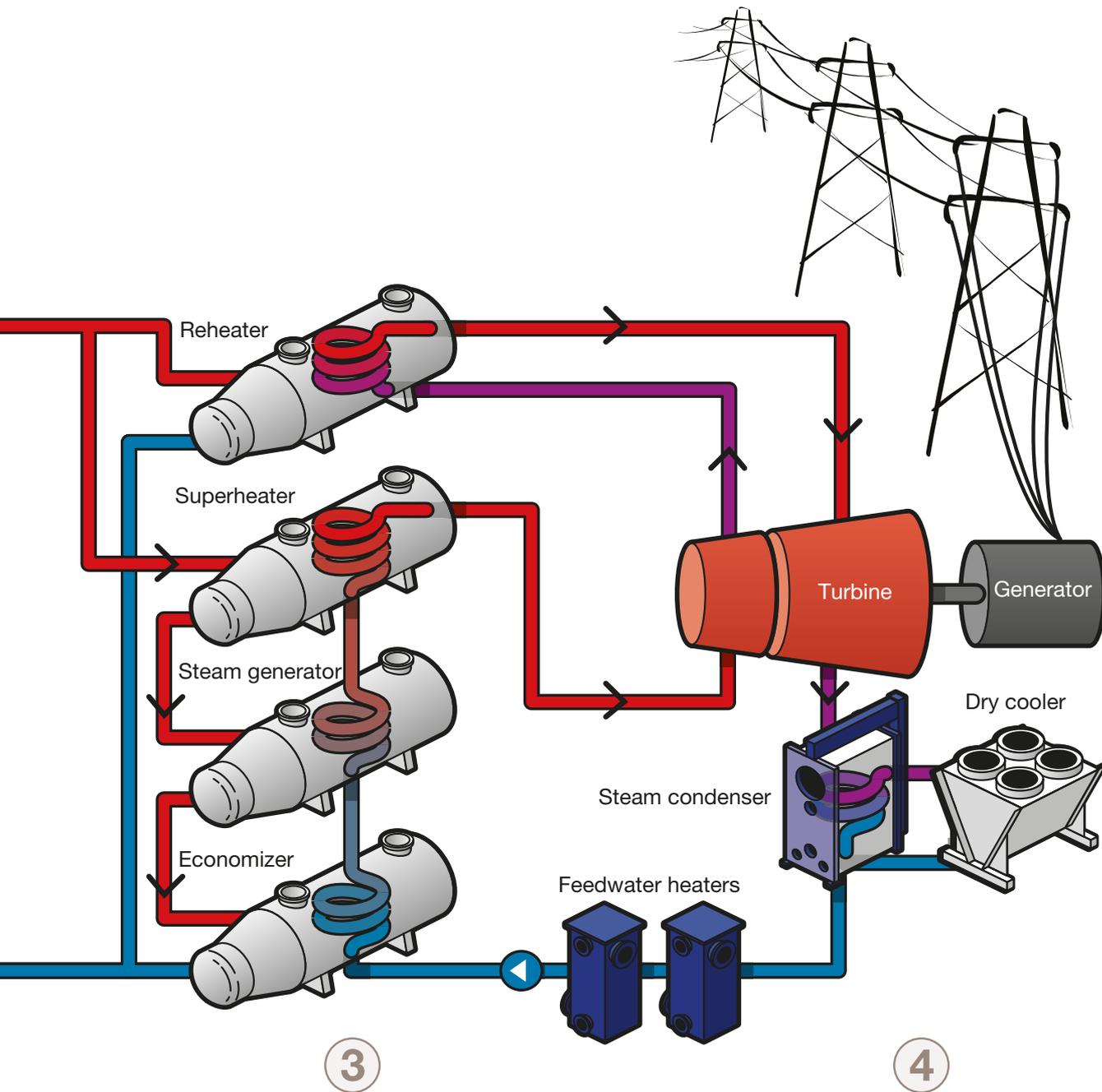
When the sun is not available, like on cloudy days or after sunset, salt from the hot storage tank is pumped back through the Alfa Laval Packinox where it heats up the thermal oil. The heated oil is then sent to the power block to generate steam.

**3** In the steam cycle, water is turned into superheated steam in progressive steps to maximize energy efficiency.

These steps include preheating, steam generation, superheating and reheating, with Alfa Laval Compabloc at the first, low pressure step, and Alfa Laval Olmi at all the other steps.

**4** After the steam has delivered its energy to the turbine, it is condensed back into water through Alfa Laval's condenser. The cold water that condenses the steam is cooled down with the help of Alfa Laval's air cooler. The condensed steam (water) goes back into the steam cycle to be reheated into steam.

The solar panel array can be used for heating thermal oil approximately 12 hours a day. Thanks to the Alfa Laval Packinox heat exchanger that makes the thermal storage possible, the facility can instead generate electricity for up to 18 hours per day, representing a 50 percent increase in production time.



THE ALFA LAVAL TECHNOLOGIES



The Alfa Laval Packinox heat exchanger weighs up to 350 tons, and one is usually enough to handle the required length of the thermal storage system. The Packinox offers better thermal efficiency than shell-and-tube technology, which means more energy can be stored in the same mass of salt, and the steam produced at night will have a lower moisture content, which translates into better-quality steam for producing electricity. The Packinox can also readily accommodate the internal 4 percent volume changes associated with salt freezing and melting. Moreover, the Packinox offers a single pass design that is self-draining.



The Alfa Laval Olmi shell-and-tube heat exchanger is built to withstand high operating temperatures and pressure. Designed to meet specific customer requirements, this type of heat exchanger is used in a wide range of power plants for heating, evaporating and condensing purposes.



The Alfa Laval Compabloc is a compact plate heat exchanger that combines a range of technological advantages. Its corrugated plate pattern creates an exceptionally high degree of turbulence, which results in outstanding heat transfer efficiency.



The Alfa Laval AlfaCond 800 is the world's first plate condenser specifically designed for condensing vapors into liquids at low pressure.



The Alfa Laval Fincoil Solar Max G range of dry coolers is especially suitable when high capacities relative to available space and low energy consumption are required.

# 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.

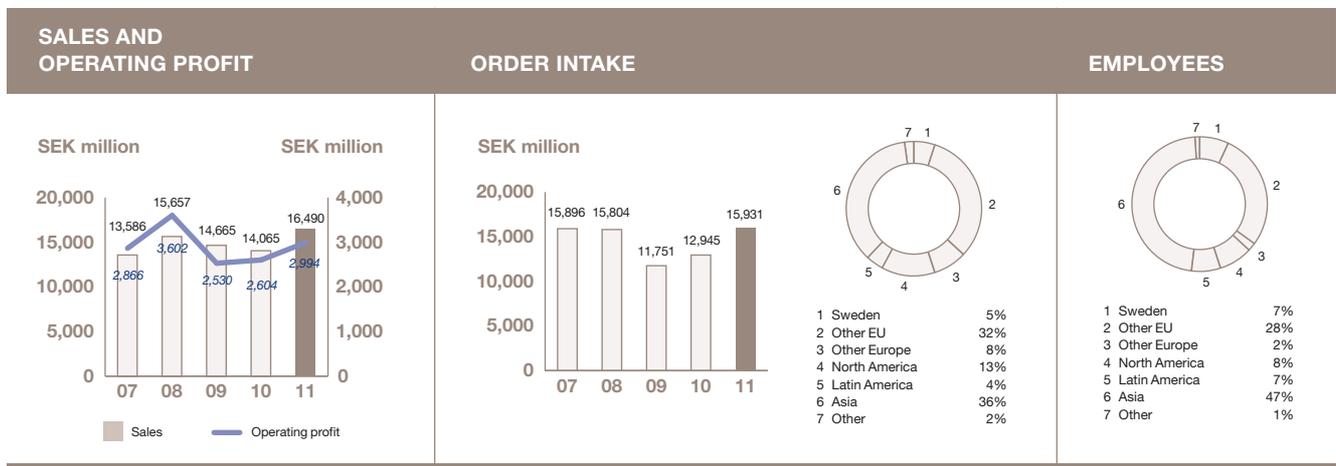
### Significant events in 2011

- Order intake increased for all segments in the Division compared with 2010, except for OEM, where orders were unchanged. A certain decline in demand was noted in the second half of the year in the wake of the macroeconomic turbulence that characterized Europe during this period.
- The Sanitary segment reported growth, with a particularly strong trend for applications in the biopharmaceutical and personal care industries. Geographically speaking, Southeast Asia and the BRIC countries performed particularly well and made a substantial contribution to growth. Demand for fluid handling products, which account for the majority of the segment's sales, reached a record-high level.

- Customers' continued focus on energy efficiency was a strong force driving demand for Industrial Equipment. The segment reported full-year growth, driven by a particularly strong trend in the base business. The positive trend that started in 2010 for products used for cooling and comfort heating/cooling (HVAC) continued. Heat exchangers for engines and industrial applications also displayed strong growth as the underlying demand for customer products increased.
- Order intake was unchanged in the OEM segment, following a certain slowdown recorded in the second half of the year. End markets that require applications for air-conditioning, domestic boilers and heat pumps show a strong correlation with the

trend in the construction industry, as well as the general consumption trend – areas that were impacted by the prevailing financial turbulence.

- Over the full year, demand recovered for the Marine & Diesel segment. Environmental solutions displayed substantial growth, driven by increasing demand for both ballast treatment systems and products for oily water treatment. Alfa Laval also received its first order for the treatment of NOx. In the last quarter, demand weakened, following the downturn in the yard's order intake during the year.
- The Parts & Service segment grew in line with the increasing capacity utilization of the installed base of products.



# Process Technology Division



This Division serves customers that require customized 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.

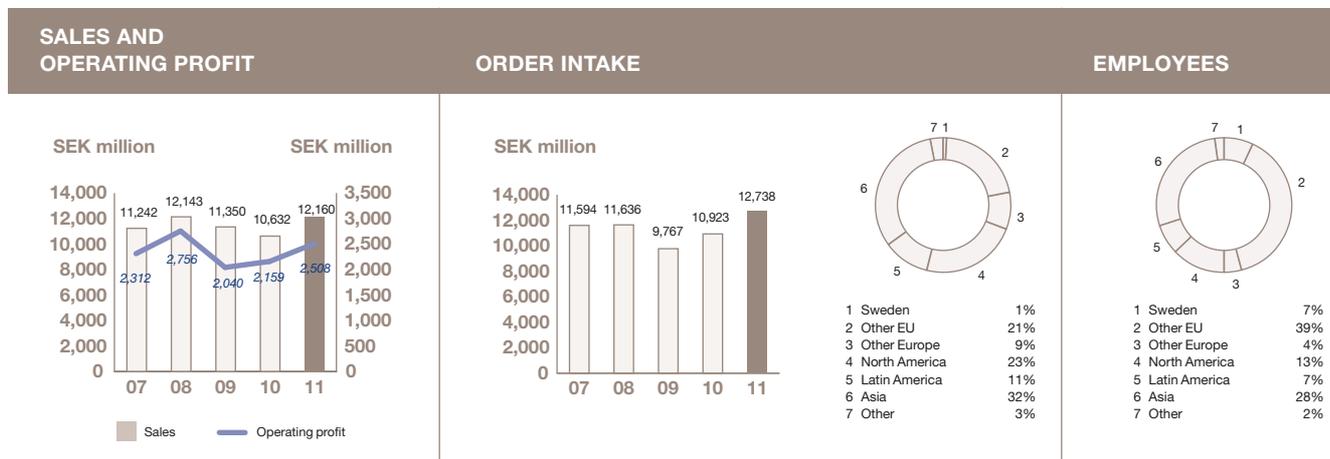
### Significant events in 2011

- The division displayed a strong performance in 2011, driven by both global investments in new capacity and investments in energy-efficient solutions. Towards the end of the year a certain weakening was recorded as customers entered a wait-and-see mode concerning larger investments.
- The positive trend in the oil and gas segment was particularly notable during the year, with high oil prices providing continued support for long-term investments in capacity and process improvements, particularly in Canada, the US and Brazil. The opportunities associated with gas, considered to be a more pronounced future energy source, continued to generate new business during the year.
- The need for energy-saving solutions also contributed to creating business opportuni-

ties. This pattern was observed in most industrial sectors and applications, but was perhaps most evident in the refinery industry, where Alfa Laval sold heat exchangers for process improvements in existing refineries, as well as for capacity expansion, particularly in the BRIC countries.

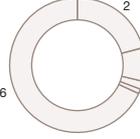
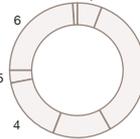
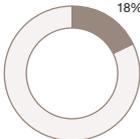
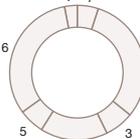
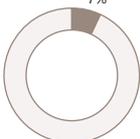
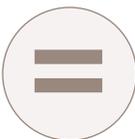
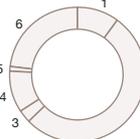
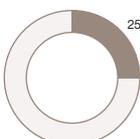
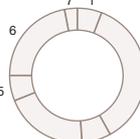
- In 2011, Alfa Laval secured a large order for heat exchangers for a solar power plant in the US. Alfa Laval offers specially developed Packinox heat exchangers for thermal storage of solar heat, which can later be converted to electricity. Alfa Laval's solution provides an extended production time compared with previous solutions and enables solar power plants to remain in operation after the sun sets. This order was a key step in establishing a presence in an industry with attractive prospects.

- The conditions for structural growth in the food industry remained favorable, which impacted Food Technology. Most applications were affected, particularly those associated with vegetable oil, where a clear trend toward continued capacity expansion was noted in the areas of refining and processing. Once again, the BRIC countries were a strong contributing factor behind this favorable trend thanks to their high growth figures and demographic changes.
- Alfa Laval's strong focus on research and development resulted in new technology in the decanter area. This technology, in turn, enabled the company to secure an order for industrial water treatment for the oil industry in Canada, an order that demonstrated Alfa Laval's strong position as a supplier of environmental applications.



# Equipment Division – overview

MARKET SEGMENT	OPERATIONS	EXAMPLES OF CUSTOMERS
<p><b>Marine &amp; Diesel</b></p> 	<p>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.</p>	<ul style="list-style-type: none"> <li>- A.P. Moller-Maersk</li> <li>- Carnival Cruise Lines</li> <li>- Wai Gao Qiao Shipbuilding Co.,Ltd</li> <li>- Hyundai</li> <li>- DSME</li> <li>- Wärtsilä</li> <li>- MAN/B&amp;W</li> </ul>
<p><b>Industrial Equipment</b></p> 	<p>Industrial Equipment is the result of a merger between two segments; Fluids &amp; Utility and Comfort &amp; 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.</p>	<ul style="list-style-type: none"> <li>- VodoKomfort</li> <li>- YIT</li> <li>- Cummins</li> <li>- Spirax Sarco</li> </ul>
<p><b>Sanitary</b></p> 	<p>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.</p>	<p>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.</p>
<p><b>OEM</b></p> 	<p>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.</p>	<ul style="list-style-type: none"> <li>- BDR Thermea Group</li> <li>- Daikin</li> <li>- NIBE</li> <li>- Vaillant Group</li> </ul>
<p><b>Parts &amp; Service</b></p> 	<p>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.</p>	<p>Customers are active in all of the Division's segments, with the exception of OEM.</p>

FORCES DRIVING DEMAND	ORDER INTAKE		Geographic distribution														
<p><b>Marine /</b> Global transport requirements, consolidation in the shipbuilding industry, government initiatives to support local shipyards and environmental legislation.</p> <p><b>Diesel /</b> The need for electricity in remote locations, global energy demand, the need for power reserves, for example, for nuclear power plants and wind farms.</p>	 <p>Share of Division's order intake</p>	 <p>2011 Change in order intake</p> <p>+ 2010   - 2009</p>	 <table border="1"> <tr><td>1 Sweden</td><td>0%</td></tr> <tr><td>2 Other EU</td><td>21%</td></tr> <tr><td>3 Other Europa</td><td>8%</td></tr> <tr><td>4 North America</td><td>2%</td></tr> <tr><td>5 Latin America</td><td>1%</td></tr> <tr><td>6 Asia</td><td>68%</td></tr> <tr><td>7 Other</td><td>0%</td></tr> </table>	1 Sweden	0%	2 Other EU	21%	3 Other Europa	8%	4 North America	2%	5 Latin America	1%	6 Asia	68%	7 Other	0%
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6 Asia	68%																
7 Other	0%																
<p>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.</p>	 <p>Share of Division's order intake</p>	 <p>2011 Change in order intake</p> <p>+ 2010   - 2009</p>	 <table border="1"> <tr><td>1 Sweden</td><td>6%</td></tr> <tr><td>2 Other EU</td><td>36%</td></tr> <tr><td>3 Other Europa</td><td>14%</td></tr> <tr><td>4 North America</td><td>16%</td></tr> <tr><td>5 Latin America</td><td>3%</td></tr> <tr><td>6 Asia</td><td>24%</td></tr> <tr><td>7 Other</td><td>1%</td></tr> </table>	1 Sweden	6%	2 Other EU	36%	3 Other Europa	14%	4 North America	16%	5 Latin America	3%	6 Asia	24%	7 Other	1%
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5 Latin America	3%																
6 Asia	24%																
7 Other	1%																
<p>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.</p>	 <p>Share of Division's order intake</p>	 <p>2011 Change in order intake</p> <p>+ 2010   - 2009</p>	 <table border="1"> <tr><td>1 Sweden</td><td>5%</td></tr> <tr><td>2 Other EU</td><td>31%</td></tr> <tr><td>3 Other Europa</td><td>7%</td></tr> <tr><td>4 North America</td><td>16%</td></tr> <tr><td>5 Latin America</td><td>6%</td></tr> <tr><td>6 Asia</td><td>32%</td></tr> <tr><td>7 Other</td><td>3%</td></tr> </table>	1 Sweden	5%	2 Other EU	31%	3 Other Europa	7%	4 North America	16%	5 Latin America	6%	6 Asia	32%	7 Other	3%
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<p>Increased focus on the environment, the need for energy-efficient solutions, government subsidies and energy price trends.</p>	 <p>Share of Division's order intake</p>	 <p>2011 Change in order intake</p> <p>+ 2010   - 2009</p>	 <table border="1"> <tr><td>1 Sweden</td><td>10%</td></tr> <tr><td>2 Other EU</td><td>53%</td></tr> <tr><td>3 Other Europa</td><td>3%</td></tr> <tr><td>4 North America</td><td>10%</td></tr> <tr><td>5 Latin America</td><td>1%</td></tr> <tr><td>6 Asia</td><td>23%</td></tr> <tr><td>7 Other</td><td>0%</td></tr> </table>	1 Sweden	10%	2 Other EU	53%	3 Other Europa	3%	4 North America	10%	5 Latin America	1%	6 Asia	23%	7 Other	0%
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2 Other EU	53%																
3 Other Europa	3%																
4 North America	10%																
5 Latin America	1%																
6 Asia	23%																
7 Other	0%																
<p>Increased trade, capacity utilization in the global ship fleet, industrial capacity utilization and growth in the installed base.</p>	 <p>Share of Division's order intake</p>	 <p>2011 Change in order intake</p> <p>+ 2010   - 2009</p>	 <table border="1"> <tr><td>1 Sweden</td><td>6%</td></tr> <tr><td>2 Other EU</td><td>36%</td></tr> <tr><td>3 Other Europa</td><td>7%</td></tr> <tr><td>4 North America</td><td>20%</td></tr> <tr><td>5 Latin America</td><td>6%</td></tr> <tr><td>6 Asia</td><td>22%</td></tr> <tr><td>7 Other</td><td>3%</td></tr> </table>	1 Sweden	6%	2 Other EU	36%	3 Other Europa	7%	4 North America	20%	5 Latin America	6%	6 Asia	22%	7 Other	3%
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# Process Technology Division – overview

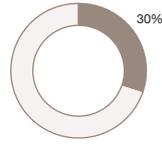
MARKET SEGMENT	OPERATIONS	EXAMPLES OF CUSTOMERS
<p><b>Process Industry</b></p> 	<p>Alfa Laval's products are used for manufacturing petrochemical products, plastics, polymers, metals, minerals, biofuels, starch, paper and sugar.</p>	<ul style="list-style-type: none"> <li>– BASF</li> <li>– Bayer</li> <li>– Dow Chemical</li> <li>– Roche</li> <li>– GlaxoSmithKline</li> <li>– Lonza</li> </ul>
<p><b>Energy &amp; Environment</b></p> 	<p>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.</p>	<ul style="list-style-type: none"> <li>– Shell</li> <li>– Total</li> <li>– Petrobras</li> <li>– Statoil</li> <li>– GE</li> <li>– Alstom</li> <li>– Major international cities, including the City of Chicago</li> </ul>
<p><b>Food Technology</b></p> 	<p>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 oil and meat and fish proteins.</p>	<ul style="list-style-type: none"> <li>– Cargill</li> <li>– Bunge</li> <li>– Nestlé</li> <li>– Heineken</li> <li>– Carlsberg</li> <li>– Anheuser-Busch InBev</li> </ul>
<p><b>Parts &amp; Service</b></p> 	<p>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 42–43.</p>	

## FORCES DRIVING DEMAND

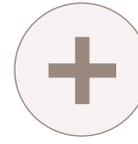
## ORDER INTAKE

## 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.

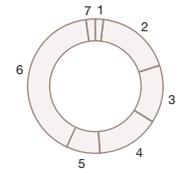


Share of Division's order intake



2011

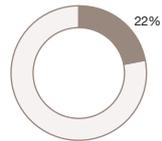
Change in order intake



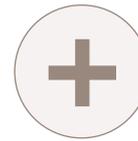
1 Sweden	2%
2 Other EU	18%
3 Other Europa	14%
4 North America	15%
5 Latin America	8%
6 Asia	41%
7 Other	2%

**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.

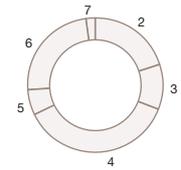


Share of Division's order intake



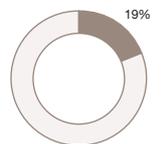
2011

Change in order intake

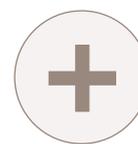


1 Sweden	0%
2 Other EU	20%
3 Other Europa	11%
4 North America	37%
5 Latin America	6%
6 Asia	24%
7 Other	2%

Demographic changes, population growth, improved standard of living, changes in consumption patterns, increased focus on healthy food, subsidies and raw material price trends.

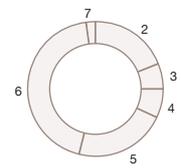


Share of Division's order intake



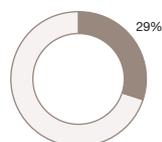
2011

Change in order intake



1 Sweden	0%
2 Other EU	19%
3 Other Europa	6%
4 North America	7%
5 Latin America	22%
6 Asia	44%
7 Other	2%

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.

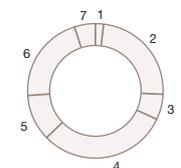


Share of Division's order intake



2011

Change in order intake



1 Sweden	2%
2 Other EU	24%
3 Other Europa	6%
4 North America	31%
5 Latin America	11%
6 Asia	21%
7 Other	5%

# Operations Division

The Operations Division is responsible for the Group's production-related procurement, as well as its production, logistics and distribution. This concentrated structure allows procurement to be conducted at the best possible price, enables a high level of efficiency and generates economies of scale that contribute to minimizing costs and boosting performance. The Division's global perspective also enables Alfa Laval to offer reliable access to the company's products worldwide. Operations must produce and deliver in line with the agreements made between the sales divisions and their customers, as well as being able to quickly reorganize in the event of changes in demand.



## Procurement

The procurement organization ensures that the Group's total need for raw materials and other materials used in production is met in terms of quality and price, as well as volume requirements and delivery precision. Alfa Laval's production operations are largely based on specific orders, which entails that the advance payments received from customers in large projects are used to purchase necessary materials. This means that Alfa Laval generally does not maintain large inventories of raw materials and other materials.

Alfa Laval is a global Group with a presence in nearly 60 countries. This structure also entails a global distribution of suppliers. In order to optimize the company's internal production and delivery processes, a procedure has been established for the ongoing review of both existing and potential suppliers in various countries. In addition, suppliers added through acquisitions are assessed to determine whether they qualify to be included in the company's supplier network. Alfa Laval actively follows a development process for suppliers in fast-growing economies. This process is included in Alfa Laval's sustainability work, which is based on the company's Business Principles and over time has become a normal duty of the line organization. The assessment and development process is designed to ensure that suppliers comply with the company's Business Principles with respect to health, safety, the environment and ethics. For more information about the company's progress in this area since the Business Principles were

adopted in 2003, refer to the Sustainability Report on pages 48–50.

Alfa Laval purchases various materials, including steel and other metals, such as aluminum, copper and titanium. Accordingly, the company is impacted by changes in price or availability. To eliminate or at least reduce the effects of such changes, Alfa Laval implements various measures, including customer price adjustments, price clauses in customer contracts and fixed-price agreements with suppliers. Another way to manage potential fluctuations in price or supply is by entering into long-term delivery commitments with the company's suppliers at fixed prices. The procurement organization comprises three regional offices and three central offices. This provides the organization with a consolidated overview of the Group's total material requirements, as well as the global distribution of these requirements. Approximately 80 percent of the value of the total purchasing volume derives from nearly 340 suppliers and about 67 percent (65) occurs within the framework of global contracts.

## Manufacturing

Alfa Laval's production is distributed between 37 (30) major manufacturing units, spread over four continents, and involves approximately 6,300 employees (5,300). The increase compared with 2010 was due to the units added through the acquisition of Aalborg Industries, which are located in China, Vietnam, Denmark, Brazil, Finland and the Netherlands. Alfa Laval's production is based on manufacturing technology, product group and size,

not on application. For example, large separators are manufactured in Eskilstuna (Sweden), small separators in Pune (India) and medium-sized separators in both Pune and Krakow (Poland), while all separator assembly occurs in Jiangyin (China).

More than 50 percent of direct labor hours related to production now occur in so-called low-cost countries. However, the company's gradual establishment of production operations in the world's fast-growing economies was largely the result of the demand that Alfa Laval noted at an early stage in these areas. This demand is best met through local production rather than by shipping products at the global level, which is costly, time consuming and less environmentally beneficial. The overall production structure is reviewed on a continuous basis to ensure optimal planning and distribution. For example, take the investments carried out during the year to introduce or expand the production of air heat exchangers in the BRIC countries and the new presses acquired in India and China to enable the manufacturing of plates for large heat exchangers. Both are examples of investments made to respond to demand at the local level, from end markets that benefit from an improved standard of living.

Efforts to obtain ISO 14001 environmental certification, continued during the year. At year-end, more than 92 percent (95) of the total delivery value came from certified facilities. The decline is explained by the fact that new sites were added through acquisitions.

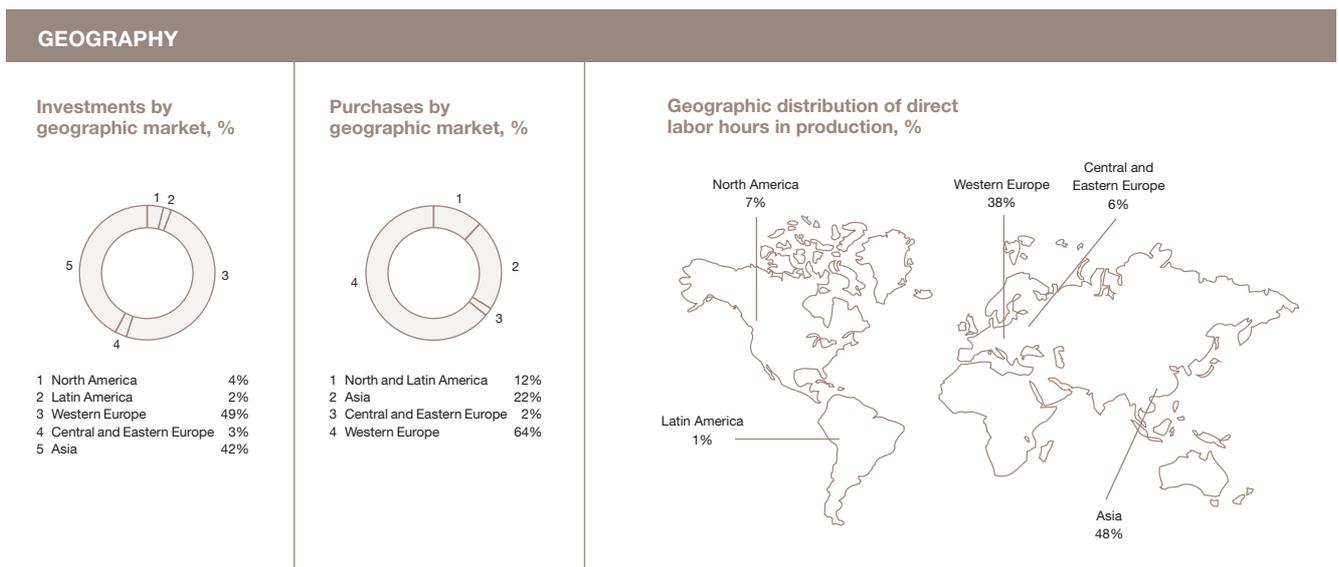
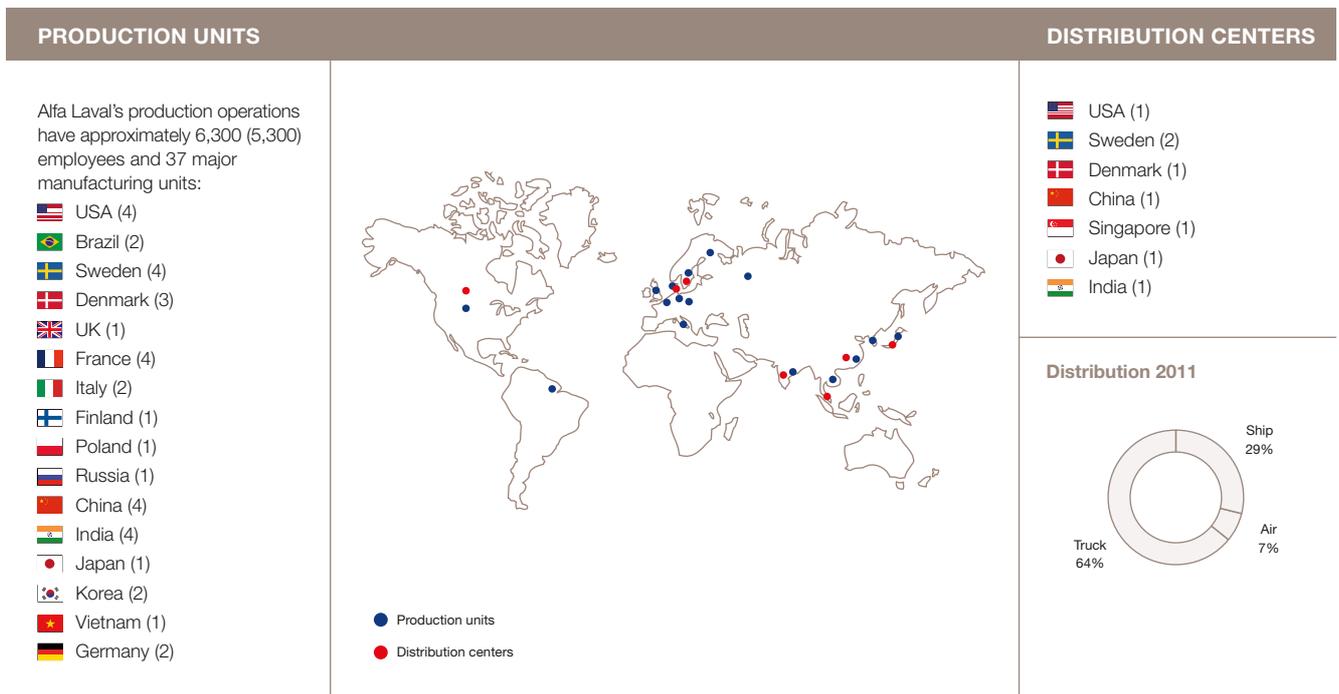
## Distribution and logistics

Distribution and logistics are also managed by the Operations Division, which means there is a special unit responsible for assisting all segments of the sales divisions with their specific transport needs on a global basis. Focusing responsibility to a single unit enables Alfa Laval's total transport need to be identified, thereby generating cost advantages with respect to procurement and simplifying the

company's work to limit the environmental impact of its transports. As part of its environmental efforts in recent years, Alfa Laval has carried out a focused initiative to increase land and maritime transports, while reducing air freight. However, it can sometimes be difficult for the company to control the freight method used. Customers that require spare parts often need them immediately, in which case air freight is the only alternative.

In 2011, approximately 7 percent (7.5) of distribution occurred by air freight, 29 percent (32) by ship and 64 percent (60.5) by truck.

Alfa Laval has three primary distribution centers responsible for managing the global supply of spare parts, as well as five regional centers. These centers work continuously to track demand for various types of spare parts and improve the availability and delivery reliability of various products and spare parts.



# 3

## **MORE INTERNATIONAL TRADE DRIVES DEMAND FOR TRANSPORTATION**

Raw materials in one country, processing in another. Production of parts in one country, assembly in another, packaging in a third, distribution to a fourth. All spread across various parts of the world. There are many factors that contribute to the growth of trade between countries and between regions: where labor is located and is least expensive, where the raw materials are and where the market is located are a few factors that contribute to increasingly globalized trade.



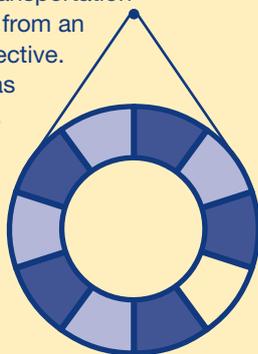
### WORLD TRADE TRIPLED

Since 1970, world trade has tripled, measured as a percentage of global GDP. In 2010, worldwide exports of goods and services exceeded SEK 135 trillion. The number of multinationals with production in one region and sales in another is growing. Transnationals, companies without a “home country” that are distinctly global players, are also increasing in number.

# +40%

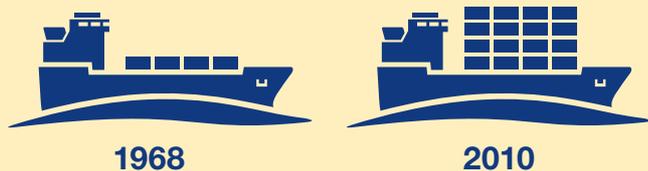
### MARITIME TRANSPORTATION ON THE RISE

Increasing international trade naturally also contributes to higher demand for transportation, especially maritime transportation. Two factors make this form of transportation particularly attractive. Global trade often takes place between continents, which makes shipping more economically viable than air freight. Maritime transportation is also a less negative alternative from an environmental and climate perspective. Global maritime transportation has steadily increased over the years, keeping pace with international trade. This trend is expected to continue. According to IHS, goods transportation by sea will grow by 40 percent from 2011 to 2015, measured in tonnage. It is worth noting that shipping already accounts for 90 percent of all transportation involving global trade (IMO).



Today, shipping accounts for 90 percent of all transportation involving global trade.

In the past four decades, shipping has quadrupled. From approximately 13 trillion ton-kilometers (1968) to 51 trillion ton-kilometers (2010).



### STRONG MARKET FOR ALFA LAVAL – AND GROWING

Alfa Laval has extensive experience of and recognized expertise in the shipping industry. The company’s solutions are already onboard 75 percent of the global fleet of ocean-going vessels. Some examples: separators that purify the oil (fuel), heat exchangers that produce fresh water and cool the engines, boilers for various functions, safety systems and a large number of solutions for handling environmental problems. Of course, Alfa Laval also has a well-developed organization to address the vessels’ needs for spare parts and service.



Today, Alfa Laval’s products are onboard 75 percent of the global fleet of ocean-going vessels.

### BALLAST WATER AND SULFUR/NITROGEN EMISSIONS – TWO AREAS WITH STRICTER ENVIRONMENTAL REGULATIONS



Shipping is covered by increasingly stringent environmental regulations. The International Maritime Organization (IMO), a UN body, has identified ballast water as an important area. Ballast water is used to stabilize vessels and is refilled and released when loading and unloading freight. The water contains organisms that may lack natural enemies in a new environment and could consequently reproduce freely, which could devastate entire ecosystems. As early as 2004, the IMO established a convention for the cleaning of ballast water. It will enter into effect once a minimum of 30 countries representing 35 percent of the global tonnage have signed the convention. This threshold is approaching. Today, 33 countries representing 26 percent of the tonnage have signed the convention.

It is however gratifying that shipowners are already ordering treatment systems to be certain that they meet the requirements they expect will apply in the future. Alfa Laval was first in obtaining type approval for a solution – PureBallast. Today, the company has sold more than 200 systems.



Emissions of sulfur and nitrogen in the vessels’ exhaust have been regulated since 1997. This was done after the emissions were linked to acid rain. Requirements of progressively lower levels of emissions of these particles have since been introduced in some parts of the world. At the same time, other regions have announced that they will adopt these regulations in the next few years.

The regulation of sulfur oxide, which covers both new and old vessels, will gradually be implemented in the various regions until 2020, when the open ocean will also be covered. The shipowners can choose between switching to cleaner, but more expensive fuel or installing a system that cleans the exhaust from sulfur.

Requirements of lower nitrogen emissions levels will cover all newly built vessels as of 2016. Alfa Laval has solutions to be able to handle both sulfur and nitrogen emissions.

# An aftermarket organization that is one step ahead

Alfa Laval's products are very high quality and have a long service life that can be further extended through continuous maintenance, service and repairs. The need for maintenance and service varies; sometimes support is required within a few months, while in other cases service may not be necessary for several years. This is partly because the need for support is linked to the specific technology, meaning whether it is a heat exchanger, separator, pump or valve. However, the need is determined to an even greater degree by the function the product fills and the environment in which it operates.

In order to offer quick access to service and spare parts, it is crucial that the company has accurate information about where its products are installed. It is also important to have a well-established organization whose geographic presence reflects the location of the installed base, thereby ensuring rapid service. At year-end 2011, Alfa Laval had 99 service units distributed worldwide. Three of these units opened during the year in Japan, Qatar and the UK, and nine were added through the acquisition of Aalborg Industries. The geographic distribution of the service units has evolved gradually over time as new sales expanded from established markets in Western Europe and the US to fast-growing markets in Central and Eastern Europe, Latin America and Asia. New sales have increased continuously in these regions in recent years, which will ultimately create a need for spare parts and service as the equipment ages.

## Parts & Service provides security

Many of Alfa Laval's products are found at the heart of various customer processes, performing critical tasks. Since unplanned stoppages can be costly, it is crucial that the customer invests in regular service and maintenance. However, it is equally important that Alfa Laval is able to deliver spare parts rapidly when necessary, which is made possible by the company's global coverage. Alfa Laval's genuine parts also provide security since they have undergone extensive testing to ensure they are capable of performing the task at hand. They are also designed to ensure low maintenance costs. Competing components may look the same but be constructed in materials that are inadequate for the task, which could result in major damage and high maintenance costs. In fact, this happened to one of Alfa Laval's customers. The choice to use copies instead of genuine

parts ultimately cost the customer a total of EUR 350,000 for production stoppages, repairs and replacement of components.

## Small investments can generate significant effects

However, the aftermarket organization is not simply about putting out fires. Conditions may change in a customer's existing process, resulting in a need for increased capacity, productivity and efficiency to boost the customer's competitiveness. This can be achieved by investing in upgrades to existing equipment. Such upgrades require a small investment, but have the potential to significantly boost capacity and generate cost savings and efficiency gains for the customer. Accordingly, in addition to speed, reliability and proximity to product know-how, field service and service centers, the company's customers also benefit from the organization's expertise. It is crucial that Alfa Laval's field service personnel have solid, in-depth knowledge of the company's products and are familiar with the customer's processes. This means that continuous employee training is a key investment.

## Parts & Service throughout the cycle

Generally speaking, no other area of Alfa Laval engages in such regular customer contact as Parts & Service. Accordingly, this part of the business is not only less susceptible to cyclical fluctuations and able to maintain favorable profitability, but also creates opportunities for additional new sales thanks to this frequent customer contact. Parts & Service also helps gather feedback and suggestions and identify customer requirements, which can be conveyed to the development organization for further research and development. The aftermarket thus creates internal and external value and is involved in both the early stages of product development and throughout the total life cycle of a product.

## Varying requirements for spare parts and service

Requirements and demand for spare parts and service vary depending on the type of process in which the product is involved. The more demanding the tasks, the faster the customer may require service, cleaning or spare parts.

Other critical 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. To achieve optimal product functionality while maximizing service life, regular preventive maintenance is always 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 also 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 comprise 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 strictly spare parts to full service. The organization is also responsible for standardizing the product range to enable customers to select exactly what they need from a menu, no more and no less. The more closely the range matches demand, the greater the value created for the customer.

## The range includes:

- Spare parts
- Cleaning
- Round-the-clock technical assistance from field service engineers, seven 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 requirements
- Equipment monitoring to ensure that maintenance and service are carried out at the correct time
- Reconditioning and repairs
- Application engineers who review customer processes on site and propose improvements
- Upgrading of existing equipment to enhance performance



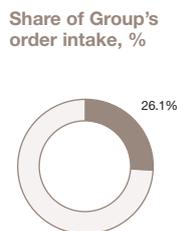
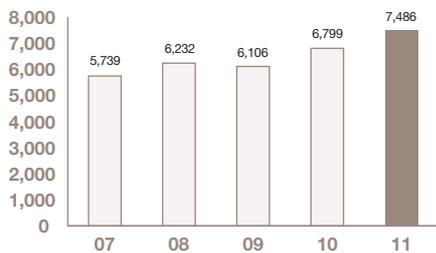
**SERVICE CENTERS**                      **INSTALLED BASE**

99

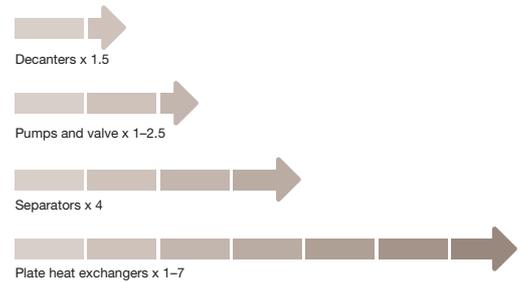
Towards the end of 2011, Alfa Laval had established 99 service centers to meet customer demand, around the globe.

- Large and mature installed base that needs to be maintained and renewed.
- Installed base that is growing rapidly.
- A combination of fast-growing markets and established niche applications.

**ORDER INTAKE, SEK MILLION**                      **LONG-TERM POTENTIAL**



**Value of the aftermarket relative to new sales**



## Employees provide the foundation for continued success

Motivated, competent employees provide the foundation for Alfa Laval to achieve sustainable, profitable growth. These factors are also important in determining how the company is perceived by others – the employees reflect the company's corporate culture and thus serve as ambassadors who help Alfa Laval to continue attracting and retaining talent. Accordingly, Alfa Laval strives to offer a stimulating, pleasant and safe workplace that provides opportunities for personal development, free from discrimination.

Creating an attractive work environment requires continuous effort. Compliance with laws and regulations pertaining to the company and its employees is a basic requirement. These laws and regulations are supplemented by Alfa Laval's policies, which are also presented in the company's Business Principles. These govern the behavior of the company and its employees in various situations. With regard to the company's interactions with its employees, the Business Principles state:

"A culturally diverse, flexible, motivated and competent workforce is essential for Alfa Laval's success. We continuously develop employees' competence and flexibility. There shall be no direct or indirect discrimination on the grounds of race, color, sex, religion, political opinion, national extraction or social origin. We provide safe and healthy working conditions. We recognize the right of employees to freedom of association and collective bargaining."

So what practical steps is Alfa Laval taking to achieve this goal?

### Diversity

At year-end, Alfa Laval had 16,064 employees distributed across nearly 60 countries. The company's operations, which originally started in Sweden, have grown and most of its employees now work in other countries. Naturally, this internationalization is reflected in the employees' nationalities. It is thus imperative that Alfa Laval's recruitment processes, personnel development and appointment of managers are characterized by diversity. The goal is for all employees to feel they have career paths open to them. Diversity also

involves ensuring a distribution in terms of age, experience, skills and gender. While managing all of these factors presents a challenge, the company stands to gain a priceless asset if it does so successfully. Interaction and cooperation between people of different genders, nationalities or experience can contribute to increased creativity and new ways of thinking, which is absolutely crucial in a company built on innovation such as Alfa Laval.

To achieve a favorable mix of employees, Alfa Laval conducts open internal recruitment. This means that all available positions, including management positions, are announced on the company's intranet, and all employees are welcome to apply. The objective is to broaden the base of applicants to promote job mobility and diversity. In 2011, 85 nationalities were represented at Alfa Laval. Among managers who report directly to a member of Group management, the number of nationalities represented was 27. During the same period, the proportion of women in this group amounted to 19 percent. One of Alfa Laval's long-term objectives is to increase the proportion of women at the manager level to reflect the proportion of women in the company as a whole. Several activities have been established to achieve this objective, including a leadership program for female employees – known as Impact – which lasts for nearly one year and provides participants with challenges and support in several areas, including how to build a reputation for themselves and their skills throughout the organization and then develop a plan to market themselves. During their involvement in the program, the participants are assigned a mentor from Group management, who offers them further support in their development.

### Development

Alfa Laval takes a proactive approach to development and training, which are key factors in achieving motivated employees. The company offers several training and development opportunities, including special programs for young talent and female managers, as well as a number of training programs through the Alfa Laval Academy. Investments in continued learning will support and advance the company's performance culture. By having the right skills at the right place and time, Alfa Laval ensures and improves the quality and efficiency of its processes, products and customer contact. Pure Performance is a term used to describe Alfa Laval's commitment to creating and maintaining a stimulating work environment that facilitates personal growth. This concept is also used to summarize the company's entire business culture. In order to achieve its goal of continuously optimizing the performance of its customers' processes, Alfa Laval must also optimize the performance of its employees, focusing on a number of key prioritized areas known as the Vital Few, which provide a foundation for education and training at the company. Accordingly, Alfa Laval pursues a skills planning program. This entails the establishment of goals for entire departments, as well as specific goals for individual employees, which are followed up through skill assessments and action plans, and ultimately serve as the basis for continued training and development. The Alfa Laval Academy has four faculties responsible for various areas: Management and Leadership, Strategic Vital Few, Sales and Marketing, and a general faculty responsible for training in everything from Lean Six Sigma to basic financial economics.

**Health and safety**

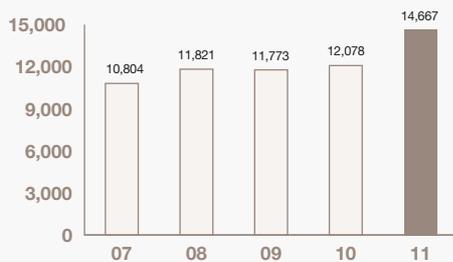
Alfa Laval continuously implements preventive measures to create a safe and healthy environment for all of its employees and visitors. The company's vision is for Alfa Laval to be completely accident-free. Compliance with national legislation in this area is a minimum requirement. This commitment is taken one step further through Alfa Laval's Business Principles and the company's occupational health and safety program. The aim of the program is to make safety issues part of the company's daily routines and safety considerations a natural part of its employees' conduct. Potential risks are to be reported, improvement plans and preventive measures are to be developed and

employees are to receive training in how to apply laws, regulations and the company's policy in their daily work. The first goal is for the number of injuries and time lost due to injuries to be halved by 2013 compared with 2009 and for absence due to illness or injury to be reduced by 5 percent annually. In 2011, the number of injuries declined 24 percent on a like-for-like basis, compared with the preceding year. Including acquisitions, the number of injuries increased somewhat. At the end of 2011, seven plants had been awarded OHSAS 18001 certification. OHSAS 18001 is an international health and safety management system designed to help organizations minimize and eliminate the workplace risks faced by employees.

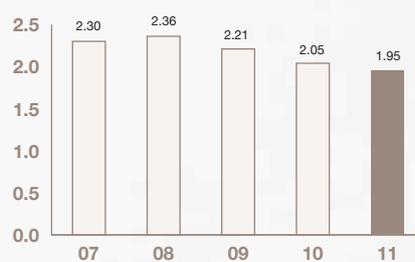


For more information about a career at Alfa Laval, visit [www.alfalaval.com/career](http://www.alfalaval.com/career).

**AVERAGE NUMBER OF EMPLOYEES**

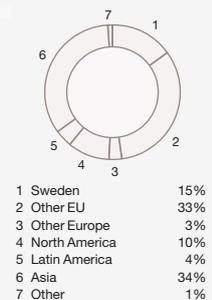


**SALES PER EMPLOYEE, SEK MILLION**



The figures for 2007 and 2008 were inflated by the high metal prices. The outcomes in 2009 and 2010 were affected by the financial crisis and the outcome in 2011 by the acquisition of Aalborg Industries and the Euro crisis. Aalborg industries has lower sales per employee than Alfa Laval.

**EMPLOYEES PER REGION**



# 4

## **INTENSIFIED FOCUS ON THE ENVIRONMENT GENERATES OPPORTUNITIES FOR ALFA LAVAL**

Awareness of global environmental and climate problems has never been as widespread as it is now. This is true of private citizens, companies, NGOs, countries and confederations of countries. To a certain extent, insight and moral considerations can contribute to companies taking steps to become greener. At the same time, companies value sustainability issues more highly and greater focus is being placed on guiding the business in this direction. However, society is demanding that more be done to address the growing problems.

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## LEGISLATION AND REGULATIONS DRIVE COMPANIES TO REDUCE THEIR IMPACT

Powerful steps must be taken in all areas of human activity. In parallel with voluntary steps, society is therefore introducing more legislation and regulations in the environmental field, at both the national and global level. This is driving demand for products that not only save energy and reduce emissions, but also solve other environmental problems.



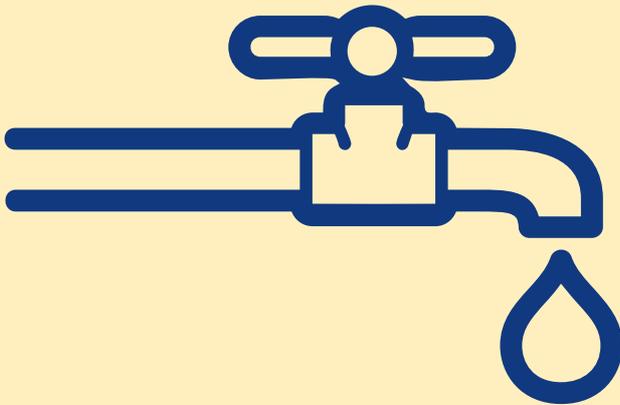
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## ALFA LAVAL ON LAND



The environmental field is a broad area. From direct emissions of carbon dioxide and other compounds to the handling of waste and industrial waste products, water treatment and the production of biodiesel, for example. The latter has a doubly positive impact on the environment. On the one hand, waste products can be used in

its production, and on the other, the carbon-neutral biodiesel replaces fossil fuels. Biodiesel is extracted from animal fat and vegetable oils. Alfa Laval has technical solutions for the entire production chain. Both heat exchangers with heat recycling and separation technology are used.



Water treatment is another important process for which Alfa Laval has products and solutions. In water treatment plants, treatment processes take place in multiple stages. The end result is that a large part of the water can be fed back into nature, extracted methane can be used to supply energy and sludge can be pressed into cakes for use, for example, in construction.



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# -20 TON/DAY

Of course, one of the most effective steps that can be taken for the environment is saving energy. More efficient energy management means lower emissions. A refinery in Italy was able to reduce its fuel consumption by approximately 20 tons per day by optimizing its heat processes using our heat exchangers. Recovered waste heat was an important part of this process, which provided total savings of EUR 3 million per year.

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## GLOBAL CHALLENGE

The theme section on “more international trade” on pages 40-41 confirms that global trade has tripled since 1970 and global maritime transportation has grown – and continues to grow – as a result of this, having quadrupled in 40 years. Of course, environmentally related challenges have arisen as a result of this development. This represents a global market and global challenge that offer major opportunities for Alfa Laval’s business, today and tomorrow.



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## ALFA LAVAL AT SEA

Alfa Laval has products and solutions that can reduce emissions of both sulfur and nitrogen in vessel exhaust, as well as systems that ensure that micro-organisms are not carried from one ecological environment to another in the vessel’s ballast water. The company is also active and has products for many of the shipping industry’s other environmentally related areas:

### CLEANING OF TANKS, TREATMENT OF SLUDGE AND OILY WATER, FUEL AND LUBRICATING OILS, AND CLEANING OF CRANKCASE GASES

Customers include shipyards and shipowners worldwide.





## A constant, ongoing process – listen, learn, change

**“Running a business in a more sustainable way requires continuous learning. We have made real progress over the past few years, but we still have many opportunities to improve.” This was CEO Lars Renström’s message when reflecting on Alfa Laval’s progress toward the aspirations for sustainability expressed in the Business Principles.**

The Business Principles focus on improving Alfa Laval’s social, environmental and ethical performance, as well as enhancing the company’s transparency. First published in 2003 based on the UN Global Compact and the OECD Guidelines for Multinational Enterprises, the Business Principles will be updated and reviewed during 2012 in light of the revised OECD guidelines published in May 2011.

With our revised Business Principles on the horizon, this year’s Sustainability Report highlights some of our key goals and achievements – and in some cases, our underperformance – since the Business Principles were introduced.

### Environment:

In recent years, the environmental debate has been dominated by the contribution of human activity to climate change, as well as the shortage of drinking water resulting from climate change. Legislation such as the EU REACH regulation, which came into force in June 2007, has also had a major impact on companies such as Alfa Laval. The aim of REACH is to improve the protection of human health and the environment through better control of chemical substances.

### Since 2003, we have\*:

1. Introduced environmental management systems in all our factories and repair workshops. At the end of 2011, about 92 percent of our produced volumes came from factories with environmental management systems certified in accordance with the ISO 14001 standard.
2. Introduced a global reporting system for environmental data so that we can track key performance indicators from over 120 production and repair workshops.
3. Set a target to reduce greenhouse gas emissions (GHG) from our operations and transportation by 15 percent between 2007 and 2011.
4. Reduced the annual GHG emissions from our factories by over 10 percent, mainly by focusing on more efficient lighting, heating, cooling and electrical equipment. The decline still means we failed to achieve our overall target, which was disappointing. However, since we do not have energy-intensive production processes, energy-saving initiatives must be implemented in other areas. We underestimated the number of energy-saving projects needed.
5. Reduced the annual GHG emissions from goods transportation by 5 percent. This required changes in production scheduling, stocking and distribution practices. From 2006 to 2009, we were very successful in these activities and operated ahead of our annual savings target. However, during the economic recovery in 2010, our production load changed significantly as several customers demanded air freight to meet changing market demands, and much of our positive environmental work was undone.
6. Reduced the emissions from our car fleet by 10 percent by changing our policy and utilizing more fuel-efficient models from the manufacturers.
7. Seen a significant increase in customer interest in our technology to help reduce their energy and CO<sub>2</sub> emissions. This is naturally gratifying since one of Alfa Laval’s major contributions to reducing society’s impact on the environment is our product and solution offerings.
8. Introduced an environmental life-cycle assessment to the new product design process. All high-volume products are now assessed in this way and 88 assessments have been completed since the system was introduced in 2008. 87 products have shown a reduced environmental impact during their life cycle, with reductions ranging from 9 percent to 24 percent.
9. Eliminated over 25,000 kg of chemicals included on our black list. In other words, we are very close to our goal of eliminating all blacklisted chemicals. However, we have failed to find alternatives for some chemicals that are essential in three production processes. While the use of these chemicals is permitted by law, our objective is to eliminate their use due to their hazardous nature.
10. Invested in new recycling systems in several factories, which have led to a more than 10 percent reduction in total water consumption in the production processes. Our production processes are not particularly water intensive, but we do use water for cleaning and pressure testing of products. The overall reduction was achieved despite having increased water consumption at some sites, as chemical cleaning methods were replaced with water to reduce the use of chemicals.
11. Increased the volume of purchases from suppliers with ISO 14001 environmental certification. At the end of 2011, more than 65 percent of our total manufacturing purchases came from certified suppliers and our next goal is to increase this to 80 percent before 2015.

*“I think we have successfully integrated environmental management into the responsibilities of line managers over the past few years. We have eliminated large quantities of chemicals and reduced our carbon emissions. I believe we now have the infrastructure to tackle the main goal of significantly reducing our environmental impact. However, to achieve our goals, we must activate everyone throughout the organization.”*

**Göran Mathiasson.**  
Executive Vice President of the Operations Division  
and Head of the Environmental Council

\* For information on how these numbers have been calculated, see the GRI report on our website - [www.alfalaval.com/about-us/sustainability](http://www.alfalaval.com/about-us/sustainability)

**Social:**

This Business Principle covers both the human rights and labor principles of the UN Global Compact. Alfa Laval has been a global employer for many years, with companies in more than 50 countries. We are proud of our culture of employee training and the high standards of our workplace conditions. However, in our initial risk assessment of possible non-compliance with our Business Principles, we identified key areas where we needed to improve.

*Since 2003, we have\*:*

1. Improved our reporting system for accidents and health and safety. Global health and safety targets have been set and new training initiatives have been implemented. The accident frequency rate has fallen from 11.11 accidents per million working hours in 2009 to 9.93 in 2011.
2. Implemented a new reporting system for absence due to illness in Alfa Laval. Our 2011 figure of less than 2 percent lost working time is quite good and reflects well on our work environment. We were pleased to have been rated among the top 50 workplaces in China for graduates during 2011.
3. Implemented an open recruitment policy as part of our strategy to increase the career opportunities for all employees, regardless of nationality, ethnicity, gender or disability. All positions are now advertised internally. One specific goal is to increase the number of women in management positions.
4. Assessed the risk level of all suppliers in India and China for potential non-compliance with our Business Principles. High-risk suppliers are inspected regularly and targets are set for improvement. Those who repeatedly fail to improve their working conditions are terminated. Over 230 suppliers were included in the inspection system in 2011, with more than 750 inspections carried out between 2004 and 2011. The standards of these high-risk suppliers have improved considerably, but there is a need for more focused education and training in many aspects of health and safety.
5. Introduced a new stage in our supplier assessment process aimed at identifying any risk of child, forced and bonded labor. We focus particularly closely on production processes (such as metal polishing) in

countries shown to have a high risk of using illegal labor practices. To date, we have not identified any occurrence of such practices.

**Business Ethics:**

Over the past few years, we have witnessed an increased focus on corporate governance. Within Europe, various high-profile cases of unethical business practices have been featured in the media. It is clear that we cannot take high ethical standards for granted.

*Since 2003, we have:*

1. Conducted a central training and ethical risk assessment process involving over 100 top managers.
2. Strengthened our corporate governance processes so that all top managers are reminded of our policies through a yearly sign-off.
3. Introduced a new Fair Competition Policy and Business Ethics Policy to clarify and provide manager training in legislation pertaining to competition, bribery and corruption.
4. Implemented a whistleblower process, enabling us to identify one case of unethical behavior, which resulted in retraining and other corrective actions in the unit concerned.

**Transparency:**

Demand for increased corporate transparency has grown in recent years. Transparency itself is partly governed by laws intended to ensure

that everyone is given access to the same financial information at the same time and that corporations present accounting records and supporting documentation that accurately describes and reflects the nature of the underlying transactions. Other areas deal with the disclosure of corporate governance practices. But today, transparency can refer to so much more than compliance. The disclosure of various aspects other than purely financial information is becoming increasingly important. This is why Alfa Laval focuses on providing detailed information on its sustainability efforts in order to ensure we live up to our Business Principles, as well as describing the targets set and the outcome of our efforts.

*Since 2003, we have:*

1. Published annual progress reports on our website to show how we have been implementing our Business Principles.
2. Published a data-rich report based on the Global Reporting Initiative Guidelines.
3. Adopted an "open door" approach to any stakeholder who wishes to discuss our sustainability performance. So far, this has mainly been used by students and representatives of investors.
4. Met other large industrial companies in Sweden to regularly share experiences and learn from each other.



\* For information on how these numbers have been calculated, see the GRI report on our website - [www.alfalaval.com/about-us/sustainability](http://www.alfalaval.com/about-us/sustainability)

# Financial statements

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# 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, 2011 to December 31, 2011.

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 30, 2012 at 9.00 CET and by sending the printed annual report to the shareholders in week 14, 2012 starting at April 2, 2012.

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](http://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 128.

## Ownership and legal structure

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

The company had 36,567 (33,566) shareholders on December 31, 2011. The largest owner is Tetra Laval B.V., the Netherlands who owns 26.1 (18.7) percent. The increase in ownership is to 0.1 percent due to the cancellation of the shares repurchased by the company and for the remaining part to the acquisitions of shares that Tetra Laval B.V. made in the third and fourth quarters 2011. Next to the largest owner there are nine institutional investors with ownership in the range of 7.2 to 1.1 percent. These ten largest shareholders own 53.5 (44.3) 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 after-market segment Parts & Service. The Process Technology division consists of four customer segments: Energy & Environment, Food Technology, Process Industry and the after-market segment Parts & Service. Due to a re-organization of the Process Technology Division, the former Life Science segment has been incorporated as of April 1, 2011, into mainly the Process Industry segment, but to a smaller extent also into the Food Technology and Energy & Environment segments. The reorganization is made in order to provide better service to the customers.

## 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 16. Below follows a shorter summary of each acquisition.

### During 2011

In a press release on September 19, 2011 Alfa Laval communicated its proposal to buy all outstanding shares in its subsidiary

Alfa Laval (India) Ltd and seek delisting of the shares from Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The proposal comes on the back of regulatory changes in India which requires Alfa Laval (India) Ltd to have a minimum public float of 25 percent or seek delisting. At present, Alfa Laval holds 88.8 percent of the share capital of Alfa Laval (India), meaning the public float is 11.2 percent. The objective is to achieve full ownership of the subsidiary, which will provide Alfa Laval with increased operational flexibility to support the business and meet the customers' needs. Alfa Laval has requested that the Board of Directors of Alfa Laval (India) Ltd take all actions required under the delisting regulations, including arranging a postal ballot for the shareholders to consider the delisting proposal. The delisting process is expected to take approximately six months. As a part of the process a floor price of INR 2,045 per share for the acquisition of the minority's shares has been established. Furthermore Alfa Laval has published an indicative offer of INR 2,850 per share. In order for the acquisition to get completed two thirds of all voting minority shareholders must first vote in favour of Alfa Laval's proposal, which happened on November 15, 2011. Then minority shareholders together holding at least 50 percent of the public float must be willing to sell at the final price that Alfa Laval accepts based on a reverse book building process. The reverse book building process was finalised on February 23, 2012 and minority shareholders together holding at least 50 percent of the public float are willing to sell to Alfa Laval at a price of INR 4,000 per share. The Board of Directors of Alfa Laval AB has therefore decided to proceed with the delisting process. When Alfa Laval has achieved an ownership of 94.4 percent, Alfa Laval (India) Ltd can apply for delisting. If all shareholders in the end sell their shares to Alfa Laval at this exit price the acquisition will incur a consideration of approximately SEK 1,065 million. If Alfa Laval had not succeeded in achieving an ownership of 94.4 percent in the currently ongoing process the company would have been required to increase the public float to 25 percent latest in June 2013.

On May 1, 2011 Alfa Laval acquired a well established service company in the U.S.. The company is a leading provider on the

North American market specialized in serving equipment for centrifugal separation. "The acquisition is another step in the ambition to serve the market with alternative offerings", says Lars Renström, President and CEO of the Alfa Laval Group. The company will remain a separate organization as they will continue to offer their own products and services to the industry, under their own brand.

In a press release on December 21, 2010, Alfa Laval announced that an agreement had been signed to acquire Aalborg Industries Holding A/S from Aitor 2003 Fund, LD Equity and the Company's management. Aalborg Industries had some 2,750 employees and generated sales of about SEK 3.3 billion in 2010. Clearances from all concerned regulatory authorities were received at the beginning of May 2011. Aalborg Industries are consolidated into the Alfa Laval Group as of May 1, 2011. Aalborg will be fully integrated into Alfa Laval. Non-recurring costs for the integration are estimated at SEK 80 million. During the latter part of 2013 the annual synergy is estimated at SEK 100 million.

The acquisition, which adds complementary energy-efficient and environmental solutions, represents a significant business opportunity as it supports Alfa Laval's existing offer to the marine and off-shore markets. Another opportunity lies in the introduction of Aalborg's products to customers in completely new end markets, through Alfa Laval's sales network.

"Aalborg Industries is an excellent fit and I'm very pleased to welcome a strong and well-run company into Alfa Laval", says Lars Renström, President and CEO of the Alfa Laval Group. The acquisition further strengthens Alfa Laval's product offering in heat transfer. It adds market-leading positions with products such as boilers and thermal fluid systems, as well as inert gas systems, with significant barriers to entry. These include extensive certification processes, a strong innovation track record and a global service network. The company's strong manufacturing and engineering presence in fast-growing markets such as China, Vietnam and Brazil, as well as the aftermarket potential generated by a large installed base, are also highly attractive attributes.

#### *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. 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 ship-

building 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.

#### **Sale of real estate**

During 2011 no major sale of properties took place. 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. The fair value of the concerned property exceeds the book value by approximately SEK 2 (2) million.

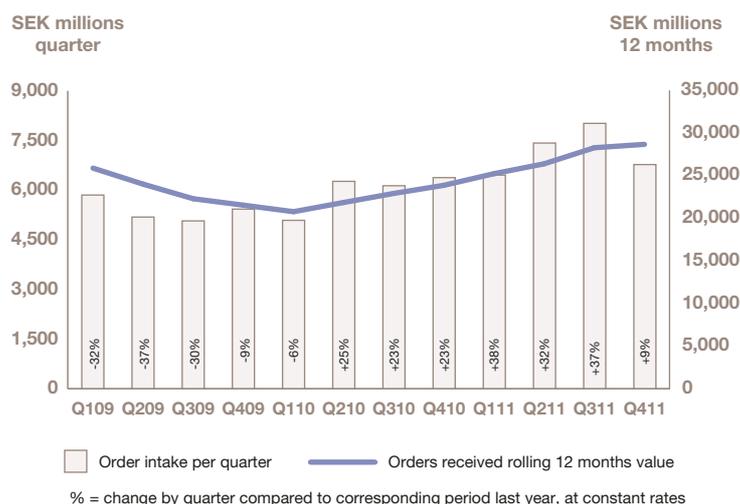
During 2010 a property in France was sold for SEK 6 million with a realised gain of SEK 6 million and a property in India was sold for SEK 7 million with a realised gain of SEK 4 million. The French property was for sale already at the end of last year, but it was not expected to be sold in 2010. No property was re-classified as current assets held for sale.

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

These disposals are reported as comparison distortion items in Note 8 to the consolidated comprehensive income statement.

## Orders received

### Orders received



Orders received amounted to SEK 28,671 (23,869) (21,539) million during 2011. Excluding exchange rate variations, the order intake for the Group was 28.3 percent higher than last year. Adjusted for acquisitions of businesses<sup>1)</sup>, the corresponding figure is an increase by 17.8 percent.

### Order bridge

Consolidated			
SEK millions, unless otherwise stated	2011	2010	2009
<b>Order intake last year</b>	23,869	21,539	27,464
Structural change	10.5%	4.1%	2.2%
Currency effects	-8.2%	-5.1%	6.5%
Organic development	17.8%	11.8%	-30.3%
<b>Total</b>	<b>20.1%</b>	<b>10.8%</b>	<b>-21.6%</b>
<b>Order intake current year</b>	<b>28,671</b>	<b>23,869</b>	<b>21,539</b>

Orders received from the aftermarket Parts & Service constituted 26.1 (28.5) percent of the Group's total orders received for 2011. Excluding exchange rate variations, the order intake for Parts & Service increased by 17.7 percent during 2011 compared to last year.

#### 1) Acquired businesses are:

Aalborg Industries at May 1, 2011,  
 a service company in the U.S. at May 1, 2011,  
 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.

## 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 2011 Alfa Laval has received large orders for SEK 1,430 (960) million. By quarter it has looked like the following:

During the first quarter 2011 Alfa Laval received large orders for SEK 185 (140) million:

- An order for a complete solution, including Alfa Laval's separators, mixers and heat exchangers, to a vegetable oil plant in India. The order value is about SEK 50 million and delivery is scheduled for 2011.
- An order for Alfa Laval Packinox heat exchangers to a refinery in Saudi Arabia. The order value is about SEK 75 million and delivery is scheduled for 2012.
- An order in Germany for oil treatment modules to a big diesel power plant project. The order value is about SEK 60 million and delivery is scheduled for 2012.

During the second quarter 2011 Alfa Laval received large orders for more than SEK 500 (240) million:

- An order in the U.S. to provide Alfa Laval Packinox heat exchangers to the world's largest concentrated solar power plant. The order value is substantial and well in line with the largest reported over the past 12 months. Delivery is scheduled for 2012.
- An order for compact heat exchangers from a refinery in Russia. The order value is about SEK 70 million and delivery is scheduled for 2012.
- An order for a complete solution to a vegetable oil plant in India. The order value is about SEK 65 million and delivery is scheduled for 2012.
- An order for a brewery solution from one of the largest global brewery groups. The order value is about SEK 135 million. Delivery is scheduled for 2011.

During the third quarter 2011 Alfa Laval received large orders for SEK 525 (270) million:

- An order to supply Alfa Laval Packinox heat exchangers to a petrochemical plant in Singapore. The order value is about SEK 110 million and delivery is scheduled for 2012.
- An order from a contractor in South Korea for heat exchangers to be installed in the first nuclear power plant in the United Arab Emirates (UAE). The order is worth approximately SEK 60 million and deliveries are scheduled to start in 2013 and be completed in 2018.
- An order for compact heat exchangers for a petrochemical plant in China. The order value is about SEK 50 million and delivery is scheduled for 2012.
- An order from a Japanese engineering company to supply heat exchangers for a new major natural gas project in Qatar. The order value is approximately SEK 90 million and delivery is scheduled for 2012.
- An order for supply of a complete process solution to a baby food manufacturer in India. The order value is about SEK 100 million and delivery is scheduled for 2013.

- An order to supply Alfa Laval Packinox heat exchangers to a refinery in Kazakhstan. The order value is approximately SEK 55 million and delivery is scheduled for 2012.
- An order to supply newly developed decanters for cleaning of industrial wastewater in Canada. The order value is approximately SEK 60 million and delivery is scheduled for 2012.

During the fourth quarter 2011 Alfa Laval received large orders for SEK 220 (310) million:

- An order to supply equipment to an edible oil company in Indonesia. The order value is approximately SEK 85 million and delivery is scheduled for 2012.
- An order from Wärtsilä Corporation to supply air cooled heat exchangers, boilers and separators for a combined cycle power plant for a gold mine in Dominican Republic. The order value is approximately SEK 65 million and delivery is scheduled for 2012.
- An order for compact heat exchangers from a refinery in Russia. The order value is approximately SEK 70 million and delivery is scheduled for 2012.

## Order backlog

### Order backlog December 31

SEK millions



The order backlog at December 31, 2011 was SEK 13,736 (11,552) (11,906) million. Excluding exchange rate variations and adjusted for acquisitions of businesses the order backlog was 3.4 percent higher than the order backlog at the end of 2010.

## Net sales

Net sales amounted to SEK 28,652 (24,720) (26,039) million during 2011. Excluding exchange rate variations, the invoicing was 23.7 percent higher than last year. Adjusted for acquisitions of businesses, the corresponding figure is an increase by 12.7 percent.

Net invoicing relating to Parts & Service constituted 25.9 (26.5) percent of the Group's total net invoicing for 2011.

## 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.

### Orders received and net sales

(all comments are after adjustment for exchange rate fluctuations)

Orders received increased by 31.1 percent and net sales increased by 24.7 percent excluding exchange rate variations during 2011 compared to last year. Adjusted for acquisitions of businesses, the corresponding figures are an increase by 16.2 percent and 8.5 percent respectively.

Taking a quarterly view the development for Equipment division during 2011 has been as follows:

The first quarter continued to show strong demand across all segments in the Equipment Division, which reported an overall and substantial increase in order intake versus the first quarter of last year. The Industrial Equipment segment experienced strong demand for refrigeration and engine applications. Meanwhile, investments in district heating and district cooling contributed to generate orders for heat transfer products in the Middle East as well as Western and Eastern Europe. Also OEM saw orders increase, due to strong demand for air conditioners, heat pumps and boilers. Demand for products sold by the Sanitary segment to the food and pharmaceutical industries

continued to grow at a high pace, as they have done for the last five quarters. This development has led to an order intake level for the last twelve months equal to the levels seen at the last peak 2007/2008. In the marine industry, the increase in last year's ship contracting levels had a positive impact, with strong demand for the entire Marine scope of supply. Furthermore, after a long period of hesitant behaviour and low investment levels in the diesel market, activity picked up during the quarter, resulting in the booking of some large orders. The utilization rate of the installed base of products for all segments was high, generating a continued increase in order intake for Parts & Service.

Order intake for the Equipment division increased in the second quarter, compared with the same period last year, as all capital sales segments reported growth. Industrial Equipment and its major applications within cooling, heating and refrigeration benefitted from rising demand for energy efficient solutions. Meanwhile, OEM customers continued to enjoy good demand for air conditioning units, gas boilers and heat pumps, which boosted the segment's order intake. In Marine & Diesel order intake grew, as the good contracting levels reported by the yards towards the end of last year not only lifted demand for the traditional portfolio, but also led to continued interest for the offering of environmental solutions. Industries within pharmaceuticals, personal care, food, dairy and beverages – end markets for the Sanitary segment – continued to report a high activity, especially in the fast growing economies in Asia. The Parts & Service business showed continued growth, as the high utilization rates of the installed base continued to trigger demand.

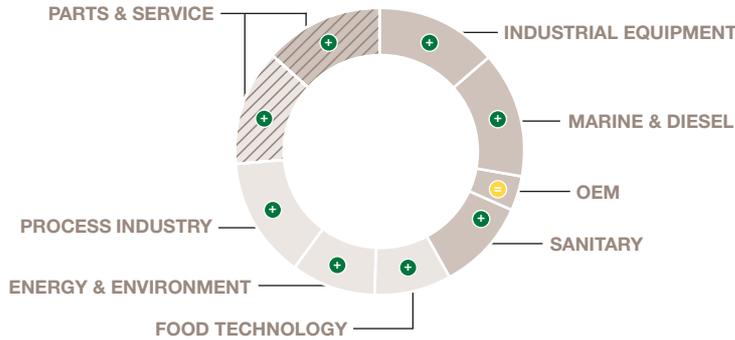
Order intake was unchanged in the third quarter compared with the same period last year due to a mixed demand situation in the different end markets. The Industrial Equipment segment was flat as a whole. Strong demand was reported for district heating and cooling applications as well as a good development for engine & transport applications. On the negative side was a lower demand for refrigeration applications as well as from fluid & utilities' customers. In Sanitary order intake dropped somewhat, stemming primarily from a decline in the food and beverage industries, even as the activity in pharmaceuticals and personal care still was very good. The OEM segment also saw a lower activity level as the large customers started to take a cautious approach to the current macro economic turbulence and adjust the manufacturing pace. The order intake in the Marine & Diesel

## Sales bridge

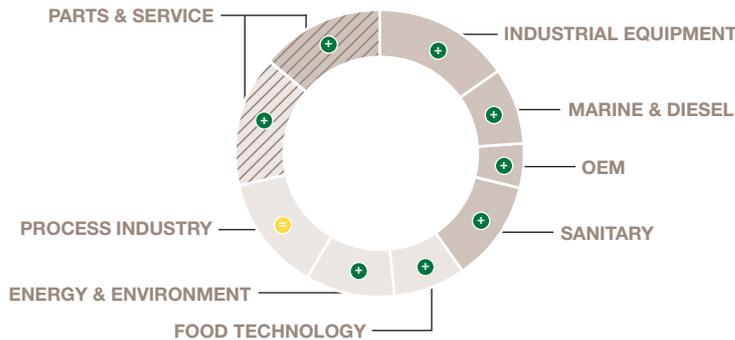
Consolidated			
SEK millions, unless otherwise stated	2011	2010	2009
<b>Net sales last year</b>	24,720	26,039	27,850
Structural change	11.0%	4.4%	2.9%
Currency effects	-7.8%	-4.3%	7.9%
Organic development	12.7%	-5.2%	-17.3%
<b>Total</b>	<b>15.9%</b>	<b>-5.1%</b>	<b>-6.5%</b>
<b>Net sales current year</b>	<b>28,652</b>	<b>24,720</b>	<b>26,039</b>

Orders received by customer segment

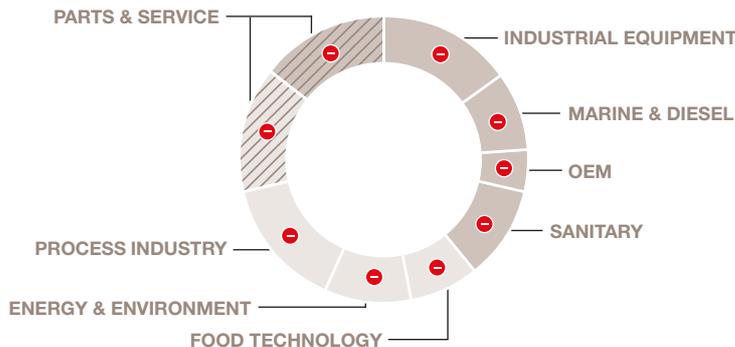
Orders received by customer segment 2011



Orders received by customer segment 2010



Orders received by customer segment 2009



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

As of April 1, 2011 the Process Technology division has been reorganized. This entails the former Life Science segment being incorporated, mainly into the Process Industry segment, but to a smaller extent also to the Food Technology and Energy & Environment segments. The reorganization is made in order to provide better service to the customers. The comparison figures for 2010 and 2009 have been changed correspondingly.

segment grew substantially. Demand was up for both the traditional Alfa Laval product range, including environmental solutions such as ballast water treatment, as well as the acquired Aalborg assortment. Demand for diesel power was also substantially higher. Parts & Service was flat.

Order intake for the division was down somewhat in the fourth quarter compared to the third quarter, affected by the development in Marine & Diesel and seasonal variations affecting district heating and cooling, as well as part of the OEM business. Compared with the fourth quarter 2010 order intake was slightly up. Industrial Equipment was down somewhat compared to the third quarter, influenced by the mentioned development for comfort-related applications. Other areas, however, such as the engine & transport market had a positive development, as new products continued to attract the customers' interest. At the same time, the refrigeration market benefitted from the division's focus on further developing the distribution channels. Both markets also faced a continued demand stemming from the customers' interest in energy efficient solutions. Compared with the fourth quarter last year Industrial Equipment reported an increase in order intake. In OEM activity was somewhat lower in the fourth quarter compared with the third as customers continued to adjust their manufacturing pace to reflect actual demand. Sanitary had a positive development compared with the third quarter, boosted by demand from industries including pharmaceuticals, personal care, food, dairy and beverages. This development was particularly noticeable in Western Europe and North America. Compared with the fourth quarter 2010, order intake was still down somewhat. Order intake for the Marine & Diesel segment decreased compared to the third quarter. Demand for marine equipment was down reflecting lower ship contracting volumes at the yards. Compared with the fourth quarter last year, order intake for the segment was higher, with strong growth reported in diesel and marine environment applications. Parts & Service had a continued stable development compared to both the third quarter 2011 and the fourth quarter 2010.

Operating income

(excluding comparison distortion items)

Operating income was SEK 2,994 (2,604) (2,530) million in 2011. The increase in operating income during 2011 compared to last year is mainly explained by increased volume, mitigated by higher costs and negative foreign exchange effects as well as a changed mix.

**PROCESS TECHNOLOGY DIVISION**

The Process Technology division consists of four customer segments: Energy & Environment, Food Technology, 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 25.0 percent and net sales increased by 22.7 percent excluding exchange rate variations during 2011 compared to last year. Adjusted for acquisitions of businesses, the corresponding figures are an increase by 19.7 percent and 18.5 percent respectively.

Taking a quarterly view the development for Process Technology division during 2011 has been as follows:

The Process Technology Division showed a strong order intake in the first quarter, compared with the same quarter last year. The trend was positive across the line with good growth for Parts & Service and an even stronger demand for capital equipment and solutions. The latter saw a positive contribution from large contracts, but the base business\* also delivered good growth. From a geographical perspective, the growth was similar in the different regions. Governments and municipalities in many countries started to ease investment restrictions and the market is returning to a more normal investment activity. This contributed to a recovery in demand for waste-water cleaning solutions in the Energy & Environment segment. The oil & gas market unit continued to benefit as the economic recovery and high energy prices reinforced the customers' investments in new capacity. The power market unit had a continued stable development. Process Industry noted strong growth over last year in all end markets. Particularly noticeable was the development in petrochemicals, which was characterized by increased utilization rates among customers. The refinery market unit also did very well and the inorganics, metals & paper market unit noted an increased activity. Western Europe was the region with the strongest performance. Food Technology delivered very strong growth in the quarter, partly driven by industry-wide investments in vegetable oil and partly by a strong growth in brewery. Improvements could be seen in most geographical areas, with the emerging markets standing out as demographic changes continued to contribute to boost demand there. The order intake for Life Science was up significantly, boosted by the development in industrial fermentation. Parts & Service had a good development compared to the first quarter of last year with solid demand not only for spare parts, but for repair, maintenance and

upgrades as well. All geographical regions and industry sectors did well, with a particularly strong development noted for oil & gas.

The division had a very strong order intake in the second quarter compared with the same quarter last year, with a positive development across all segments. Particularly evident was the contribution from large contracts, but the base business also reported very good growth. Parts & Service had a continued solid development. Geographically, the development was strongest in the Americas. Energy & Environment had a strong quarter as activity in the oil & gas market unit remained high with continued investments in new capacity. The power market unit had a strong quarter, even when excluding the very large solar power order recorded in the period. Process Industry noted strong growth over last year with a positive development across the line. The market units petrochemicals and refinery continued to grow and an even stronger development was seen in the market unit inorganics, metals & paper. The market unit natural resources benefitted from a good development in areas like ethanol and starch. Food Technology reported a very strong development in the quarter, partly derived from brewery, which saw increased capacity investments taking place in emerging markets such as Brazil and partly from the vegetable oil area, where similar investment patterns could be seen. Parts & Service reported a very good development, boosted in particular by Process Industry related applications. In terms of geographical regions, both Asia and Central and Eastern Europe did particularly well. Noticeable was that the overall increased end market activity, led to an increased share of large orders also for Parts & Service.

Order intake was very strong for the division in the third quarter, with all segments recording growth compared to the same quarter last year. Above average growth for large contracts had a strong impact, but the base business also showed a very good development. Parts & Service reported continued stable growth. Geographically all regions grew, with Asia being the strongest contributor. Growth in Energy & Environment was boosted by the oil & gas market unit, as continued high energy prices led to the realization of further capacity-related investments. A large order in Canada was also secured including newly developed equipment for industrial waste water treatment applications. Meanwhile, the power market unit was slightly below last year's level. The same applied to the environment market unit that was affected by the very large waste-water treatment order secured in the U.S. during the third quarter of 2010. Process Industry noted strong growth with a

positive development across all market units, where life science, refinery and petrochemicals were particularly noteworthy. The latter benefitted from significant sales volumes of large Packinox heat exchangers, primarily to the fast growing part of the world where consumption patterns and structural growth continued to drive demand for petrochemical-related applications. Food Technology also had a very strong performance as applications for the vegetable oil market unit continued to grow, primarily in Asia and Latin America. A further contributing factor was orders for some large biodiesel solutions in Latin America. The market unit beverage and viscous food continued to grow, and a significant order for equipment to a baby food plant in India was secured in the period. The good development in Parts & Service was visible across the line, but a higher activity level among customers in Process Industry as well as in the Food area was particularly noticeable.

Order intake was down in the fourth quarter compared with the record-strong third quarter, affected by the development for large orders in the capital sales segments. Aftermarket demand was still unchanged and the base business also remained on a flat level compared with the previous quarter. Geographically most regions noted a decline, with the exception of Central & Eastern Europe and Nordic, which were up. Energy & Environment was down compared to the third quarter as a result of a lower order intake in the power as well as oil & gas market units. The latter was negatively affected by some large orders of a non-repeat nature in the third quarter, influencing the comparison. The environment market unit grew, lifted by a strong development for the base business. Compared with the fourth quarter of last year Energy & Environment was unchanged and the oil & gas market unit was significantly stronger, boosted by a continued strong investment activity stemming from the high energy prices. Process Industry was down, both versus the previous quarter and the corresponding quarter of last year. The reduction compared to the previous quarter was seen for base business and large orders alike. But, even as the segment noted an overall decline, demand in the BRIC countries continued to grow. Food Technology also dropped compared with the third quarter, affected by the development in the market units beverage, viscous food and vegetable oil. The latter still reported continued growth in Asia, driven by continued capacity investments in the industry. Compared to the same quarter last year, Food Technology also noted a decline. A particularly good demand from customers in Energy & Environment, contributed to an overall stable development for Parts & Service.

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

**Operating income***(excluding comparison distortion items)*

Operating income was SEK 2,508 (2,159) (2,040) million in 2011. The increase in operating income during 2011 compared to last year is mainly explained by increased volume, mitigated by higher costs and negative foreign exchange effects as well as a changed mix.

**OTHER**

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

Operating income was SEK -568 (-405) (-138) million in 2011.

**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**

The order intake was strong in the first quarter, lifted by substantial growth in the base business\*. Large orders also had a solid development compared with the same period last year. All segments, except Life Science, grew substantially versus the first quarter last year, with the best development seen in Process Industry, Food Technology and Marine & Diesel. In Process Industry the development was particularly noticeable in petrochemicals, which was characterized by increased utilization rates among customers, but refinery also did very well. From a geographical perspective a particularly good order intake was noted in Iberica and Benelux.

Order intake grew in the second quarter compared to the corresponding period last year. The segments Parts & Service and Industrial Equipment within the Equipment division as well as Energy & Environment within the Process Technology division grew clearly. The base business had a very good development.

Order intake grew in the third quarter compared to the corresponding period last year, with the best development reported in Mid Europe, Nordic and Iberica. Among the segments Industrial Equipment and Marine & Diesel had a good development, as did Process Industry. A continued high activity level among customers in the latter segment contributed to a solid development for Parts & Service. The base business showed continued growth.

Overall order intake declined in the fourth quarter compared with the third quarter, affected by the development for large orders in the Process Technology division. The base business, however, showed continued growth and a good development was reported for Industrial Equipment, Sanitary and Food Technology. Geographically the picture was mixed, with a flat development in the Nordics,

continued growth in Benelux, France and Adriatic and a drop in demand in Mid Europe, Iberica and the UK. Compared to the fourth quarter 2010 order intake was up for the region as a whole.

**Central and Eastern Europe**

Order intake rose in the first quarter compared with the same quarter last year, driven by a very strong development for both the base business and Parts & Service. Most segments showed growth, with Sanitary and Food Technology doing particularly well. From a geographical perspective, countries like Russia, the Baltic States and the Czech Republic did well.

The development in the second quarter was excellent for base business and large orders alike. Most segments showed growth with Process Industry and Marine & Diesel doing particularly well. Russia, Turkey and the Baltic states reported the strongest development.

Order intake in Central & Eastern Europe was strong in both divisions during the third quarter, with a good activity level in the project related business as well as Parts & Service. Most segments did better than the corresponding period last year and Process Industry, Marine & Diesel and Food Technology did particularly well. Russia, Ukraine and Romania all reported good growth.

The development in Central & Eastern Europe was strong in the fourth quarter compared with the third quarter. The development was boosted by large orders for segments in the Process Technology Division such as Energy & Environment, Food Technology and Process Industry, which all did very well. The Equipment Division showed a small decline even as Marine & Diesel continued to report a good order intake. Countries such as Turkey, the Central European countries and Russia all reported solid growth.

**North America**

Order intake grew substantially in the first quarter compared with the first quarter last year, with a good contribution coming from the base business. All segments except Marine & Diesel grew substantially compared to last year.

Order intake grew substantially in the region during the second quarter compared with the corresponding quarter last year, as all capital sales segments reported a positive development. Particularly worth mentioning is also the large order booked for Alfa Laval Packinox heat exchangers to the world's largest concentrated solar power plant. Demand for Parts & Service contracted somewhat in the region, mainly due to the fact that Canada had an exceptional aftermarket demand in the second quarter of last year. In the U.S. demand for parts and service grew. The

base business had a good development.

Order intake grew in the region in the third quarter compared with the corresponding quarter last year, with most capital sales segments reporting a positive development. Energy & Environment was boosted by the development in the oil & gas market unit, as continued high energy prices led to the initiation of further capacity-related investments. Another positive impact to the segment came from the large industrial wastewater order which was won in Canada during the period. Demand for Parts & Service was up across the region, particularly in the U.S. and a continued good development was also seen in the base business.

Order intake declined in the fourth quarter compared to the third quarter, explained by a large order in the third quarter which was not repeated in the fourth. The base business was unchanged compared with the previous quarter. Otherwise, Industrial Equipment, OEM and Food Technology all did well. Compared with the fourth quarter 2010 order intake grew.

**Latin America**

Order intake in Latin America had an excellent development in the first quarter with growth reported across the line for the base business, Parts & Service and large orders alike. Segments in the Process Technology Division all developed very well, while the Equipment Division was flat. Countries with particularly strong growth include Brazil, Mexico and Chile.

The second quarter saw a very strong development in Latin America, boosted by the bookings of various large orders for segments in the Process Technology division. Food Technology reported a very good development. Good growth was also recorded in Industrial Equipment and Parts & Service. Countries with a good order intake included Brazil, mainly for Process Technology and Chile and Mexico for the Equipment division.

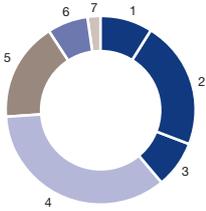
Latin America had a good development during the third quarter, with growth in both divisions and particularly in the Process Industry, Parts & Service, Food Technology and Industrial Equipment segments. Countries with good order intake growth included Brazil, Argentina and Mexico.

In Latin America order intake was down somewhat in the fourth quarter compared to the third quarter, explained by large orders that were not repeated in the Process Technology Division. Still, the Energy & Environment segment showed good growth, as did the Equipment Division as a whole. Looking at the separate countries, Argentina was down due to the non-repeats, while Chile, Mexico and the North Andean countries had a good order development.

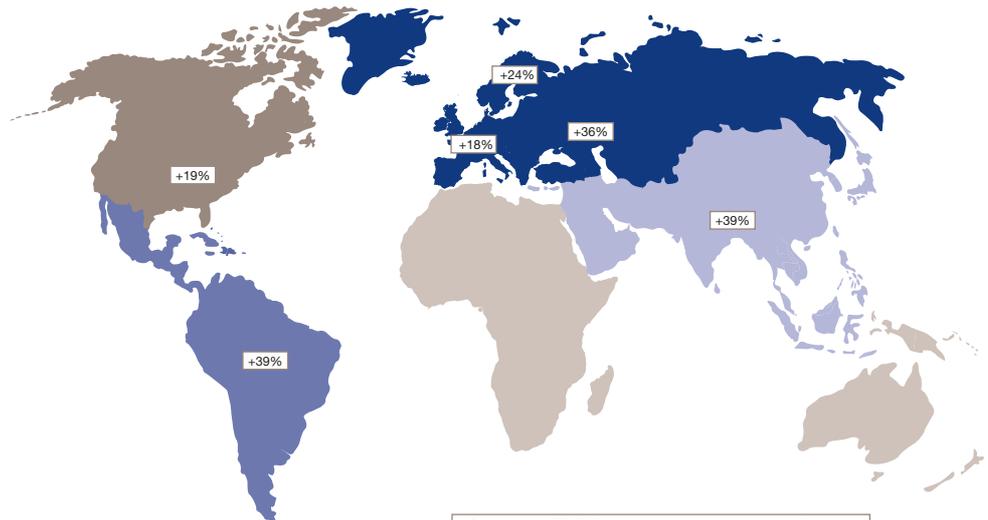
\* Base business and base orders refer to orders with an order value of less than EUR 0.5 million.

Information about geographical areas

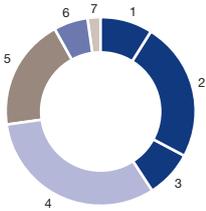
Orders received 2011



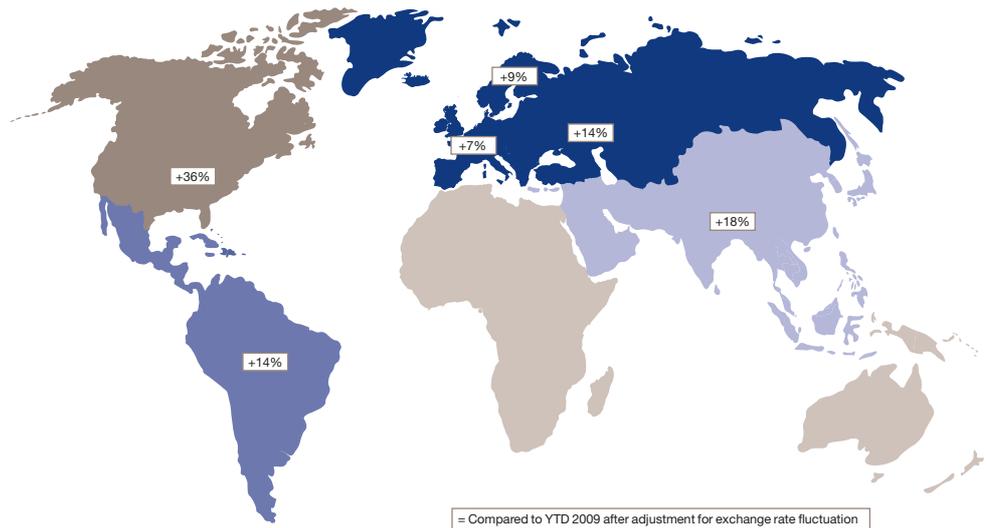
- 1 Nordic 9%
- 2 Western Europe 22%
- 3 Central & Eastern Europe 8%
- 4 Asia 35%
- 5 North America 17%
- 6 Latin America 7%
- 7 Other 2%



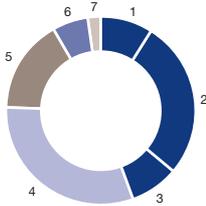
Orders received 2010



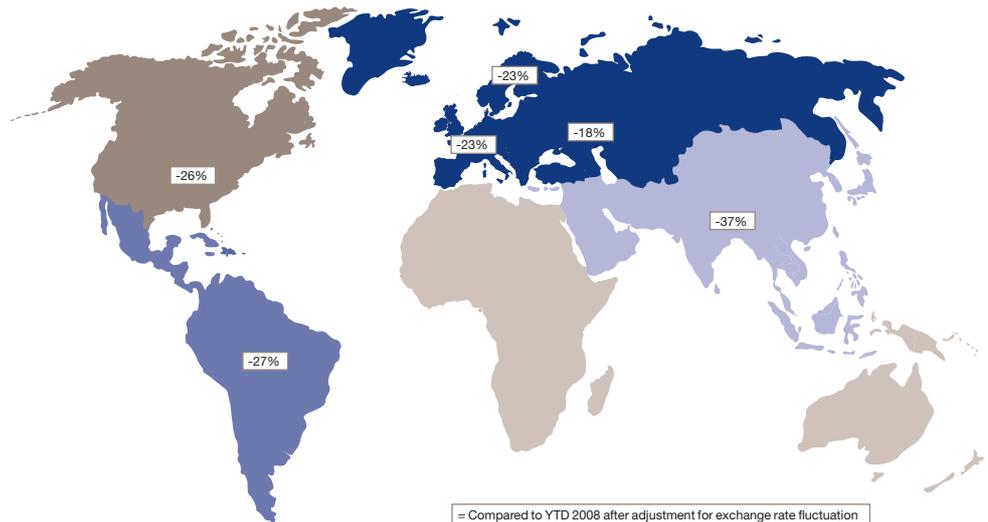
- 1 Nordic 9%
- 2 Western Europe 24%
- 3 Central & Eastern Europe 8%
- 4 Asia 32%
- 5 North America 19%
- 6 Latin America 6%
- 7 Other 2%



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%



## Asia

Order intake in the first quarter showed a very strong development compared to the same period last year. The base business did particularly well, but large orders and Parts & Service for both divisions also met a solid demand. The positive development was broad-based both in terms of geography and segment. The Equipment and Process Technology Divisions were strong, with the best segment performance seen in Marine and Process Industry. Marine rose on the back of orders logged at the yards during the course of last year. Both Sanitary and Food Technology also showed a good development across the region's fast-growing economies. A very strong development was noted in China, Korea and Taiwan. Alfa Laval in South East Asia and Japan also enjoyed good growth. The catastrophe in Japan in March has this far had a limited effect on the operations.

Order intake showed a substantial increase in the second quarter compared to the same period last year. The performance was broad based, across most segments and countries. A particularly good development was seen in Energy & Environment and Marine, where the latter continued to benefit from orders placed at the yards last year. The base business' good trend continued as did it for Parts & Service. China had a continued strong performance, together with South East Asia.

Order intake showed a substantial increase in the third quarter compared to the same period last year. The performance was particularly strong in the Process Technology division, where the development was driven by large orders secured during the quarter. Marine & Diesel also performed well and continued to benefit from orders placed at the yards in China and Korea late last year. The base business continued to report growth and Parts & Service also had a good development. From a geographical view the positive development was broad based across most countries with the best performance seen in South East Asia, Japan and India.

Order intake declined in the fourth quarter compared to the third, affected by a drop in orders in the Marine & Diesel segment. Another factor explaining the development was the Process Industry segment, which had tough numbers to beat since the third quarter included some very large orders. Worth noting is that the third quarter was the strongest since the second quarter of 2008. When comparing the fourth quarter with the corresponding quarter last year, orders were still on a substantially higher level for the region. From a geographical perspective, India recorded a slower quarter for large projects compared to the third quarter, but the base business still grew. China had a similar development as larger projects were deferred. South East Asia,

however, reported order intake in line with the previous quarter with Indonesia showing a particularly strong performance.

## 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 648 (625) (654) million, corresponding to 2.3 (2.5) (2.5) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have increased by 3.3 percent compared to last year.

## Ethics and social responsibility

Two of Alfa Laval's four business principles are: "Respect for human rights is fundamental" and "High ethical standards guide our conduct". This means that Alfa Laval respects 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 2011 25 (25) (22) production sites with ISO 14001 certification accounted for about 92 (95) (95) percent of the delivery value. The decrease is due to the sites that have been added in connection with the acquisitions and that are not yet certified. Another two sites have ongoing certifications. The goal is to have a certification level of at least 95 percent.

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, 2011, named as a co-defendant in a total of 714 asbestos-related lawsuits with a total of approximately 800 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

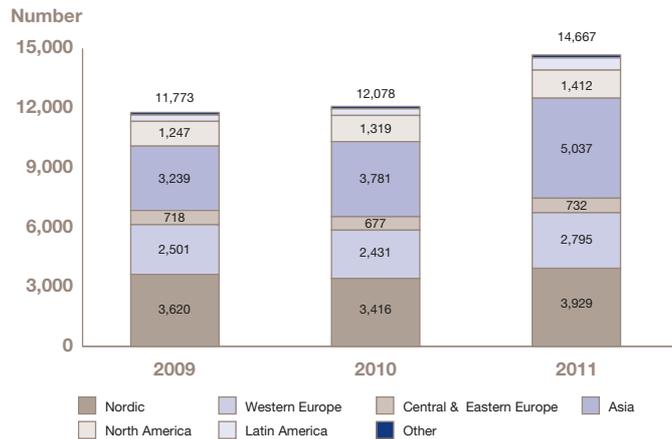
The parent company does not have any employees.

The Group has on average had 14,667 (12,078) (11,773) employees. At the end of December 2011 the Group had 16,064 (12,618) (11,390) employees. The employee turnover rate for 2011 is 8.6 (9.5) (13.4) percent and mainly relates to employees within the sales organisation and manufacturing units.

**Employees**

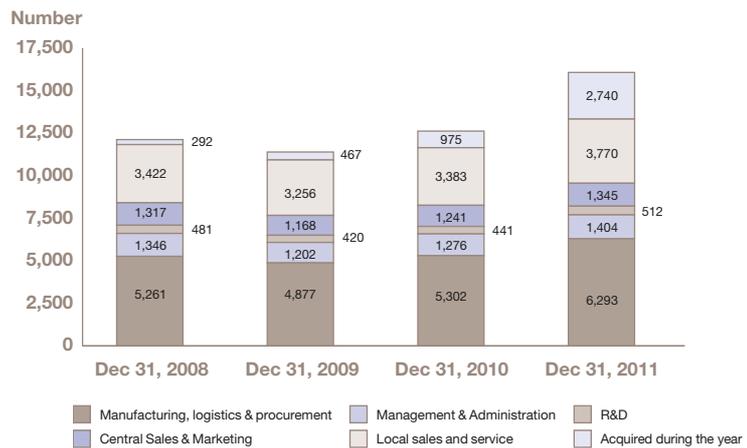
The distribution of the number of employees by region is:

**Average number of employees - by region**



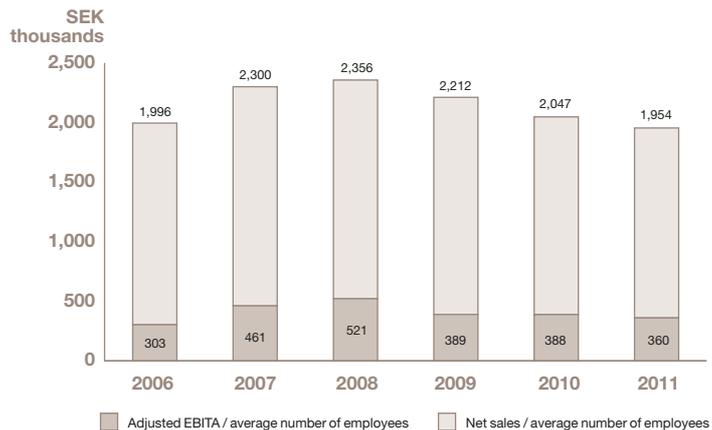
The distribution of the number of employees by personnel category is:

**Employees - by category**



The productivity by employee has developed as follows:

**Employees - Productivity development**



The figures for 2007 and 2008 were inflated by the high metal prices. The outcome for 2009 and 2010 has been affected by the financial crisis and the outcome for 2011 by the acquisition of Aalborg Industries and the Euro crisis. Aalborg Industries has a lower turnover per employee than Alfa Laval. The figure for 2009 was also affected by the fact that it takes some time until the average number of employees decrease as a consequence of the restructuring measures.

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 Meeting 2011 decided to implement step one of a modified cash based long term incentive programme for maximum 85 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 2012 to implement step two of the modified cash based long term incentive programme for the period January 1, 2012 – December 31, 2014. 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 2,187 (3,431) (4,079) million, out of which dividends from subsidiaries were SEK 1,679 (2,288) (3,201) million, group contributions SEK 405 (1,154) (878) million, net interests SEK 113 (16) (11) million, realised and unrealised exchange rate gains and losses SEK -0 (-3) (-10) million, consideration from external captive SEK - (-) (14) million, costs related to the listing SEK -3 (-2) (-2) million, fees to the Board SEK -5 (-5) (-5) million, costs for annual report and annual general meeting SEK -3 (-5) (-4) million and other operating costs the remaining SEK 1 (-12) (-4) million. Appropriation to tax allocation reserve has been made with SEK -115 (-232) (-225)

million. Income taxes amount to SEK -110 (-248) (-177) million. Net income for the year was SEK 1,962 (2,951) (3,677) million.

#### Unrestricted equity for the parent company

The unrestricted equity of Alfa Laval AB (publ) was SEK 9,668 (8,964) (7,321) million. The figures have been affected by repurchase of shares by SEK - (-253) (-) million.

#### Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 3.25 (3.00) (2.50) per share corresponding to SEK 1,363 (1,258) (1,055) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 8,305 (7,706) (6,266) million be carried forward, see page 126.

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.

#### Cancellation of repurchased shares and a corresponding bonus issue

On March 21, 2011 when the notice to the Annual General Meeting was sent the number of repurchased shares was 2,583,151. The Annual General Meeting 2011 decided to cancel these repurchased shares. Cancellation of these shares has meant that the share capital has decreased with SEK 7 million. At the same time the Annual General Meeting decided to increase the share capital through a bonus issue of the same amount without issuing any shares. In this way the size of the share capital was restored and the company did not have to obtain permission from the Swedish Companies Registration Office (Bolagsverket), or if disputed the local court to cancel the repurchased shares. This means that the number of shares has developed as follows:

#### Repurchase of shares

The Annual General Meeting 2011 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, 2011 Alfa Laval has not made any repurchases.

#### Proposal on repurchase of 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 the Annual General Meeting to mandate the Board to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate will refer 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 will be made through transactions on OMX Stockholm Stock Exchange.

#### 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 23, 2012.

#### Outlook for the first quarter

In the fourth quarter and full year 2011 report issued on February 7, 2012, the President and Chief Executive Officer Lars Renström stated:

"We expect that demand during the first quarter 2012 will be in line with or somewhat higher than in the fourth quarter."

Earlier published outlook (October 21, 2011):

"We expect that demand during the fourth quarter 2011 will be in line with or somewhat lower than in the third quarter."

#### Date for the next financial reports during 2012

Alfa Laval will publish interim reports during 2012 at the following dates:

Interim report for:	
the first quarter	April 23
the second quarter	July 17
the third quarter	October 23

#### Specification of number of shares

	Number
Number of shares at January 1, 2011	422,039,466
Cancellation of re-purchased shares	-2,583,151
Number of shares at December 31, 2011	419,456,315

## Consolidated cash flows

<b>Consolidated cash flows</b>				
SEK millions	Note	2011	2010	2009
<b>Operating activities</b>				
Operating income		4,691	4,401	4,030
Adjustment for depreciation		875	796	721
Adjustment for other non-cash items		167	145	37
		5,733	5,342	4,788
Taxes paid		-1,446	-1,215	-1,533
		4,287	4,127	3,255
Changes in working capital:				
Increase(-)/decrease(+) of receivables		-157	360	1,776
Increase(-)/decrease(+) of inventories		-1,172	-536	1,439
Increase(+)/decrease(-) of liabilities		611	332	-1,233
Increase(+)/decrease(-) of provisions		-140	-185	110
<b>Increase(-)/decrease(+) in working capital</b>		<b>-858</b>	<b>-29</b>	<b>2,092</b>
		<b>3,429</b>	<b>4,098</b>	<b>5,347</b>
<b>Investing activities</b>				
Investments in fixed assets (Capex)		-555	-429	-451
Divestment of fixed assets		14	31	8
Acquisition of businesses	16	-4,956	-1,019	-2,177
		<b>-5,497</b>	<b>-1,417</b>	<b>-2,620</b>
<b>Financing activities</b>				
Received interests and dividends		91	52	32
Paid interests		-271	-139	-292
Realised financial exchange differences		285	3	-5
Repurchase of shares		-	-253	-
Dividends to owners of the parent		-1,258	-1,055	-949
Dividends to non-controlling interests		-10	-9	-6
Increase(-)/decrease(+) of financial assets		-17	-389	213
Increase(+)/decrease(-) of borrowings		3,497	-641	-1,660
		<b>2,317</b>	<b>-2,431</b>	<b>-2,667</b>
<b>Cash flow for the period</b>				
		<b>249</b>	<b>250</b>	<b>60</b>
Cash and bank at the beginning of the period		1,328	1,112	1,083
Translation difference in cash and bank		-13	-34	-31
<b>Cash and bank at the end of the period</b>	25	<b>1,564</b>	<b>1,328</b>	<b>1,112</b>
Free cash flow per share (SEK) *		-4.93	6.38	6.46
Capex in relation to sales		1.9%	1.7%	1.7%
Average number of shares **		419,456,315	420,494,001	422,039,466

\* Free cash flow is the sum of cash flows from operating and investing activities.

\*\* Average number of shares has been affected by repurchase of shares.

## Comments to the consolidated cash-flows

For further comments on certain individual lines in the cash-flow statement, reference is made to Notes 16 and 25.

### **Cash flows from operating activities**

The decrease in cash flows from operating activities in 2011 is explained by the increase in working capital and higher tax payments, partly compensated by higher earnings.

### **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 -2,068 (2,681) (2,727) million during 2011. Out of this, acquisitions of businesses were SEK -4,956 (-1,019) (-2,177) million whereas divestments generated cash of SEK 14 (31) (8) 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 858 million during 2011 whereas the corresponding figure for 2010 was an increase by SEK 29 million and for 2009 a decrease by SEK 2,092 million.

### **Investments**

Investments in property, plant and equipment amounted to SEK 555 (429) (451) million during 2011. 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 Jiang Yin in China for brazed heat exchangers. Investments have been made in Jiang Yin in China, in Pune in India and in Lund in Sweden in equipment to increase capacity and widen the product range for gasketed heat exchangers. Investments in air heat exchanger manufacturing equipment have been made in Sao Paulo in Brazil and in Kunshan in China.

#### ***Decanters***

During 2011 no major investments have been made relating to decanters.

#### ***High speed separators***

Investments in machine capacity have been made during the year in Eskilstuna in Sweden and in Pune in India.

#### ***Fluid handling products***

Investments have been made in lean manufacturing in Kolding in Denmark and in Kunshan in China for the product range of valves and pumps.

#### ***Depreciations***

Depreciation, excluding allocated step-up values, amounted to SEK 449 (425) (391) million during the year.

#### ***Acquisitions and disposals***

For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 16.

#### ***Free cash flow per share***

The free cash flow per share is SEK -4.93 (6.38) (6.46).

# Consolidated comprehensive income

Consolidated comprehensive income				
SEK millions	Note	2011	2010	2009
Net sales	1, 2, 3, 4	28,652	24,720	26,039
Cost of goods sold	9	-17,829	-15,029	-16,411
Gross profit		10,823	9,691	9,628
Sales costs	5, 6, 9	-3,410	-3,156	-3,179
Administration costs	5, 6, 7, 9	-1,601	-1,224	-1,132
Research and development costs	9	-648	-625	-654
Other operating income *	8	403	494	442
Other operating costs *	8, 9	-876	-779	-1,075
Operating income		4,691	4,401	4,030
Dividends and changes in fair value	10	0	2	-1
Interest income and financial exchange rate gains	11	436	327	404
Interest expense and financial exchange rate losses	11	-451	-366	-673
Result after financial items		4,676	4,364	3,760
Tax on this year's result	15	-1,403	-1,240	-1,017
Other taxes	15	-22	-8	-6
<b>Net income for the year</b>		<b>3,251</b>	<b>3,116</b>	<b>2,737</b>
Other comprehensive income:				
Cash flow hedges		-335	122	551
Translation difference		-206	-554	-392
Deferred tax on other comprehensive income	15	120	-36	-175
<b>Comprehensive income for the year</b>		<b>2,830</b>	<b>2,648</b>	<b>2,721</b>
<b>Net income attributable to:</b>				
Owners of the parent		3,223	3,088	2,710
Non-controlling interests		28	28	27
Earnings per share (SEK)		7.68	7.34	6.42
Average number of shares **		419,456,315	420,494,001	422,039,466
<b>Comprehensive income attributable to:</b>				
Owners of the parent		2,812	2,625	2,684
Non-controlling interests		18	23	37

\* The line has been affected by comparison distortion items, see specification in Note 8.

\*\* Average number of shares has been affected by repurchase of shares.

## 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 15 and Note 28. 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	2011	2010	2009
Net sales	28,652	24,720	26,039
Adjusted gross profit *	11,249	10,062	9,958
<b>- in % of net sales</b>	<b>39.3</b>	<b>40.7</b>	<b>38.2</b>
Expenses **	-5,513	-4,955	-4,982
- in % of net sales	19.2	20.0	19.1
<b>Adjusted EBITDA</b>	<b>5,736</b>	<b>5,107</b>	<b>4,976</b>
- in % of net sales	20.0	20.7	19.1
Depreciation	-449	-425	-391
<b>Adjusted EBITA</b>	<b>5,287</b>	<b>4,682</b>	<b>4,585</b>
<b>- in % of net sales</b>	<b>18.5</b>	<b>18.9</b>	<b>17.6</b>
Amortisation of step up values	-426	-371	-330
Comparison distortion items	-170	90	-225
Operating income	4,691	4,401	4,030

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

The gross margin has been affected by negative exchange rate effects and a negative mix effect mainly through a lower share of parts & service sales. In addition the gross margin in the quarter has been affected among others by somewhat lower metal prices and lower margins on certain contract based sales. A lower utilisation in certain factories based on the demand combined with inventory reduction has also influenced the margin negatively.

Sales and administration expenses amounted to SEK 5,011 (4,380) (4,311) million. Adjusted for exchange rate variations and acquisitions of businesses, sales and administration expenses were 11.4 percent higher than last year. The increase is mainly explained by a generally much higher activity level and a continued development of the organisation in above all the BRIC countries.

The costs for research and development have amounted to SEK 648 (625) (654)

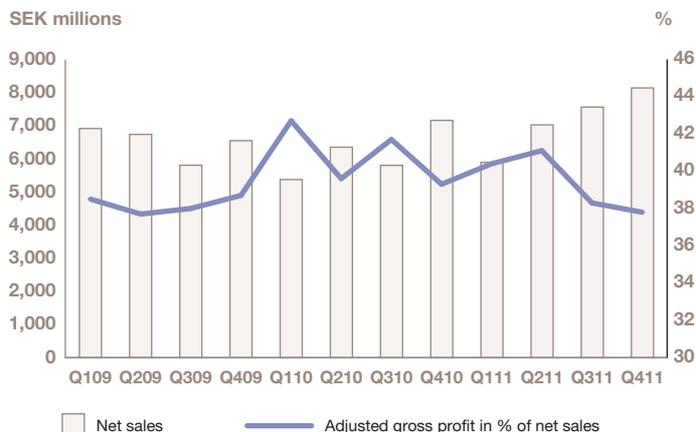
million, corresponding to 2.3 (2.5) (2.5) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have increased by 3.3 percent compared to last year.

The net income attributable to the owners of the parent, excluding depreciation of step-up values and the corresponding tax, is SEK 8.42 (8.02) (7.00) per share.

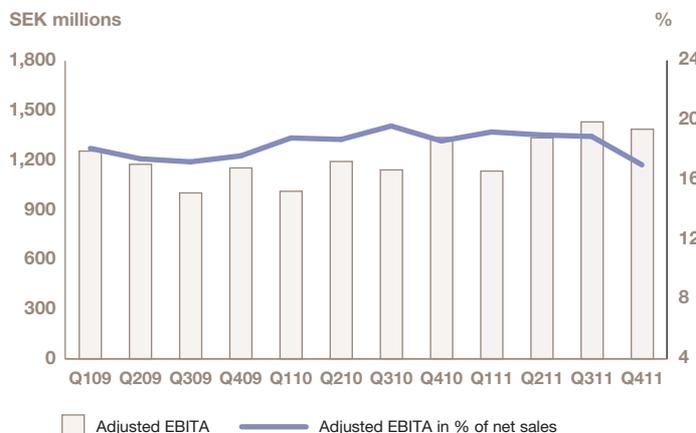
Compared with last year Alfa Laval has been affected during 2011 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The effect on adjusted EBITA has been calculated to totally about SEK -468 (356) (166) million for 2011 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 -170 (90) (-225) 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 8.

The comparison distortion costs during 2011 of SEK -170 million is related to structural costs for saving measures of SEK -90 million and non-recurring integration costs of SEK -80 million in connection with the acquisition of Aalborg Industries respectively. The saving measures are mainly relating to capacity adjustments and cost reductions in the manufacturing due to the demand for certain products as well as cost reductions in the sales companies primarily in Western Europe. The measures are expected to affect approximately 250 employees.

SEK 80 million of the comparison distortion income during 2010 related 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 was reversed. The remaining SEK 10 million related to realised gains on sale of properties in France and India.

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

The financial net has amounted to SEK -130 (-111) (-208) 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 -34 (-1) (-58) million, interest on the bilateral term loans SEK -62 (-7) (-9) million, interest on the private placement of SEK -17 (-21) (-35) million and a net of dividends, other interest income and interest costs of SEK -17 (-82) (-106) million.

The net of realised and unrealised exchange rate differences amounts to SEK 115 (74) (-62) 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	2011	2010	2009
Opening balance	229	107	-444
Booked into other comprehensive income during the year	-326	123	571
Reversed from other comprehensive income due to inefficiency:			
booked against cost of goods sold	-4	-57	23
Reversed from other comprehensive income:			
booked against cost of goods sold	-19	55	2
booked against interest income/interest costs	14	1	-45
<b>Closing balance</b>	<b>-106</b>	<b>229</b>	<b>107</b>
Change reported against other comprehensive income	-335	122	551

The Group has not had any cash flow hedges that have affected the initially recognised carrying amount of non-financial assets.

In the item cash flow hedges in other comprehensive income the fair value changes in shares in external companies is also included with SEK 0 (0) (0) million for 2011. They are not material enough to render a separate line the comprehensive income statement.

### Accumulated translation differences \*

Consolidated				
SEK millions				
Year	Main explanation to translation differences	Change	Accumulated	Pre-tax 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	195
2004	The USD was depreciated by 9.0 %	-103	-328	-19
2005	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	264	-64	-65
2006	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	-269	-333	56
2007	The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 %	224	-109	13
2008	The USD was appreciated by 20.5 % and the EUR was appreciated by 16.2 %	850	744	-468
2009	The USD was depreciated by 7.5 % and the EUR was depreciated by 6.0 %	-392	352	220
2010	The USD was depreciated by 5.7 % and the EUR was depreciated by 12.9 %	-554	-202	99
2011	The USD was appreciated by 1.4 % whereas the EUR was depreciated by 0.8 %	-206	-408	34

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

The comparison figures for 2003 up to and including 2010 have been changed to the pre-tax value.

## Consolidated financial position

Consolidated financial position			
<b>ASSETS</b>			
SEK millions	Note	2011	2010
<b>Non-current assets</b>			
<b>Intangible assets</b>			
	16, 17		
Patents and unpatented know-how		1,327	1,180
Trademarks		2,130	1,357
Licenses, renting rights and similar rights		45	44
Goodwill		9,543	5,952
		13,045	8,533
<b>Property, plant and equipment</b>			
	16, 18		
Real estate		1,734	1,412
Machinery and other technical installations		1,439	1,363
Equipment, tools and installations		555	571
Construction in progress and advances to suppliers concerning property, plant and equipment		208	166
		3,936	3,512
<b>Other non-current assets</b>			
Other long-term securities	13, 14, 19	25	32
Pension assets	26	346	235
Deferred tax assets	15	1,293	1,301
		1,664	1,568
<b>Total non-current assets</b>		<b>18,645</b>	<b>13,613</b>
<b>Current assets</b>			
<b>Inventories</b>			
	20		
		6,148	4,769
<b>Current receivables</b>			
Accounts receivable	13, 21	5,080	4,181
Current tax assets		918	832
Other receivables	13, 22	1,188	1,046
Prepaid costs and accrued income	13, 23	174	181
Derivative assets	13, 14	303	644
		7,663	6,884
<b>Current deposits</b>			
Other current deposits	13, 24	483	575
<b>Cash and bank</b>			
	13, 25		
		1,564	1,328
<b>Total current assets</b>		<b>15,858</b>	<b>13,556</b>
<b>TOTAL ASSETS</b>		<b>34,503</b>	<b>27,169</b>

## Consolidated financial position, continued

<b>EQUITY AND LIABILITIES</b>			
SEK millions	Note	2011	2010
<b>Equity</b>			
<b>Attributable to owners of the parent</b>			
Share capital		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-448	-37
Retained earnings		11,543	9,577
		14,982	13,427
<b>Attributable to non-controlling interests</b>	12	162	155
<b>Total equity</b>		<b>15,144</b>	<b>13,582</b>
<b>Non-current liabilities</b>			
Liabilities to credit institutions	28	1,353	292
Swedish Export Credit	28	1,787	-
European Investment Bank	28	1,162	-
Private placement	28	758	749
Provisions for pensions and similar commitments	26	852	847
Provision for deferred tax	15	1,930	1,617
Other provisions	27	520	632
<b>Total non-current liabilities</b>		<b>8,362</b>	<b>4,137</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	28	132	173
Advances from customers		2,020	1,357
Accounts payable		2,529	2,120
Notes payable		139	119
Current tax liabilities		1,050	1,035
Other liabilities	29	1,356	1,476
Other provisions	27	1,612	1,496
Accrued costs and prepaid income	30	1,731	1,524
Derivative liabilities	13, 14	428	150
<b>Total current liabilities</b>		<b>10,997</b>	<b>9,450</b>
<b>Total liabilities</b>		<b>19,359</b>	<b>13,587</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>34,503</b>	<b>27,169</b>
<b>PLEDGED ASSETS AND CONTINGENT LIABILITIES</b>			
<b>Pledged assets</b>	31	51	25
<b>Contingent liabilities</b>	31	1,722	1,693

## Comments on the consolidated financial position

For comments on the individual lines in the statement on financial position, reference is made to Notes 12 to 34. For comments on the operating segments, see Note 1.

### Capital employed

The average capital employed including goodwill and step-up values amounted to SEK 16,324 (12,752) million during the year.

### Return on capital employed

The return on average capital employed including goodwill and step-up values amounted to 31.3 (37.4) 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 1.8 (1.9) times for the year.

### Return on equity

Net income in relation to the average equity was 22.9 (24.4) percent during the year.

### Solidity

The solidity, that is the equity in relation to total assets, was 43.9 (50.0) percent at the end of the year.

### Net debt

The net debt was SEK 3,264 (-551) million at the end of the year.

### Net debt to EBITDA

Net debt in relation to EBITDA was 0.6 (-0.1) times at the end of December.

### Debt ratio

The debt ratio, that is the net debt in relation to equity, was 0.22 (-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
	Share capital	Other contributed capital	Cash flow hedges	Other reserves			Subtotal	Translation differences	Retained earnings	Subtotal	
				Translation differences	Deferred tax	Retained earnings					
SEK millions											
<b>As of December 31, 2008</b>	<b>1,117</b>	<b>2,770</b>	<b>-444</b>	<b>754</b>	<b>142</b>	<b>6,039</b>	<b>10,378</b>	<b>-10</b>	<b>125</b>	<b>115</b>	<b>10,493</b>
<b>2009</b>											
<b>Comprehensive income</b>											
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
<b>Transactions with shareholders</b>											
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
<b>As of December 31, 2009</b>	<b>1,117</b>	<b>2,770</b>	<b>107</b>	<b>352</b>	<b>-33</b>	<b>7,800</b>	<b>12,113</b>	<b>0</b>	<b>116</b>	<b>116</b>	<b>12,229</b>
<b>2010</b>											
<b>Comprehensive income</b>											
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
<b>Transactions with shareholders</b>											
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
<b>As of December 31, 2010</b>	<b>1,117</b>	<b>2,770</b>	<b>229</b>	<b>-197</b>	<b>-69</b>	<b>9,577</b>	<b>13,427</b>	<b>-5</b>	<b>160</b>	<b>155</b>	<b>13,582</b>
<b>2011</b>											
<b>Comprehensive income</b>											
Net income	-	-	-	-	-	3,223	3,223	-	28	28	3,251
Other comprehensive income	-	-	-335	-196	120	-	-411	-10	-	-10	-421
Comprehensive income	-	-	-335	-196	120	3,223	2,812	-10	28	18	2,830
<b>Transactions with shareholders</b>											
Cancellation of repurchased shares	-7	-	-	-	-	-	-7	-	-	-	-7
Bonus issue of shares	7	-	-	-	-	-	7	-	-	-	7
Decrease of non-controlling interests	-	-	-	-	-	1	1	-	-1	-1	0
Non-controlling interests in acquired companies	-	-	-	-	-	-	-	-	0	0	0
Dividends to owners of the parent	-	-	-	-	-	-1,258	-1,258	-	-	-	-1,258
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-10	-10	-10
<b>As of December 31, 2011</b>	<b>1,117</b>	<b>2,770</b>	<b>-106</b>	<b>-393</b>	<b>51</b>	<b>11,543</b>	<b>14,982</b>	<b>-15</b>	<b>177</b>	<b>162</b>	<b>15,144</b>

## 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 SEK millions	Total share capital SEK millions
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
2011	Cancellation of repurchased shares	May 16, 2011	-2,583,151	419,456,315	-7	
	Bonus issue of shares	May 16, 2011	–	419,456,315	7	1,117

## 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.

On March 21, 2011 when the notice to the Annual General Meeting was sent the number of repurchased shares was 2,583,151. The Annual General Meeting 2011 decided to cancel these repurchased shares. Cancellation of these shares has meant that the share capital has decreased with SEK 6,835,039. At the same time the Annual General Meeting decided to increase the share capital through a bonus issue of the same amount without issuing any shares. In this way the size of the share capital was restored and the company did not have to obtain permission from the Swedish Companies Registration Office (Bolagsverket), or if disputed the local court to cancel the repurchased shares.

At January 1, 2011 the share capital of SEK 1,116,719,930 was divided into 422,039,466 shares. Since then the following changes have taken effect:

### Specification of number of shares

	Number
Number of shares at January 1, 2011	422,039,466
Cancellation of repurchased shares	-2,583,151
Number of shares at December 31, 2011	419,456,315

The Annual General Meeting 2011 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, 2011 Alfa Laval has not made any repurchases.

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 26.1 (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		2011	2010	2009
<b>Cash flow from operating activities</b>				
Operating income		-10	-24	-1
Taxes paid		-198	-202	-116
		-208	-226	-117
Changes in working capital:				
Increase(-)/decrease(+) of receivables		-1,772	-1,691	-2,799
Increase(+)/decrease(-) of liabilities		292	43	-191
<b>Increase(-)/decrease(+) in working capital</b>		<b>-1,480</b>	<b>-1,648</b>	<b>-2,990</b>
		<b>-1,688</b>	<b>-1,874</b>	<b>-3,107</b>
<b>Cash flow from investing activities</b>				
Investment in subsidiaries		-	-	-
		-	-	-
<b>Cash flow from financing activities</b>				
Financial net, paid		113	16	11
Repurchase of shares		-	-253	-
Received dividends from subsidiaries		1,679	2,288	3,201
Paid dividends		-1,258	-1,055	-949
Received group contribution		1,154	878	844
		<b>1,688</b>	<b>1,874</b>	<b>3,107</b>
<b>Cash flow for the year</b>				
Cash and bank at the beginning of the year		-	-	-
<b>Cash and bank at the end of the year</b>		<b>-</b>	<b>-</b>	<b>-</b>

Parent company income *				
SEK millions	Note	2011	2010	2009
Administration costs		-11	-12	-11
Other operating income		6	0	14
Other operating costs		-5	-12	-4
Operating income		-10	-24	-1
Revenues from interests in group companies	36	2,084	3,442	4,079
Interest income and similar result items	11	115	17	23
Interest expenses and similar result items	11	-2	-4	-22
Result after financial items		2,187	3,431	4,079
Appropriation to tax allocation reserve		-115	-232	-225
Tax on this year's result		-110	-248	-177
<b>Net income for the year</b>		<b>1,962</b>	<b>2,951</b>	<b>3,677</b>

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

## Parent company financial position

Parent company financial position			
SEK millions	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Financial non-current assets</b>			
Shares in group companies	19	4,669	4,669
<b>Current assets</b>			
<b>Current receivables</b>			
Receivables on group companies		9,287	8,265
Current tax assets		37	2
Other receivables		5	4
		9,329	8,271
<b>Cash and bank</b>		–	–
<b>Total current assets</b>		<b>9,329</b>	<b>8,271</b>
<b>TOTAL ASSETS</b>		<b>13,998</b>	<b>12,940</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		1,117	1,117
Statutory reserve		1,270	1,270
		2,387	2,387
<b>Unrestricted equity</b>			
Profit brought forward		7,706	6,013
Net income for the year		1,962	2,951
		9,668	8,964
<b>Total equity</b>		<b>12,055</b>	<b>11,351</b>
<b>Untaxed reserves</b>			
Tax allocation reserve, taxation 2006		–	25
Tax allocation reserve, taxation 2007		254	254
Tax allocation reserve, taxation 2008		379	378
Tax allocation reserve, taxation 2009		239	239
Tax allocation reserve, taxation 2010		224	225
Tax allocation reserve, taxation 2011		313	313
Tax allocation reserve, taxation 2012		140	–
		1,549	1,434
<b>Current liabilities</b>			
Liabilities to group companies		393	100
Accounts payable		0	1
Current tax liabilities		1	54
Other liabilities		0	0
		394	155
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,998</b>	<b>12,940</b>
<b>MEMORANDUM ITEMS</b>			
<b>Pledged assets and contingent liabilities</b>			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries):			
Performance guarantees		None	None
Other contingent liabilities		None	None

## Changes in parent company equity

Changes in parent company equity				
SEK millions	Share capital	Statutory reserve	Unrestricted equity	Total
<b>As of December 31, 2008</b>	<b>1,117</b>	<b>1,270</b>	<b>4,593</b>	<b>6,980</b>
<b>2009</b>				
<b>Comprehensive income</b>				
Net income	–	–	3,677	3,677
	–	–	3,677	3,677
<b>Transactions with shareholders</b>				
Cancellation of repurchased shares	-19	–	19	–
Bonus issue of shares	19	–	-19	–
Dividends	–	–	-949	-949
<b>As of December 31, 2009</b>	<b>1,117</b>	<b>1,270</b>	<b>7,321</b>	<b>9,708</b>
<b>2010</b>				
<b>Comprehensive income</b>				
Net income	–	–	2,951	2,951
	–	–	2,951	2,951
<b>Transactions with shareholders</b>				
Repurchase of shares	–	–	-253	-253
Dividends	–	–	-1,055	-1,055
<b>As of December 31, 2010</b>	<b>1,117</b>	<b>1,270</b>	<b>8,964</b>	<b>11,351</b>
<b>2011</b>				
<b>Comprehensive income</b>				
Net income	–	–	1,962	1,962
	–	–	1,962	1,962
<b>Transactions with shareholders</b>				
Repurchase of shares	–	–	–	–
Cancellation of repurchased shares	-7	–	–	-7
Bonus issue of shares	7	–	–	7
Dividends	–	–	-1,258	-1,258
<b>As of December 31, 2011</b>	<b>1,117</b>	<b>1,270</b>	<b>9,668</b>	<b>12,055</b>

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 419,456,315 (422,039,466) shares.

# Notes to the financial statements

## Accounting principles

The accounting principles mentioned below are only the ones that are relevant for the parent company and the consolidated group.

### 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 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 Accounting for legal entities issued by the Council for Financial Reporting in Sweden.

### Changed/implemented accounting principles

The company has chosen to only comment the changed accounting principles that are relevant for the company's financial reporting.

During 2011 the changes in the Swedish Annual Accounts Act have been implemented. The changes mean that disclosures on sick leave among Swedish employees, tax assessment values for Swedish real estate and salaries, remunerations and social security costs per country no longer are required.

The change in IFRIC 14 Prepayments of a Minimum Funding Requirement has been implemented during 2011. The change gives 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 has not had any consequence for Alfa Laval.

The changed IAS 24 Related Party Disclosures has been implemented in 2011. The change clarifies the definition of a related party and has not had any consequence for Alfa Laval.

During 2010 the changes in IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

were implemented. IASB had revised these in order to better converge with the rules in US GAAP. The changes meant 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 lose 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 were 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 were im-

plemented. 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.

### 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 9,543 (5,952) 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 2,132 (2,128) million is reported as other provisions. This constitutes 6.2 (7.8) percent of the Group's assets and is important for the assessment of the Group's financial position, not the least since provisions normally are based on judgements of probability and estimates of costs and risks. If the accounting principles for provision would be changed sometime in the future, this could have a substantial impact on the Group's financial position.

IAS 39 Financial Instruments: Recognition and Measurement has a considerable effect on the Groups 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 operations manage 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 8. 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
<hr/>	
=	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, 2011 of 113 (146) 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 and
- 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 financial assets.

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.

Disclosures must be made on the methods and, when a valuation technique is used, the assumptions applied in determining the fair value of each class of financial assets and liabilities. The methods are to be classified in a hierarchy of three levels:

1. Quoted prices in active markets,
2. Other inputs than quoted prices that are directly observable (prices) or indirectly observable (derived from prices) and
3. Unobservable market data.

The fair values of bonds are arrived at using market prices according to level 1. The effect of the measurement at fair value is reported in net income. The fair value adjustment of these instruments is reflected directly on the item bonds in the statement of financial position.

The fair values of shares in external companies are arrived at using market prices according to level 1 or other inputs according to level 2. The effect of the measurement at fair value is reported in other comprehensive income. The fair value adjustment of these instruments is reflected directly on the item 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 arrived at using market prices according to level 1. 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. The effect of the measurement at fair value is reported in other comprehensive income if the derivative constitutes an effective cash flow hedge and otherwise on the concerned line above net income. The fair value adjustment of these instruments is reported as derivative assets or derivative liabilities in the statement of financial position.

For each class of financial instruments disclosures shall be made on credit risk and an analysis of financial assets that are past due or impaired. Within Alfa Laval credit risk is in reality only related to accounts receivable. The disclosures just mentioned are therefore to be found in Note 22. The factors to be taken into account when providing for bad debts are:

- If the customer despite reminders does not pay, in spite of the fact that the customer has not raised any objections against the invoice or part of the invoice,
- For how long the invoice has been past due,
- If the customer has cancelled their payments,
- If the customer has asked for composition and
- If the customer has filed for bankruptcy.

Based on this the best estimate based on past experience is made on which amount that is probable to be received and the difference is provided for as unsecure.

Only at a final loss the receivable is written off.

#### Group contributions to parent company

Group contributions to the parent company are the equivalent to dividends and are 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
Step-up values, technology	7.5 years
Goodwill, strategic	
Not amortised after January 1, 2004	20 years
Goodwill, other	
Not amortised after January 1, 2004	10 years

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 fulfill 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”.

#### 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 2011 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, 2012. Alfa Laval has chosen not to make any early adoption of any of these pronouncements.

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 to IFRS 7 becomes effective for financial years beginning on or after July 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, 2015.

IFRS 10 Consolidated financial statements replaces the part of IAS 27 Consolidated and separate financial statements that covers consolidation principles. What remains in IAS 27 going forward is the treatment of subsidiaries, joint ventures and associates in separate financial statements.

The consolidation principles have not been changed. The change is rather related to how an entity shall proceed to decide if a decisive influence is present and thus if an entity shall be consolidated. Control (decisive influence) is present when the investor has:

- power over the investee, which is described as having rights to direct the activities that significantly affect the investee's returns,
- exposure or rights to variable returns from the involvement in the investee and
- the ability to use its power over the investee to affect the amount of the investor's returns.

An investor is a party that has a potential influence over an entity. A decisive influence does not need to arise purely through ownership of shares (voting rights). An investor can have a decisive influence over another entity without holding the majority of the shares. An entity must be consolidated until the day the control ceases, even if the control is present only during a limited period.

IFRS 10 becomes effective for financial years beginning on or after January 1, 2013. It is expected to be adopted by the European Union during the third quarter 2012. The standard must be applied retroactively in accordance with IAS 8, with certain modifications, that includes exceptions from consolidation where this is impracticable. Early application is allowed if the company also makes an early application of IFRS 11 and IFRS 12 and the changes in IAS 27 and IAS 28.

IFRS 11 Joint arrangements covers the accounting for joint arrangements, which is defined as a contractual arrangement where two or more parties have a joint decisive influence. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures.

It is crucial to be able to judge whether a party has control over another party, that is decisive influence or if it rather is a substantial or common influence. If it is the latter, then it is a so called joint arrangement, which could be either:

- a joint operation or
- a joint venture.

Jointly owned assets and joint activities are called joint operations. Each owner or party

accounts for his share of assets, liabilities, revenues and costs.

Joint ventures are no longer allowed to be consolidated according to the proportional consolidation method, but instead the equity method must be used. This means that the interest is accounted for on one line in the consolidated statement of financial position and that the share of the result is accounted for on one line in the consolidated statement of comprehensive income.

IFRS 11 becomes effective for financial years beginning on or after January 1, 2013. It is expected to be adopted by the European Union during the third quarter 2012. The standard must be applied retroactively with certain transitional provisions. Early application is allowed if the company also makes an early application of IFRS 10 and IFRS 12 and the changes in IAS 27 and IAS 28.

IFRS 12 Disclosures of interest in other entities. Entities having interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities must disclose information about these in accordance with IFRS 12. The purpose with these disclosures is to enable the users of the financial reports to understand:

- the composition of the group,
- the effect of the interests on the financial statements and
- any risks with the current interests.

Substantial qualitative and quantitative disclosures must be made of each interest. The disclosure requirements include the following:

- Financial information regarding subsidiaries with a considerable part of non-controlling interests.
- Disclosures on the judgments and estimation that have been made in judging whether an entity shall be consolidated or not and if an associate shall be accounted for or whether a joint arrangement is considered to be joint operation or a joint venture.
- Financial disclosures on interests in material associates and joint arrangements.
- Disclosures on the risks and rewards that are associated with unconsolidated structured entities and what the effect would be if the risks changed.

IFRS 12 becomes effective for financial years beginning on or after January 1, 2013. It is expected to be adopted by the European Union during the third quarter 2012. The standard must be applied retroactively in accordance with IAS 8. Early application is allowed even if IFRS 10 and IFRS 11 and the changes in IAS 27 and IAS 28 are not applied early. Entities are encouraged to voluntarily provide certain information even if the entire standard is not applied early.

IFRS 13 Fair Value Measurement describes how a fair value is established when such value is to be or may be used in accordance with each IFRS standard. In accordance with IFRS a fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The standard presents elucidations on the fair value concept including the following areas:

- Concepts such as "highest and best use" and "valuation premise" are described. These are only applicable on non-financial assets.
- Market participants are assumed to act in a way that maximizes the value for all involved parties in situations where there is no guidance concerning the calculation of fair value in individual IFRS standards.
- The effect of so called block discounts (large position in relation to the market) may never be included in the calculation of fair value.
- Deciding fair value when the market activity is falling.

New disclosures must be made to explain what valuation models that are used and what information that is used in these models and which effects the valuation has caused in the result.

IFRS 13 becomes effective for financial years beginning on or after January 1, 2013. It is expected to be adopted by the European Union during the third quarter 2012. The standard must be applied prospectively. Early application is allowed.

IAS 1 Presentation of Financial Statements has been changed. The change means that the grouping of transaction reported in other comprehensive income is changed. The items that are recycled over the income statement are to be reported separately from the items that are not recycled over the income statement. The proposal does not change the actual content of other comprehensive income but only the format.

IAS 1 becomes effective for financial years beginning on or after July 1, 2012. It is expected to be adopted by the European Union during the first quarter 2012. The changes must be applied retroactively in accordance with IAS 8. Early application is allowed.

IAS 19 Employee Benefits has been changed. The changes mean substantial changes concerning the accounting for defined benefit pension schemes, for example:

- The possibility to phase actuarial gains and losses as a part of the corridor cannot be used, but these are to be accounted for currently in other comprehensive income. In the income statement the items that relate to the vesting of defined benefit pensions and gains and losses that arise when settling a pension liability and the financial

net concerning the defined benefit plan are reported.

- Sensitivity analysis must be made concerning reasonable changes in all assumptions made when calculating the pension liability.
- The difference between short and long term remunerations focuses on when the commitment is expected to be settled rather than the link to the employee's vesting of the commitment.
- The changes include further changes that do not focus on accounting for pensions but other forms of employee benefits. Termination benefits shall be accounted for at the earliest of the following - the time when the benefit offer cannot be withdrawn, alternatively in accordance with IAS 37 as a part of for instance restructuring the operations.
- For Swedish entities the actuarial calculations will also include future payments of special salary tax and tax on returns from pension funds.

IAS 19 becomes effective for financial years beginning on or after January 1, 2013. It is expected to be adopted by the European Union during the first quarter 2012. The revised standard must be applied retroactively in accordance with IAS 8. Early application is allowed.

Alfa Laval will evaluate the effects of the application of the new or revised accounting standards 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 2011 the managed capital was SEK 18,408 (13,031) million.

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

When managing the capital the Group monitors several measures including:

Measure	Goal	Target standard	Target not set	Outcome		Average over last		
				2011	2010	3 years	5 years	8 years
				Invoicing growth per year *	≥8%			15.9%
Adjusted EBITA margin *	15%			18.5%	18.9%	18.3%	19.4%	16.8%
Return on capital employed	≥25%			31.3%	37.4%	34.1%	42.1%	36.6%
Debt ratio		<0.75		0.22	-0.04	0.07	0.14	0.21
Cash flow from operating activities including investments in fixed assets **		10%		10.0%	14.8%	14.5%	13.3%	11.4%
Investments **		2.5%		1.9%	1.7%	1.8%	2.1%	2.1%
Return on equity			X	22.9%	24.4%	23.9%	31.7%	27.0%
Solidity			X	43.9%	50.0%	46.9%	42.2%	40.1%
Net debt to EBITDA			X	0.6	-0.1	0.2	0.3	0.5
Interest coverage ratio			X	28.6	35.9	26.6	25.9	19.8

\* 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.

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

- The bilateral term loan with Swedish Export Credit from June 2011.
- The new senior credit facility with a new banking syndicate from April 2011.
- The finance contract with the European Investment Bank from September 2009, where a bilateral term loan was called for on March 2011.
- 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 2012.

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 mid-size 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 13 and 14 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 2011 Alfa Laval's sales to countries outside Sweden amounted to 96.7 (96.6) (96.8) 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.

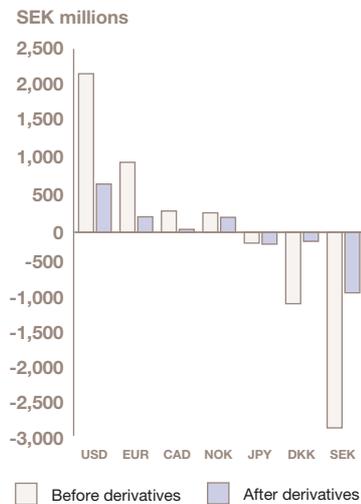
The Group is principally exposed to currency risk from potential changes in contracted and projected flows of payments and receipts. The objective of foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.

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 at December 31, 2011 in different currencies before and after derivatives for the coming 12 months amounts to:

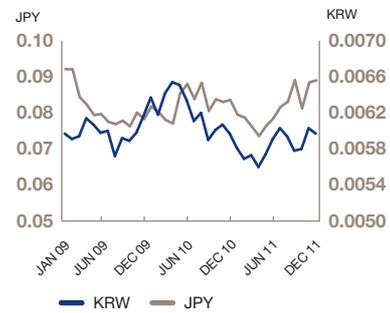
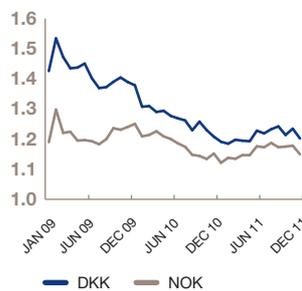
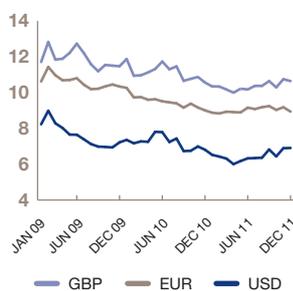
**Net transaction exposure per currency at December 31, 2011 for the coming 12 months**



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	2011		2010		2009	
Exchange rate change against SEK	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
USD	225	-225	167	-167	283	-283
EUR	99	-99	165	-165	118	-118
CAD	30	-30	24	-24	32	-32
NOK	28	-28	24	-24	27	-27
DKK	-102	102	-101	101	-105	105
JPY	-15	15	-22	22	-59	59
Other	34	-34	29	-29	45	-45
<b>Total</b>	<b>299</b>	<b>-299</b>	<b>286</b>	<b>-286</b>	<b>341</b>	<b>-341</b>

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

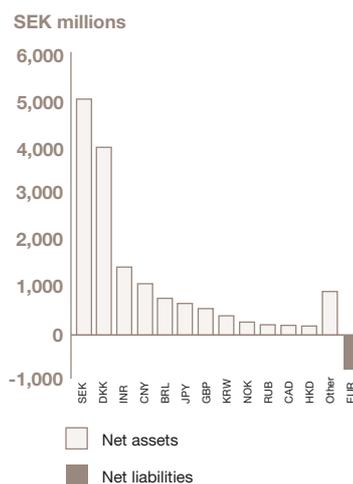
#### Outstanding currency forward contracts and currency options

Consolidated						
Millions	2011		2010		2009	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
<b>Outflows:</b>						
USD	-593	-4,093	-405	-2,754	-480	-3,465
EUR	-175	-1,566	-257	-2,316	-326	-3,365
KRW	-80,469	-480	-73,831	-441	-101,412	-626
AUD	-13	-91	-29	-203	-5	-30
CAD	-19	-128	-26	-176	-7	-47
JPY	-	-	-596	-50	-	-
BRL	-3	-12	-11	-43	-10	-42
Other	-	-46	-	-79	-	-31
<b>Total</b>		<b>-6,416</b>		<b>-6,062</b>		<b>-7,606</b>
<b>Inflows:</b>						
SEK	5,751	5,751	6,243	6,243	7,074	7,074
DKK	328	394	284	343	86	120
NOK	38	44	32	37	78	97
SGD	5	27	3	16	9	48
GBP	16	164	1	13	5	55
JPY	1,263	113	-	-	3,670	288
Other	-	7	-	8	-	29
<b>Total</b>		<b>6,500</b>		<b>6,660</b>		<b>7,711</b>

#### 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 34 (99) (220) 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

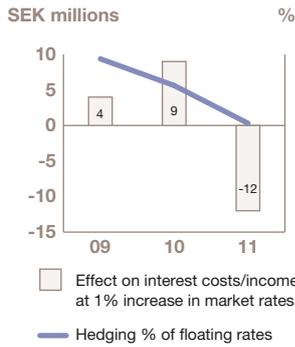
By interest risk is meant how changes in the interest level affect the financial net of the Group and how the value of financial instruments vary due to changes in market interest rates. The Group attempts to manage interest-rate risk by matching fixed interest periods of financial assets and liabilities 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 loans accrue interest at floating rate. The Group has chosen to hedge 45 (60) (63) percent of the loans to fixed interest rate, with a duration of 34.6 months. The average interest and currency duration including derivatives is 19.2 (18.5) months at the end of 2011.

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 2009 and 2010 is the size of cash, bank and current deposits relative to the un-hedged part of total debt. Due to the increased loans in 2011 the effect becomes negative. 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 118 (242) million. The market risk for these is perceived as low. For other financial instruments, the price risk only consists of currency risk and interest risk.

**Liquidity risk and refinancing risk**

Liquidity risk is defined as the risk that the Group would incur increased costs due to lack of liquid funds.

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly. The loans of the Group are mainly long term and only mature when the agreed loan period expires. This means that the Group during the foreseeable future does not need to refinance maturing loans. Since the maturity of the loans is distributed over time the refinancing risk is reduced.

In 2006 Alfa Laval made a private placement in the U.S.. The offer was over-subscribed and was closed at USD 110 million, corresponding to SEK 758 million. The loan matures in April 2016.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 223 million. The loan matures in December 2013.

The senior credit facility with the previous banking syndicate was replaced on April 20, 2011 with a new senior credit facility of EUR 301 million and USD 420 million, corresponding to SEK 5,590 million with a new banking syndicate. At December 31, 2011 SEK 1,051 million of the facility was utilised. The facility matures in April 2016, with two one-year extension options.

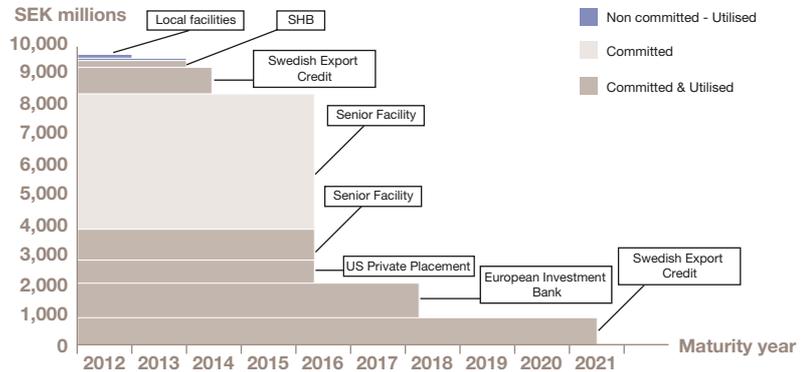
On June 8, 2011 Alfa Laval entered into a bilateral term loan with Swedish Export Credit split on one loan of EUR 100 million that matures in 2014 and one loan of EUR 100 million that matures in 2021, corresponding to SEK 1,787 million in total.

On September 15, 2009 Alfa Laval entered into a finance contract with the European

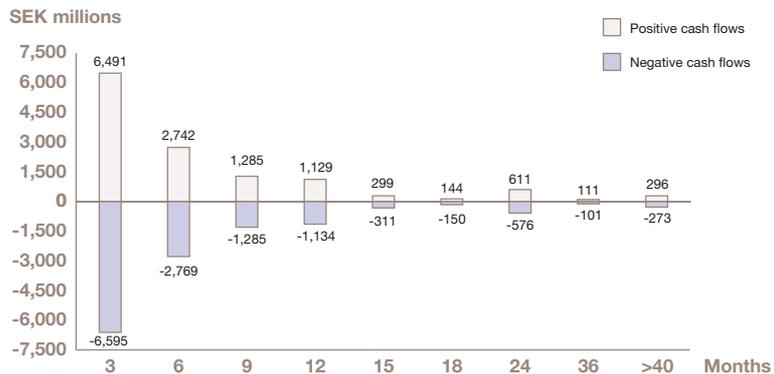
Investment Bank that gave Alfa Laval the option until March 15, 2011 to call for a loan of up to EUR 130 million. In March 2011 Alfa Laval called for a loan of EUR 130 million, corresponding to SEK 1,162 million. The loan matures in 2018.

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

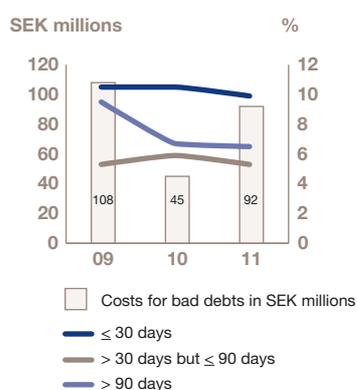
### Risk for bad debts

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 13. 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:

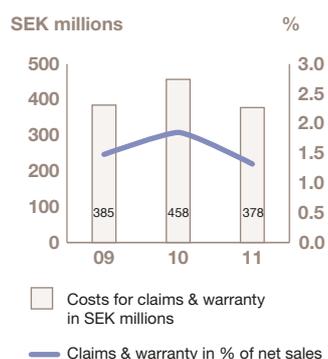
#### Costs for bad debts / overdues in % of accounts receivable



### 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.

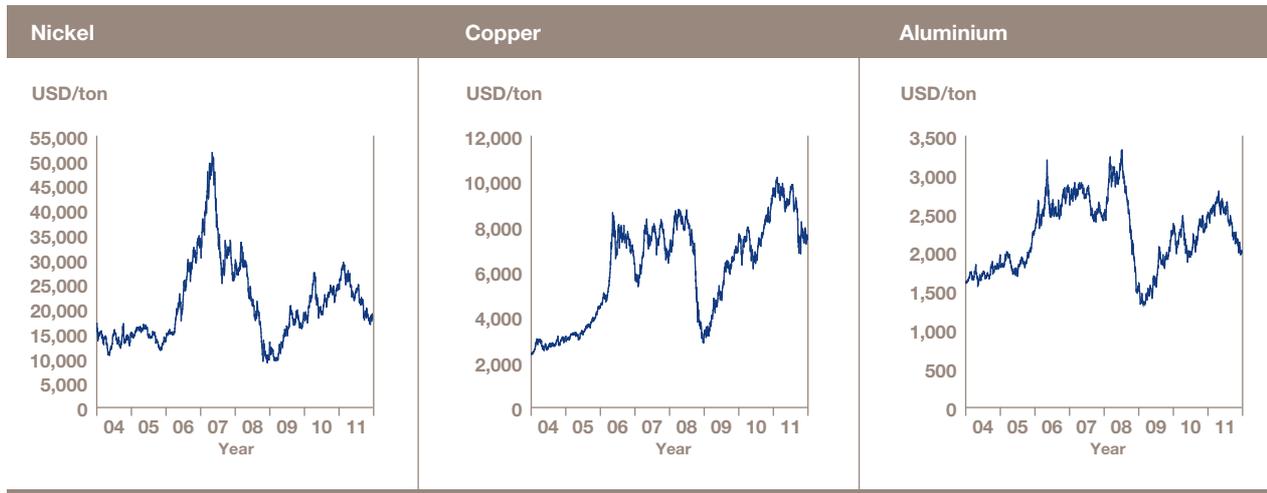
#### Business climate

In an overall economic downturn the Group tends to be affected with a delay of six to twelve 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 downturn in the business climate in 2009 and 2010 however meant a considerably larger decline in order intake. This was 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

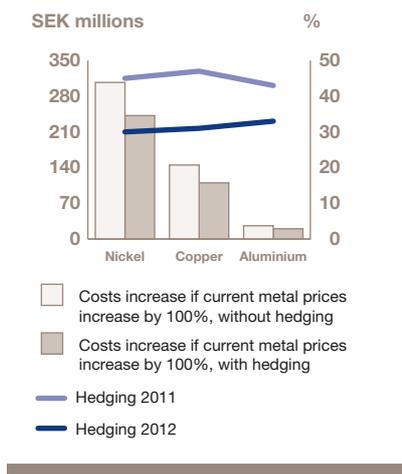
The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There are a limited number of possible suppliers of titanium. The risk 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 six to twelve 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 2007 to 2011 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:



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 2011 and how much of the expected purchases during 2012 that were hedged at the end of 2011. 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 waste 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 48.

**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, 2011, named as a co-defendant in a total of 714 asbestos-related lawsuits with a total of approximately 800 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. and
- 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 facilities in Richmond and Newburyport in the U.S.. An additional eight 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. The Process Technology division consists of four customer segments: Energy & Environment, Food Technology, Process Industry and the aftermarket segment Parts & Service. Due to a reorganization of the Process

Technology Division, the former Life Science segment has been incorporated as of April 1, 2011, into mainly the Process Industry segment, but to a smaller extent also into the Food Technology and Energy & Environment segments. The reorganization is made in order to provide better service to the customers.

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	2011	2010	2009
Equipment	15,931	12,945	11,751
Process Technology	12,738	10,923	9,767
Other	2	1	21
<b>Total</b>	<b>28,671</b>	<b>23,869</b>	<b>21,539</b>

Order backlog			
Consolidated			
SEK millions	2011	2010	2009
Equipment	6,847	4,983	6,399
Process Technology	6,889	6,569	5,486
Other	0	0	21
<b>Total</b>	<b>13,736</b>	<b>11,552</b>	<b>11,906</b>

Net sales			
Consolidated			
SEK millions	2011	2010	2009
Equipment	16,490	14,065	14,665
Process Technology	12,160	10,632	11,350
Other	2	23	24
<b>Total</b>	<b>28,652</b>	<b>24,720</b>	<b>26,039</b>

Assets / Liabilities					
Consolidated	Assets			Liabilities	
	2011	2010		2011	2010
SEK millions					
Equipment	14,613	9,283		4,366	2,166
Process Technology	9,779	8,482		5,432	4,127
Other	5,178	4,456		3,396	2,286
Subtotal	29,570	22,221		13,194	8,579
Corporate	4,933	4,948		6,165	5,008
<b>Total</b>	<b>34,503</b>	<b>27,169</b>		<b>19,359</b>	<b>13,587</b>

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

Investments			
Consolidated			
SEK millions	2011	2010	2009
Equipment	111	75	91
Process Technology	127	85	113
Other	317	269	247
<b>Total</b>	<b>555</b>	<b>429</b>	<b>451</b>

Operating income in management accounts			
Consolidated			
SEK millions	2011	2010	2009
Equipment	2,994	2,604	2,530
Process Technology	2,508	2,159	2,040
Other	-568	-405	-138
Total	4,934	4,358	4,432
Reconciliation with Group total:			
Comparison distortion items	-170	90	-225
Consolidation adjustments	-73	-47	-177
Total operating income	4,691	4,401	4,030
Financial net	-15	-37	-270
<b>Result after financial items</b>	<b>4,676</b>	<b>4,364</b>	<b>3,760</b>

Operating income in management accounts is very close to operating income under IFRS. There are only two differences. Operating income in management accounts does not include comparison distortion items nor all the consolidation adjustments that are made in the official accounts.

Depreciation			
Consolidated			
SEK millions	2011	2010	2009
Equipment	338	256	200
Process Technology	222	198	153
Other	315	342	368
<b>Total</b>	<b>875</b>	<b>796</b>	<b>721</b>

## 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						
	2011		2010		2009	
	SEK millions	%	SEK millions	%	SEK millions	%
To customers in:						
Sweden	942	3.3	849	3.4	840	3.2
Other EU	7,634	26.5	6,879	27.8	7,941	30.6
Other Europe	2,313	8.1	1,953	7.9	1,829	7.0
USA	3,832	13.4	3,354	13.6	3,736	14.3
Other North America	788	2.8	757	3.1	575	2.2
Latin America	1,981	6.9	1,531	6.2	1,432	5.5
Africa	216	0.8	242	1.0	259	1.0
China	3,772	13.2	3,144	12.7	2,876	11.0
Other Asia	6,774	23.6	5,648	22.8	6,238	24.0
Oceania	400	1.4	363	1.5	313	1.2
<b>Total</b>	<b>28,652</b>	<b>100.0</b>	<b>24,720</b>	<b>100.0</b>	<b>26,039</b>	<b>100.0</b>

Net sales are reported by country on the basis of invoicing address, which is normally the same as the delivery address.

Non-current assets				
Consolidated				
	2011		2010	
	SEK millions	%	SEK millions	%
Sweden	1,553	8.3	1,598	11.8
Denmark	4,672	25.1	789	5.8
Other EU	4,361	23.4	3,877	28.5
Other Europe	329	1.8	349	2.6
USA	2,251	12.1	2,016	14.8
Other North America	121	0.6	125	0.9
Latin America	500	2.7	167	1.2
Africa	1	0.0	1	0.0
Asia	3,096	16.6	3,026	22.2
Oceania	97	0.5	97	0.7
Subtotal	16,981	91.1	12,045	88.5
Other long-term securities	25	0.1	32	0.2
Pension assets	346	1.9	235	1.7
Deferred tax asset	1,293	6.9	1,301	9.6
<b>Total</b>	<b>18,645</b>	<b>100.0</b>	<b>13,613</b>	<b>100.0</b>

The large increase in non-current assets for Denmark during 2011 is due to the acquisition of Aalborg Industries and above all the goodwill and other step up values that this resulted in.

Investments						
Consolidated						
	2011		2010		2009	
	SEK millions	%	SEK millions	%	SEK millions	%
Sweden	99	17.8	54	12.6	78	17.2
Denmark	21	3.7	53	12.4	27	6.1
France	49	8.9	34	7.9	82	18.1
Italy	54	9.8	68	15.9	61	13.5
Other EU	35	6.3	39	9.0	54	12.0
Other Europe	10	1.8	25	5.8	13	2.8
North America	46	8.3	39	9.0	31	6.9
Latin America	18	3.2	7	1.6	3	0.7
Africa	1	0.1	0	0.0	0	0.0
China	98	17.6	37	8.6	29	6.5
India	82	14.8	36	8.3	37	8.1
Other Asia	40	7.4	34	8.2	35	7.9
Oceania	2	0.3	3	0.7	1	0.2
<b>Total</b>	<b>555</b>	<b>100.0</b>	<b>429</b>	<b>100.0</b>	<b>451</b>	<b>100.0</b>

## Note 3. Information about products and services

Net sales by product/service			
Consolidated			
SEK millions	2011	2010	2009
Own products within:			
Separation	6,345	6,043	6,586
Heat transfer	15,480	13,092	13,866
Fluid handling	3,006	2,700	2,427
Other	670	550	615
Associated products	1,881	1,144	1,339
Services	1,270	1,191	1,206
<b>Total</b>	<b>28,652</b>	<b>24,720</b>	<b>26,039</b>

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 32 for more information.

## Note 5. Employees

Average number of employees - total						
Consolidated						
	Number of female employees			Total number of employees		
	2011	2010	2009	2011	2010	2009
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (9)	466	439	463	2,138	2,042	2,216
Total in Sweden (9)	466	439	463	2,138	2,042	2,216
Total abroad (145)	2,344	1,913	1,902	12,529	10,036	9,557
<b>Total (154)</b>	<b>2,810</b>	<b>2,352</b>	<b>2,365</b>	<b>14,667</b>	<b>12,078</b>	<b>11,773</b>

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2011.

Average number of employees - in Sweden by municipality			
Consolidated			
	2011	2010	2009
Botkyrka	427	428	455
Eskilstuna	203	199	215
Lund	1,002	958	1,037
Ronneby	264	245	271
Stockholm	12	12	12
Vänersborg	137	129	134
Other *	93	71	92
<b>Total</b>	<b>2,138</b>	<b>2,042</b>	<b>2,216</b>

\* "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		
	2011	2010	2009	2011	2010	2009
Argentina	9	7	7	35	33	34
Australia	14	12	10	93	64	64
Belgium	2	3	8	35	43	67
Brazil	42	25	40	430	162	145
Bulgaria	10	9	10	41	40	41
Chile	8	8	6	32	29	29
Colombia	6	4	4	17	16	13
Denmark	377	301	321	1,515	1,127	1,145
Philippines	3	2	2	11	11	13
Finland	41	35	40	236	205	213
France	157	144	159	876	787	816
United Arab Emirates	16	12	12	146	98	96
Greece	8	8	9	22	23	23
Hong Kong	8	6	5	27	27	28
India	64	56	58	1,420	1,402	1,410
Indonesia	15	11	12	66	60	62
Iran	3	3	2	14	14	14
Italy	137	113	125	843	644	606
Japan	55	38	41	262	211	213
Canada	17	18	19	83	81	80
Kazakhstan	2	-	-	8	-	-
China	521	367	203	2,353	1,435	969
Korea	52	42	80	328	299	209
Latvia	7	7	7	14	13	14
Malaysia	23	22	24	74	65	62
Mexico	16	12	12	58	55	55
Netherlands	48	36	24	247	187	219
Norway	7	8	8	40	42	46
New Zealand	3	4	3	18	18	21
Panama	3	-	-	8	1	-
Peru	7	6	7	27	25	27
Poland	44	36	39	231	195	201
Portugal	4	5	5	12	12	12
Qatar	-	-	-	4	-	-
Romania	5	5	8	14	15	18
Russia	112	101	114	315	279	292
Switzerland	5	5	5	17	18	18
Singapore	36	28	30	121	70	71
Slovakia	2	2	2	10	11	11
Spain	22	21	25	85	82	92
UK	41	38	54	281	281	296
Sweden	466	439	463	2,138	2,042	2,216
South Africa	6	8	9	36	38	42
Taiwan	12	10	10	37	32	33
Thailand	17	20	18	64	57	59
Czech Republic	8	12	13	37	56	68
Turkey	7	7	8	37	36	39
Germany	75	66	72	351	328	320
Ukraine	7	6	7	18	18	18
Hungary	5	5	5	15	14	16
USA	220	207	206	1,329	1,238	1,167
Venezuela	3	6	7	8	13	18
Vietnam	25	-	-	102	-	-
Austria	7	6	7	26	26	32
<b>Total</b>	<b>2,810</b>	<b>2,352</b>	<b>2,365</b>	<b>14,667</b>	<b>12,078</b>	<b>11,773</b>

## Gender distribution among managers

Consolidated									
	Total number	2011		Total number	2010		Total number	2009	
		Male %	Female %		Male %	Female %		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	11	90.9	9.1	10	90.0	10.0	10	90.0	10.0
Managers in Sweden	202	79.2	20.8	241	83.4	16.6	302	81.8	18.2
Managers outside Sweden	1,299	81.9	18.1	1,394	84.8	15.2	1,086	86.2	13.8
Managers total	1,501	81.5	18.5	1,635	84.6	15.4	1,388	85.2	14.8
Employees in Sweden	2,138	78.2	21.8	2,042	78.5	21.5	2,216	79.1	20.9
Employees outside Sweden	12,529	81.3	18.7	10,036	80.9	19.1	9,557	80.1	19.9
Employees total	14,667	80.8	19.2	12,078	80.5	19.5	11,773	79.9	20.1

## Note 6. Salaries and remunerations

## Salaries and remunerations - total

Consolidated			
SEK millions	2011	2010	2009
Board of Directors, Presidents and Vice Presidents	218	180	189
- out of which, variable	38	20	26
Other	4,874	4,232	4,386
Total salaries and remunerations	5,092	4,412	4,575
Social security costs	878	775	799
Pension costs, defined benefit plans	160	188	175
Pension costs, defined contribution plans	345	305	330
<b>Total costs of personnel</b>	<b>6,475</b>	<b>5,680</b>	<b>5,879</b>

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 44 (34) (45) million and SEK 298 (277) (288) million respectively. SEK 139 (147) (153) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

## Equity compensation benefits

During the period 2009 to 2011 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 categories 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 Meetings 2008 to 2010 decided to implement step one to three of a cash based long term incentive programme. The Annual General Meeting 2011 decided to implement step one of a modified cash based long term incentive programme. The difference between the programmes is that the modified programme allows a higher outcome and a more centred range under which an award is given.

The long term incentive programme is targeting maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers.

Each of the steps stretches over three years and the awards under each step are divided into three tranches (one for each year). The award under each tranche is set independently from the other two tranches. Since each step stretches over three years, three steps of the programmes will always run in parallel. In 2011 step two and three of the original programme and step one of the modified programme are running in parallel.

The final award for each step is calculated on the employee's yearly base salary at the end of the three year period. The maximum award is set to a percentage of the employee's annual maximum variable remuneration according to the following:

## Maximum long term incentive

Maximum variable remuneration per year in percent of base salary	Maximum long term incentive in percent of base salary	
	Original programme	Modified programme
	In total over the three year period	In total over the three year period
60%	30%	45%
40%	20%	30%
30%	15%	25%
25%	12,5%	20%
15%	7,5%	12%

The outcome of the programme 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. The modified programme opens up for setting more aggressive EPS targets.

For the original programme the award is calculated in the following way. 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. If the employee can get up to 15 percent in variable remuneration, the following would apply. To be entitled to a maximum outcome the EPS value for each year must exceed the target EPS by 20 percent ( $20 \times 5\% \times 1/3 \times 7.5\% = 2.5\%$  per year in this case). If the target is exceeded by 10 percent the result in this case would be  $10 \times 5\% \times 1/3 \times 7.5\% = 1.25\%$  per year.

For the modified programme the award is calculated in the following way. When the EPS is within the range of -10 percent to +10 percent of the target EPS the employee gets 5 percent of one third of the maximum outcome per year for each percent that the EPS exceeds the bottom level of 90 percent of the target EPS up to the maximum level of 110 percent of the target EPS. If the employee can get up to 15 percent in variable remuneration, the following would apply. To be entitled to a maximum outcome the EPS value for each year must exceed the target EPS by 10 percent ( $20 \times 5\% \times 1/3 \times 12\% = 4\%$  per year in this case). If the target is reached the result in this case would be  $10 \times 5\% \times 1/3 \times 12\% = 2\%$  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 programme the tranches that already have been earned are paid out upon the change of position. Based on the reported EPS for 2008, 2009, 2010 and 2011, the different steps have resulted in the following awards:



## 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	2011	2010	2009
Audit engagements			
Ernst & Young	29	30	26
Other audit firms	1	1	2
<b>Total</b>	<b>30</b>	<b>31</b>	<b>28</b>
Audit related services			
Ernst & Young	4	5	8
Other audit firms	5	2	3
<b>Total</b>	<b>9</b>	<b>7</b>	<b>11</b>
Tax services			
Ernst & Young	4	3	2
Other audit firms	4	3	4
<b>Total</b>	<b>8</b>	<b>6</b>	<b>6</b>
Other services			
Ernst & Young	1	2	3
Other audit firms	2	2	4
<b>Total</b>	<b>3</b>	<b>4</b>	<b>7</b>
Expenses			
Ernst & Young	1	1	0
Other audit firms	0	0	0
<b>Total</b>	<b>1</b>	<b>1</b>	<b>0</b>
Total			
Ernst & Young	39	41	39
Other audit firms	12	8	13
<b>Total</b>	<b>51</b>	<b>49</b>	<b>52</b>

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. 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	2011	2010	2009
<b>Operational</b>			
Other operating income	403	404	442
Comparison distortion items	-	90	-
<b>Total other operating income</b>	<b>403</b>	<b>494</b>	<b>442</b>
Other operating costs			
Other operating costs	-706	-779	-850
Comparison distortion items	-170	-	-225
<b>Total other operating costs</b>	<b>-876</b>	<b>-779</b>	<b>-1,075</b>

## Specification of comparison distortion items

Consolidated			
SEK millions	2011	2010	2009
Gain on:			
Sale of real estate	-	10	-
Cost for:			
Restructuring programme	-90	80	-225
Aalborg integration	-80	-	-
Subtotal losses/costs	-170	80	-225
<b>Net total</b>	<b>-170</b>	<b>90</b>	<b>-225</b>

The comparison distortion costs during 2011 of SEK -170 million is related to structural costs for saving measures of SEK -90 million and non-recurring integration costs of SEK -80 million in connection with the acquisition of Aalborg Industries respectively. The saving measures are mainly relating to capacity adjustments and cost reductions in the manufacturing due to the demand for certain products as well as cost reductions in the sales companies primarily in Western Europe. The measures are expected to affect approximately 250 employees.

SEK 80 million of the comparison distortion income during 2010 related 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 was reversed. The remaining SEK 10 million related to realised gains on sale of properties in France and India.

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

## Note 9. Depreciation and amortisation

### Split by function

Consolidated			
SEK millions	2011	2010	2009
Cost of goods sold	-709	-623	-561
Sales	-38	-46	-48
Administration	-72	-72	-77
Research and development	-7	-10	-6
Other income and costs	-49	-45	-29
<b>Total</b>	<b>-875</b>	<b>-796</b>	<b>-721</b>

### Split by type of asset

Consolidated			
SEK millions	2011	2010	2009
Patents and unpatented know-how, trademarks, etc.	-392	-303	-234
Machinery and equipment	-379	-405	-408
Financial leasing machinery and equipment	-4	-4	-4
Buildings and ground installations	-93	-78	-71
Financial leasing buildings	-7	-6	-4
<b>Total</b>	<b>-875</b>	<b>-796</b>	<b>-721</b>

## Note 10. Dividends and changes in fair value of financial instruments

### Split by type

Consolidated			
SEK millions	2011	2010	2009
Dividends from other	1	2	0
Fair value changes in securities	-1	0	-1
<b>Total</b>	<b>0</b>	<b>2</b>	<b>-1</b>

## Note 11. Interest income/expense and financial exchange rate gains/losses

Split on type of income/expense or gain/loss				Split on type of income/expense or gain/loss			
Consolidated				Parent company			
SEK millions	2011	2010	2009	SEK millions	2011	2010	2009
<b>Interest income</b>				<b>Interest income</b>			
Financial leasing	0	-	0	External companies	0	0	-
Other interest	71	35	108	Subsidiaries	113	16	11
<b>Exchange rate gains</b>				<b>Exchange rate gains</b>			
Unrealised	37	168	229	Unrealised	2	1	12
Realised	328	124	67	<b>Total</b>	<b>115</b>	<b>17</b>	<b>23</b>
<b>Total</b>	<b>436</b>	<b>327</b>	<b>404</b>	<b>Interest costs</b>			
<b>Interest expenses</b>				External companies	-	-	-1
Financial leasing	0	-1	0	Subsidiaries	-	-	0
Other interest	-201	-146	-315	<b>Exchange rate losses</b>			
<b>Exchange rate losses</b>				Unrealised	-2	-4	-21
Unrealised	-196	-141	-257	Realised	0	0	0
Realised	-54	-78	-101	<b>Total</b>	<b>-2</b>	<b>-4</b>	<b>-22</b>
<b>Total</b>	<b>-451</b>	<b>-366</b>	<b>-673</b>				

In the Group, reported net exchange differences of SEK 34 (99) (220) 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 25 (73) (162) million.

## Note 12. Non-controlling interests

Non-controlling interests relates to thirteen subsidiaries in Brazil, China, France, Germany, India, Kazakhstan, Russia, Singapore and South Korea with owners with non-controlling interests.

## Note 13. Classification of financial assets and liabilities

Financial assets										
Consolidated										
SEK millions	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					
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>Non-current assets</b>										
<b>Other non-current assets</b>										
Other long-term securities	-	-	-	-	-	-	-	-	25	32
<b>Current assets</b>										
<b>Current receivables</b>										
Accounts receivable	-	-	-	-	-	-	5,080	4,181	-	-
Notes receivable	-	-	-	-	-	-	286	248	-	-
Other receivables	-	-	-	-	-	-	900	798	-	-
Accrued income	-	-	-	-	-	-	33	40	-	-
Derivative assets	-	-	120	339	183	305	-	-	-	-
<b>Current deposits</b>										
Deposits with banks	-	-	-	-	-	-	304	353	-	-
Bonds and other securities	93	210	-	-	-	-	-	-	-	-
Other deposits	-	-	-	-	-	-	86	12	-	-
<b>Cash and bank</b>										
	-	-	-	-	-	-	1,564	1,328	-	-
<b>Total financial assets</b>	<b>93</b>	<b>210</b>	<b>120</b>	<b>339</b>	<b>183</b>	<b>305</b>	<b>8,253</b>	<b>6,960</b>	<b>25</b>	<b>32</b>

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

## Financial liabilities

Consolidated						
SEK millions	Financial liabilities at fair value through profit or loss:				Loans	
	Held for trading		Derivatives used for hedging		2011	2010
	2011	2010	2011	2010	2011	2010
<b>Non-current liabilities</b>						
Liabilities to credit institutions	-	-	-	-	1,353	292
Private placement	-	-	-	-	758	749
<b>Current liabilities</b>						
Liabilities to credit institutions	-	-	-	-	132	173
Accounts payable	-	-	-	-	2,529	2,120
Notes payable	-	-	-	-	139	119
Other liabilities	-	-	-	-	1,238	1,339
Accrued costs	-	-	-	-	1,702	1,506
Derivative liabilities	187	74	241	76	-	-
<b>Total financial liabilities</b>	<b>187</b>	<b>74</b>	<b>241</b>	<b>76</b>	<b>7,851</b>	<b>6,298</b>

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 88–93.

## Result of financial instruments

The result of the financial assets designated upon recognition is found in Note 10 as fair value changes in securities.

The result of the financial assets held for trading of SEK 4 (275) (36) million has affected cost of goods sold with SEK 1 (47) (35) million and exchange gains in Note 11 with SEK 3 (228) (1) million.

The result of the assets under loans and receivables is presented in Note 11 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 -95 (-23) (-93) million has affected cost of goods sold with SEK -48 (-10) (-6) million, exchange losses in Note 11 with SEK -46 (-11) (-86) million and interest costs in Note 11 with the remaining SEK -1 (-2) (-1) million.

The result of the liabilities under loans is presented in Note 11 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 14. 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 -1 (0) (-1) million, see Note 10.

## Fair value of derivatives

Consolidated				Difference between contracted rate and current rate	
SEK millions	Currency pairs		2011	2010	
<b>Derivative assets/liabilities</b>					
Foreign exchange forward contracts:	EUR	USD	-85	12	
	EUR	SEK	45	132	
	EUR	AUD	-6	-13	
	EUR	CAD	-5	-1	
	EUR	DKK	2	-1	
	EUR	JPY	-4	-2	
	USD	CAD	3	-2	
	USD	DKK	-39	2	
	USD	GBP	-1	0	
	USD	SEK	-67	235	
	USD	JPY	2	4	
	DKK	SEK	14	6	
	USD	KRW	26	-23	
	Other	Other	-5	-7	
Subtotal			-120	342	
Currency options			3	9	
Interest Rate Swaps			38	96	
Metal forward contracts			-47	30	
Electricity futures			1	17	
<b>Total, corresponding to a net derivative asset (+) or liability (-)</b>			<b>-125</b>	<b>494</b>	

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 15. Current and deferred taxes

Tax on this year's result and other taxes			
Consolidated			
SEK millions	2011	2010	2009
<b>Major components of the Group's tax costs</b>			
Current tax cost	-1,404	-1,356	-1,237
Adjustment for current taxes on prior periods	22	110	-26
Deferred tax costs/income on changes in temporary differences	-40	9	186
Deferred tax costs/income on changes in tax rates or new taxes	-1	-5	34
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0	0	0
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	21	5	6
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-1	-3	20
Other taxes	-22	-8	-6
<b>Total tax cost</b>	<b>-1,425</b>	<b>-1,248</b>	<b>-1,023</b>

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	2011	2010	2009
Result after financial items	4,676	4,364	3,760
Tax according to applicable tax rates	-1,315	-1,279	-1,095
Tax effect of:			
Non-deductible costs	-137	-136	-115
Non-taxable income	38	26	180
Tax losses and tax credits	-11	39	39
Other	-22	-8	-6
Adjustment for current tax on prior periods	22	110	-26
<b>Total tax costs</b>	<b>-1,425</b>	<b>-1,248</b>	<b>-1,023</b>

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				
SEK millions	2011		2010	
	assets	liabilities	assets	liabilities
<b>Relating to:</b>				
Intangible non-current assets	2	1,069	4	726
Tangible non-current assets	82	217	67	221
Inventory	168	10	238	42
Other current assets	18	4	12	5
Financial assets	1	0	3	16
Short term liabilities	1,073	51	1,043	139
Tax losses and tax credits *	22	0	21	0
Other	5	657	8	563
Subtotal	1,371	2,008	1,396	1,712
Possible to net	-78	-78	-95	-95
<b>Total deferred taxes</b>	<b>1,293</b>	<b>1,930</b>	<b>1,301</b>	<b>1,617</b>

\* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 89 (74) 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 895 (600) 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 2009 to 2011.

Tax rates by country			
Consolidated			
Percent	2011	2010	2009
Greece	20	24	25
India	32	33	34
Indonesia	25	25	28
Japan	40	41	41
Canada	28	31	32
China	24	24	22
Netherlands	25	26	26
New Zealand	28	28	30
UK	26	28	30
South Korea	22	24	22
Taiwan	17	17	20
Czech Republic	19	19	20
Germany	30	30	29
Ukraine	23	25	25
Hungary	19	19	16
US	39	41	41
Venezuela	28	34	34

The Group's normal effective tax rate is approximately 30 (30) (30) 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 16. Goodwill and step-up values – acquisition of businesses

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 2011	Adjustment of last year's purchase price allocation	Acquired	Realised	Planned depreciation/ amortisation	Translation difference	Closing balance 2011
Buildings	310	–	248	–	-29	3	532
Land and land improvements	-68	–	–	–	–	-10	-78
Equipment	115	–	–	–	-28	-1	86
Inventory	27	–	–	-27	–	0	–
Patents and unpatented know-how	1,150	-113	430	–	-168	2	1,301
Trademarks	1,357	-53	1,010	–	-201	17	2,130
Subtotal step-up values	2,891	-166	1,688	-27	-426	11	3,971
Goodwill	5,952	-41	3,747	–	–	-115	9,543
<b>Total</b>	<b>8,843</b>	<b>-207</b>	<b>5,435</b>	<b>-27</b>	<b>-426</b>	<b>-104</b>	<b>13,514</b>

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2011 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 963 (655) 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, 2011 is shown as a translation difference. The corresponding presentation by asset type is found in Notes 17 and 18.

Acquisition of businesses since 2000										
Consolidated										
SEK millions Year/Businesses	Buildings	Land and land impro- vements	Equipment	Inventory	Patents and unpatented know-how	Trademarks	Other	Total step- up values	Goodwill	Total
<b>2000</b>										
Alfa Laval Holding	1,058	-228	452	340	1,280	461	660	4,023	3,683	7,706
<b>2002</b>										
Danish Separation Systems	-	-	-	-	-	-	-	-	118	118
<b>2003</b>										
Toftejorg	1	-	-	-	-	-	-	1	35	36
<b>2005</b>										
Packinox	-	-	-	6	99	183	-	288	253	541
<b>2006</b>										
Tranter	17	-	-	6	180	265	-	468	530	998
<b>2007</b>										
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
<b>2008</b>										
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
<b>2009</b>										
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
<b>2010</b>										
Champ Products	-	-	-	-	15	14	-	29	2	31
A leading U.S. service provider	-	-	-	-	-	134	-	134	82	216
G.S Anderson	-	-	-	-	35	-	-	35	23	58
Astepo	-	-	-	-	24	15	-	39	8	47
Si Fang Stainless Steel Products	-	-	-	-	27	16	-	43	42	85
Definox	-	-	-	-	4	5	-	9	2	11
Olmi	-	-	-	37	58	32	-	127	-	127
<b>2011</b>										
Service company in the U.S.	-	-	-	-	-	150	-	150	117	267
Aalborg Industries	248	-	-	-	430	860	-	1,538	3,630	5,168
<b>Accumulated during the period</b>										
Realised	-524	122	-24	-397	-	-	-99	-922	-	-922
Planned depreciation/amortisation	-281	-	-339	-	-1,819	-715	-571	-3,725	-612	-4,337
Translation difference	4	20	-3	1	-5	-44	10	-17	-455	-472
<b>Closing balance</b>	<b>532</b>	<b>-78</b>	<b>86</b>	<b>-</b>	<b>1,301</b>	<b>2,130</b>	<b>-</b>	<b>3,971</b>	<b>9,543</b>	<b>13,514</b>

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 "Machinery" of SEK 548 million that has been fully depreciated or realised, for "Research and development" of SEK 54 million and "Capital gain (Industrial Flow)" of SEK 42 million that have been fully realised and for "Construction in process" of SEK 16 million that has been transferred to "Machinery".

#### Acquisition of businesses

##### During 2011

In a press release on September 19, 2011 Alfa Laval communicated its proposal to buy all outstanding shares in its subsidiary Alfa Laval (India) Ltd and seek delisting of the shares from Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The proposal comes on the back of regulatory changes in India which requires Alfa Laval (India) Ltd to have a minimum public float of 25 percent or seek delisting. At present, Alfa Laval holds 88.8 percent of the share capital of Alfa Laval (India), meaning the public float is 11.2 percent. The objective is to achieve full ownership of the subsidiary, which will provide Alfa Laval with increased operational flexibility to support the business and meet the customers' needs. Alfa Laval has requested that the Board of Directors of Alfa

Laval (India) Ltd take all actions required under the delisting regulations, including arranging a postal ballot for the shareholders to consider the delisting proposal. The delisting process is expected to take approximately six months. As a part of the process a floor price of INR 2,045 per share for the acquisition of the minority's shares has been established. Furthermore Alfa Laval has published an indicative offer of INR 2,850 per share. In order for the acquisition to get completed two thirds of all voting minority shareholders must first vote in favour of Alfa Laval's proposal, which happened on November 15, 2011. Then minority shareholders together holding at least 50 percent of the public float must be willing to sell at the final price that Alfa Laval accepts based on a reverse book building process. The reverse book building process was finalised on February 23, 2012 and minority shareholders together holding at least 50 percent of the public float are willing to sell to Alfa Laval at a price of INR 4,000 per share. The Board of Directors of Alfa Laval AB has therefore decided to proceed with the delisting process. When Alfa Laval has achieved an ownership of 94.4 percent, Alfa Laval (India) Ltd can apply for delisting. If all shareholders in the end sell their shares to Alfa Laval at this exit price the acquisition will incur a consideration of approximately SEK 1,065 million. If Alfa Laval had not succeeded in achieving an ownership of 94.4 percent in the currently ongoing process the company would have been required to increase the public float to 25 percent latest in June 2013.

On May 1, 2011 Alfa Laval acquired a well established service company

in the U.S.. The company is a leading provider on the North American market specialized in serving equipment for centrifugal separation. "The acquisition is another step in the ambition to serve the market with alternative offerings", says Lars Renström, President and CEO of the Alfa Laval Group. The company will remain a separate organization as they will continue to offer their own products and services to the industry, under their own brand. The purchase price is SEK 235 million, out of which SEK 175 million has been paid in cash and SEK 60 million is retained for a period of 1-2 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The outcome can be anything between SEK 0 million and SEK 60 million, but the probable outcome is SEK 60 million. 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, which is reported as other operating costs. The impact on the cash flow is thus SEK -177 million. Out of the difference between the purchase price paid and the net assets acquired SEK 150 million is allocated to the company's trademark, while the residual SEK 117 million is allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and 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. From the date of the acquisition the company has added SEK 68 million in orders received, SEK 74 million in invoicing and SEK 20 million in adjusted EBITA to Alfa Laval. If the company had been acquired at January 1, 2011 the corresponding figures would have been SEK 102 million, SEK 110 million and SEK 30 million respectively. At the end of December 2011 the number of employees was 48.

In a press release on December 21, 2010, Alfa Laval announced that an agreement had been signed to acquire Aalborg Industries Holding A/S from Altor 2003 Fund, LD Equity and the Company's management. Aalborg Industries had some 2,750 employees and generated sales of about SEK 3.3 billion in 2010. Clearances from all concerned regulatory authorities were received at the beginning of May 2011. Aalborg Industries are consolidated into the Alfa Laval Group as of May 1, 2011. Aalborg will be fully integrated into Alfa Laval. Non-recurring costs for the integration are estimated at SEK 80 million. During the latter part of 2013 the annual synergy is estimated at SEK 100 million. The acquisition, which adds complementary energy-efficient and environmental solutions, represents a significant business opportunity as it supports Alfa Laval's existing offer to the marine and off-shore markets.

Another opportunity lies in the introduction of Aalborg's products to customers in completely new end markets, through Alfa Laval's sales network.

"Aalborg Industries is an excellent fit and I'm very pleased to welcome a strong and well-run company into Alfa Laval", says Lars Renström, President and CEO of the Alfa Laval Group. The acquisition further strengthens Alfa Laval's product offering in heat transfer. It adds market-leading positions with products such as boilers and thermal fluid systems, as well as inert gas systems, with significant barriers to entry. These include extensive certification processes, a strong innovation track record and a global service network. The company's strong manufacturing and engineering presence in fast-growing markets such as China, Vietnam and Brazil, as well as the aftermarket potential generated by a large installed base, are also highly attractive attributes.

The purchase price is SEK 5,003 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 22 million, which is reported as other operating costs. Liquid assets of SEK 421 million in the acquired businesses have been taken over. The impact on the cash flow is thus SEK -4,604 million. Out of the difference between the purchase price paid and the net assets acquired SEK 248 million is allocated to properties, SEK 430 million is allocated to patents and un-patented know-how and SEK 860 million is allocated to the Aalborg trademark, while the residual SEK 3,630 million is allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the Aalborg's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step up value for properties is depreciated over 20 years. 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. From the date of the acquisition Aalborg has added SEK 1,765 million in orders received, SEK 2,143 million in invoicing and SEK 532 million in adjusted EBITA to Alfa Laval. If Aalborg had been acquired at January 1, 2011 the corresponding figures would have been SEK 2,915 million, SEK 3,242 million and SEK 776 million respectively. At the end of December 2011 the number of employees was 2,692. Four business segments are concerned by the integration: Marine & Diesel, Process Industry and Parts & Service for both Equipment and Process Technology. For the period May to December 2011 the orders received for Aalborg is referring to Marine & Diesel to 61%, to Process Industry to 7 %, to Equipment Parts & Service to 28 % and to Process Technology Parts & Service to 4 %.

The acquisitions during 2011 can be summarized as follows:

## Acquisitions 2011

Consolidated

SEK millions	Aalborg Industries			Others			Total
	Book value	Adjustment to fair value	Fair value	Book value	Adjustment to fair value	Fair value	Fair value
Property, plant and equipment <sup>1)</sup>	160	248	408	-	-	-	408
Patents and unpatented know-how <sup>2)</sup>	-	430	430	-	-	-	430
Trademarks <sup>2)</sup>	-	860	860	-	150	150	1,010
Licenses, renting rights and similar rights	1	-	1	-	-	-	1
Inventory	253	-	253	29	-	29	282
Accounts receivable	596	-	596	9	-	9	605
Other receivables	306	-	306	-	-	-	306
Current deposits	22	-	22	-	-	-	22
Liquid assets	421	-	421	-	-	-	421
Other provisions	-194	-	-194	-1	-	-1	-195
Loans	-421	-	-421	-	-	-	-421
Accounts payable	-325	-	-325	-4	-	-4	-329
Advance payments and other liabilities	-304	-	-304	-	-	-	-304
Other liabilities	-286	-	-286	-4	-	-4	-290
Tax liabilities	-46	-	-46	-	-	-	-46
Deferred tax	51	-399	-348	-	-61	-61	-409
<b>Acquired net assets</b>	<b>234</b>	<b>1,139</b>	<b>1,373</b>	<b>29</b>	<b>89</b>	<b>118</b>	<b>1,491</b>
Goodwill <sup>3)</sup>			3,630			117	3,747
Purchase price			-5,003			-235	-5,238
Costs directly linked to the acquisitions <sup>4)</sup>			-22			-2	-24
Retained part of purchase price <sup>5)</sup>			-			60	60
Liquid assets in the acquired businesses			421			-	421
Payment of amounts retained in prior years			-			-175	-175
<b>Effect on the Group's liquid assets</b>			<b>-4,604</b>			<b>-352</b>	<b>-4,956</b>

<sup>1)</sup> The step up value for property in Aalborg is amortised over 20 years.

<sup>2)</sup> The step up values for patents and unpatented know-how as well for trademarks are amortised over 10 years.

<sup>3)</sup> The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and the companies' ability to over time recreate its intangible assets. The value of the goodwill is still preliminary.

<sup>4)</sup> Refers to fees to lawyers, due diligence and assisting counsel. Has been expensed as other operating costs.

<sup>5)</sup> Contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The probable outcome has been calculated.

All acquired assets and liabilities were reported according to IFRS at the time of the acquisition.

**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 was SEK 714 million, out of which SEK 546 million was paid in cash and SEK 168 million is retained for a period of 1-6 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The outcome can be anything between SEK 0 million and SEK 168 million, but the probable outcome was SEK 168 million. The probable outcome has during 2011 been revised to SEK 15 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which was reported as other operating costs. The impact on the cash flow was thus SEK -548 million. Initially, 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 was relating to estimated synergies in procurement, logistics and corporate overheads and Olmi's ability to over time recreate its intangible assets. In connection with the finalisation of the purchase price allocation in 2011 the step up value for patents and un-patented know-how has been decreased by SEK 113 million to SEK 58 million, the step up value for the Olmi trademark has been decreased by SEK 53 million to SEK 32 million and value of the goodwill has been decreased by SEK 14 million to SEK - 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. 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 De-fontaine. 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 was SEK 49 million, out of which all was paid in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 4 million, which was reported as other operating costs. 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. In connection with the finalisation of the value of the goodwill in 2011 it has been decreased by SEK 1 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. 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 was SEK 61 million, out of which SEK 34 million was paid in cash and SEK 27 million is retained for a period of 1-2 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The outcome could be anything between SEK 0 million and SEK 27 million, but the probable outcome was SEK 27 million. The probable outcome has during 2011 been revised to SEK 10 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 3 million, which was reported as other operating costs. 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. In connection with the finalisation of the value of the goodwill in 2011 it has been decreased by SEK 18 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. 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 was SEK 121 million, out of which SEK 82 million was paid in cash and SEK 39 million was retained for a period of 1 year. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome could be anything between SEK 0 million and SEK 39 million. The probable outcome was SEK 39 million, which also has been paid in cash in 2011. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 13 million, which was reported as other operating costs. 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. In connection with the finalisation of the value of the goodwill in 2011 it has been increased by SEK 5 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. 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 was SEK 226 million, out of which SEK 145 million was paid in cash and SEK 81 million is retained for a period of 1-2 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The outcome can be anything between SEK 0 million and SEK 81 million, but the probable outcome is SEK 81 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 3 million, which was reported as other operating costs. 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 has been finalised in 2011. 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 was SEK 70 million, out of which SEK 35 million was paid in cash and SEK 35 million is retained for a period of 1-2 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered or that certain profitability goals are fulfilled. The outcome could be anything between SEK 0 million and SEK 35 million, but the probable outcome was SEK 35 million. The probable outcome has during 2011 been revised to SEK 22 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which was reported as other operating costs. 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. In connection with the finalisation of the value of the goodwill in 2011 it has been decreased by SEK 13 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. 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 was SEK 49 million, out of which SEK 26 million was paid in cash and SEK 23 million is retained for a period of 1–5 years. The retained part of the purchase price is contingent on that certain profitability goals are fulfilled. The outcome can be anything between SEK 0 million and SEK 45 million, but the probable outcome is SEK 23 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 1 million, which was reported as other operating costs. 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 has been finalised in 2011. 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. The acquisitions during 2010 can be summarized as follows:

Acquisitions 2010								
Consolidated								
SEK millions	Olmi			Others			Total	
	Book value	Adjustment to fair value	Fair value	Book value	Adjustment to fair value	Fair value	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	
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	
<b>Acquired net assets</b>	<b>498</b>	<b>202</b>	<b>700</b>	<b>191</b>	<b>202</b>	<b>393</b>	<b>1,093</b>	
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	
<b>Effect on the Group's liquid assets</b>			<b>-548</b>			<b>-471</b>	<b>-1,019</b>	

All acquired assets and liabilities were reported according to IFRS at the time of the acquisition. With the exception of the acquisition of Olmi the many minor acquisitions during 2010 are reported together since a split per acquisition would have been too fragmented and rather would have burdened the presentation than increased clarity.

#### 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 was SEK 1,084 million, out of which SEK 1,014 million was paid in cash and SEK 70 million was retained for a period of 1–2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome could be anything between SEK 0 million and SEK 70 million. The probable outcome was SEK 70 million, which also has been paid in cash during 2010 and 2011. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which increased the acquisition cost and thereby increased the reported goodwill. 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 was 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 was SEK 64 million, out of which SEK 55 million was paid in cash and SEK 9 million was retained for a period of 1–2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome could be anything between SEK 0 million and SEK 9 million. The probable outcome was SEK 9 million, which also has been paid in cash during 2010 and 2011. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 0 million, which increased the acquisition cost and thereby increased the reported goodwill. 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 increased from 76.7 percent to 88.8 percent. The total cost for the acquisition was SEK 367 million, which was paid in cash. 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, which increased the acquisition cost and thereby increased the reported goodwill. 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 in the process industry. The company will be integrated into Tranter. The purchase price was SEK 108 million, out of which SEK 86 million was paid in cash and SEK 22 million is retained for a period of 1-3 years. The retained part of the purchase price is contingent on certain warranties in the contract not being triggered. The outcome can be anything between SEK 0 million and SEK 22 million, but the probable outcome is SEK 22 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 4 million, which increased the acquisition cost and thereby increased the reported goodwill. 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 was SEK 131 million, out of which SEK 105 million was paid in cash and SEK 26 million was retained for a period of 2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome could be anything between SEK 0 million and SEK 26 million. The probable outcome was SEK 26 million, which also has been paid in cash during 2011. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 2 million, which increased the acquisition cost and thereby increased the reported goodwill. 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 was SEK 526 million, out of which SEK 503 million was paid in cash and SEK 23 million was retained for a period of 1-2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered or that certain profitability goals were fulfilled. The outcome could be anything between SEK 0 million and SEK 55 million, but the probable outcome was SEK 23 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 6 million, which increased the

acquisition cost and thereby increased the reported goodwill. 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 was SEK 20 million, out of which SEK 17 million was paid in cash and SEK 3 million was retained for a period of 1-2 years. The retained part of the purchase price was contingent on certain warranties in the contract not being triggered. The outcome could be anything between SEK 0 million and SEK 3 million, but the probable outcome was SEK 3 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 1 million, which increased the acquisition cost and thereby increased the reported goodwill. 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 was SEK 34 million, out of which SEK 9 million was paid in cash and SEK 25 million is retained for a period of 2-6 years. The retained part of the purchase price is linked to the number of sold units of the company's products. The outcome can be anything between SEK 0 million and SEK 25 million, but the probable outcome is SEK 25 million. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 0 million, which increased the acquisition cost and was allocated to patent and un-patented know-how. 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 Nitrile India Pvt Ltd, which thereby became a wholly owned subsidiary. The purchase price was SEK 1 million, which was paid in cash. This did not affect 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.

The acquisitions during 2009 can be summarized as follows:

Acquisitions 2009							
Consolidated							
SEK millions	LHE			Others			Total
	Book value	Adjustment to fair value	Fair value	Book value	Adjustment to fair value	Fair value	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
<b>Acquired net assets</b>	<b>286</b>	<b>453</b>	<b>739</b>	<b>256</b>	<b>383</b>	<b>639</b>	<b>1,378</b>
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
<b>Effect on the Group's liquid assets</b>			<b>-1,016</b>			<b>-1,161</b>	<b>-2,177</b>

All acquired assets and liabilities were reported according to IFRS at the time of the acquisition. With the exception of the acquisition of LHE the many minor acquisitions during 2009 are reported together since a split per acquisition would have been too fragmented and rather would have burdened the presentation than increased clarity.

#### Impairment testing

An impairment test has been performed at the end of 2011 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 recoverable amount of the cash-generating units is based on their value in use, which is established by calculating the net present value of future cash flows. 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 2012 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 2013 and 2014 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 2015 to 2031 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 7.92 (11.23) (10.93) 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	2011	2010
Equipment	6,511	3,376
Process Technology	3,032	2,576
<b>Total</b>	<b>9,543</b>	<b>5,952</b>

## Note 17. Intangible non-current assets

Patents and unpatented know-how		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	2,803	2,745
Purchases	1	2
Acquisition of businesses	–	0
Sales/disposals	–	-1
Reclassifications	-1	1
Step-up values	317	276
Translation difference	9	-220
<b>Closing balance</b>	<b>3,129</b>	<b>2,803</b>
<b>Accumulated amortisation</b>		
Opening balance	-1,623	-1,606
Acquisition of businesses	–	0
Amortisation of step-up value	-168	-142
Amortisation for the year	-5	-9
Translation difference	-6	134
<b>Closing balance</b>	<b>-1,802</b>	<b>-1,623</b>
<b>Closing balance, net book value</b>	<b>1,327</b>	<b>1,180</b>

Trademarks		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	1,881	1,709
Purchases	–	2
Step-up values	957	269
Translation difference	20	-99
<b>Closing balance</b>	<b>2,858</b>	<b>1,881</b>
<b>Accumulated amortisation</b>		
Opening balance	-524	-412
Amortisation of step-up values	-201	-139
Translation difference	-3	27
<b>Closing balance</b>	<b>-728</b>	<b>-524</b>
<b>Closing balance, net book value</b>	<b>2,130</b>	<b>1,357</b>

Licenses, renting rights and similar rights		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	185	215
Purchases	18	31
Acquisition of businesses	44	2
Sales/disposals	-20	-34
Reclassifications	1	–
Translation difference	-5	-29
<b>Closing balance</b>	<b>223</b>	<b>185</b>
<b>Accumulated amortisation</b>		
Opening balance	-141	-161
Acquisition of businesses	-41	-2
Sales/disposals	20	16
Reclassifications	-1	0
Amortisation for the year	-18	-13
Translation difference	3	19
<b>Closing balance</b>	<b>-178</b>	<b>-141</b>
<b>Closing balance, net book value</b>	<b>45</b>	<b>44</b>

Alfa Laval does not have any internally generated intangible assets.

Goodwill		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	6,505	6,737
Goodwill in connection with acquisition of businesses	3,706	218
Translation difference	-116	-450
<b>Closing balance</b>	<b>10,095</b>	<b>6,505</b>
<b>Accumulated amortisation</b>		
Opening balance	-553	-594
Translation difference	1	41
<b>Closing balance</b>	<b>-552</b>	<b>-553</b>
<b>Closing balance, net book value</b>	<b>9,543</b>	<b>5,952</b>

## Note 18. Property, plant and equipment

Real estate		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	2,243	2,118
Purchases	67	31
Acquisition of businesses	208	253
Sales/disposal	-15	-14
Reclassifications	4	-12
Step-up values	247	-
Translation difference	1	-133
<b>Closing balance</b>	<b>2,755</b>	<b>2,243</b>
<b>Accumulated depreciation</b>		
Opening balance	-969	-889
Sales/disposals	7	8
Acquisition of businesses	-90	-49
Reclassifications	-1	-20
Depreciation of step-up value	-29	-21
Depreciation for the year	-64	-57
Translation difference	-6	59
<b>Closing balance</b>	<b>-1,152</b>	<b>-969</b>
<b>Closing balance, net book value</b>	<b>1,603</b>	<b>1,274</b>

**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	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	4,305	3,991
Purchases	224	204
Acquisition of businesses	177	293
Sales/disposal	-262	-65
Reclassifications	83	134
Translation difference	-33	-252
<b>Closing balance</b>	<b>4,494</b>	<b>4,305</b>
<b>Accumulated depreciation</b>		
Opening balance	-2,963	-2,634
Sales/disposals	214	48
Acquisition of businesses	-98	-201
Reclassifications	-6	-80
Depreciation of step-up value	-	-39
Depreciation for the year	-253	-228
Translation difference	33	171
<b>Closing balance</b>	<b>-3,073</b>	<b>-2,963</b>
<b>Closing balance, net book value</b>	<b>1,421</b>	<b>1,342</b>

Equipment, tools and installations		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	1,951	2,252
Purchases	112	87
Acquisition of businesses	58	30
Sales/disposal	-107	-169
Reclassifications	16	-103
Translation difference	3	-146
<b>Closing balance</b>	<b>2,033</b>	<b>1,951</b>
<b>Accumulated depreciation</b>		
Opening balance	-1,382	-1,596
Sales/disposals	95	161
Acquisition of businesses	-49	-26
Reclassifications	-14	117
Depreciation of step-up value	-28	-30
Depreciation for the year	-98	-108
Translation difference	-4	100
<b>Closing balance</b>	<b>-1,480</b>	<b>-1,382</b>
<b>Closing balance, net book value</b>	<b>553</b>	<b>569</b>

Construction in progress and advances to suppliers concerning property, plant and equipment		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	166	138
Purchases	133	72
Acquisition of businesses	1	8
Sales/disposal	-1	-
Reclassifications	-92	-41
Translation difference	1	-11
<b>Closing balance</b>	<b>208</b>	<b>166</b>
<b>Closing balance, net book value</b>	<b>208</b>	<b>166</b>

Leased real estate		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	151	145
Purchases	-	23
Reclassifications	-	3
Translation difference	-1	-20
<b>Closing balance</b>	<b>150</b>	<b>151</b>
<b>Accumulated depreciation</b>		
Opening balance	-13	-8
Depreciation for the year	-7	-6
Translation difference	1	1
<b>Closing balance</b>	<b>-19</b>	<b>-13</b>
<b>Closing balance, net book value</b>	<b>131</b>	<b>138</b>

Leased machinery		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	34	39
Reclassifications	1	–
Translation difference	-1	-5
<b>Closing balance</b>	<b>34</b>	<b>34</b>
<b>Accumulated depreciation</b>		
Opening balance	-13	-12
Depreciation for the year	-3	-3
Translation difference	0	2
<b>Closing balance</b>	<b>-16</b>	<b>-13</b>
<b>Closing balance, net book value</b>	<b>18</b>	<b>21</b>

Leased equipment, tools and installations		
Consolidated		
SEK millions	2011	2010
<b>Accumulated acquisition values</b>		
Opening balance	6	9
Purchases	1	–
Acquisition of businesses	1	–
Sales/disposal	-1	-3
Reclassifications	-1	–
Translation difference	0	0
<b>Closing balance</b>	<b>6</b>	<b>6</b>
<b>Accumulated depreciation</b>		
Opening balance	-4	-5
Sales/disposals	1	2
Acquisition of businesses	-1	–
Reclassifications	1	–
Depreciation for the year	-1	-1
Translation difference	0	0
<b>Closing balance</b>	<b>-4</b>	<b>-4</b>
<b>Closing balance, net book value</b>	<b>2</b>	<b>2</b>

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 19. Other non-current assets

Shares in subsidiaries and other companies				
SEK millions	Consolidated		Parent company	
	2011	2010	2011	2010
Shares in subsidiaries	–	–	4,669	4,669
Shares in other companies	25	32	–	–
<b>Total</b>	<b>25</b>	<b>32</b>	<b>4,669</b>	<b>4,669</b>

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 the Swedish Companies Registration Office (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		Maarsse, 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	–
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 BV		Maarsse, Netherlands	10,000	100	–
Alfa Laval Benelux BV		Maarsse, Netherlands	20,000	100	–
Helpman Capital BV		Breda, Netherlands	35,578	100	–
Helpman Holding BV		Naarden, Netherlands	80	100	–
Alfa Laval Groningen BV		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 Indústria 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 (Qingdao) Heat Exchanger Co.Ltd		Jiaozhou City, China		100	–
Kenus LLP		Almaty, Kazakhstan		90	–
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia, Cyprus	20,000	100	–
MCD SAS		Guny, France	7,130	10	–
Tranter International AB	556559-1764	Vänernsberg, Sweden	100,000	100	–
Ageratec AB	556662-3988	Norrköping, Sweden	1,963	100	–
Breezwind 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	–

Specification of shares in subsidiaries, continued					
Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
Alfa Laval (Kunshan) Manufacturing Co Ltd		Kunshan, China		100	–
Alfa Laval (India) Ltd		Poona, India	16,120,281	89	–
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	40	100	–
Alfa Laval Nordic A/S		Rødovre, Denmark	1	100	–
Alfa Laval Copenhagen A/S		Søborg, Denmark	1	100	–
Alfa Laval Nakskov A/S		Nakskov, Denmark	242,713	100	–
Alfa Laval Tank Equipment A/S		Ishøj, Denmark	61	100	–
Alfa Laval Aalborg Holding A/S		Aalborg, Denmark	45,435,800	100	–
Alfa Laval Aalborg A/S		Aalborg, Denmark	2,560,972	100	–
Alfa Laval Aalborg Ltda		Petrópolis, Brazil	5,969,400	99.5	–
Aalborg Industries Ltda		Itu, Brazil	4,644,373	100	–
Aalborg Industries (Shanghai) Ltd		Shanghai, China		100	–
Alfa Laval (Qingdao) Co. Ltd		Jiaozhou City, China		100	–
Aalborg Industries Ltd		Hong Kong, China	99	100	–
Alfa Laval Aalborg KK		Osaka, Japan	4,000	100	–
Alfa Laval Aalborg Ltd		Pusan, South Korea	550	100	–
Aalborg Industries Engineering Bhd		Kuala Lumpur, Malaysia		100	–
Alfa Laval Aalborg Pte Ltd		Singapore	500,000	100	–
Aalborg Industries Water Treatment Pte Ltd		Singapore	4,800,000	60	–
Alfa Laval Aalborg (FPS) Pte Ltd		Singapore	2,250,000	100	–
Alfa Laval HaiPhong Co. Ltd		HaiPhong, Vietnam		100	–
Alfa Laval Aalborg Oy		Rauma, Finland	3,000	100	–
Alfa Laval Aalborg BV		Spijkenisse, Netherlands	7,500	100	–
Alfa Laval Aalborg Nijmegen BV		Nijmegen, Netherlands	182	100	–
Alfa Laval Aalborg Nijmegen2 BV		Nijmegen, Netherlands	200	100	–
Alfa Laval Aalborg Holding Pty Ltd		North Wyong, Australia	11,500,000	100	–
Alfa Laval Aalborg Pty Ltd		North Wyong, Australia	225,000	100	–
Alfa Laval Olmi SpA		Suisio, Italy	500,000	100	–
Alfa Laval Italy Srl		Milano, Italy		100	–
Alfa Laval Nordic A/S		Oslo, Norway	100	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 Zealand Pty Ltd		Hamilton, New Zealand	1,000	100	–
Alfa Laval Holding BV		Maarsse, 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	64,170	90	–
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 Compañil		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	–

## Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK millions
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 Srl		Monza, Italy		100	–
Alfa Laval Parma Srl		Parma, Italy	114,000	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	–
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	–
Alfa Laval Aalborg Inc.		Miramar, Florida, USA	200	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
<b>Total</b>					<b>4,669</b>

## Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK thousands
Alfa Laval Aalborg Ltda				
Tractebel	Brazil	1,268		141
Elektrobras	Brazil	3,981		392
Alfa Laval KK				
Chugairo	Japan	5,000		110
Orugano	Japan	769		40
ADEKA	Japan	17,588		1,184
LHE Co. Ltd				
Viser	South Korea	15,400	39	15,564
KME	South Korea	10,700	30	0
Alfa Laval Philippines Inc.				
Philippine Long Distance Telephone	Philippines	820		13
Alfa Laval Nordic OY				
As Oy Koivulantie 7A	Finland	1		277
Suomen Talotekniikka KK	Finland	10		27
Helsinki Halli	Finland	4		125
Alfa Laval Vantaa OY				
Länsi-Vantaan Tenniskeskus	Finland	4		0
Mikkelin Puhelin Oyj	Finland	5		36
Alfa Laval Aalborg OY				
Lännen Puhelin	Finland	1		54
Alfa Laval France SAS				
SEMACLA	France	10		0
Alfa Laval HES SA				
Thermothec	France	9,130		0
Alfa Laval Parma Srl				
Parmalat	Italy	4,413		88
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		135
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	500	49	5,978
Alfa Laval NV				
Dalian Haven Automation Co Ltd	China	102	43	795
Alfa Laval Nordic A/S				
Storebrand ASA	Norway	7,629		272
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) NV	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
<b>Totalt</b>				<b>25,231</b>

## Note 20. Inventories

Type of inventory		
Consolidated		
SEK millions	2011	2010
Raw materials and consumables	2,371	1,788
Work in progress	1,955	1,453
Finished goods & goods for resale, new sales	1,090	979
Finished goods & goods for resale, spare parts	579	450
Advance payments to suppliers	153	99
<b>Total</b>	<b>6,148</b>	<b>4,769</b>

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:						
2010	1,105	-35	0	153	-266	957
2011	957	-6	26	212	-330	859

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 2011 amounts to SEK 420 (365) million.

## Note 21. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 214 (192) 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:								
2010	343	-21	9	112	-96	-67	0	280
2011	280	-4	25	151	-41	-59	0	352

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	2011	%	2010	%
<b>Overdue:</b>				
Maximum 30 days	504	9.9	437	10.5
More than 30 days but maximum 90 days	269	5.3	246	5.9
More than 90 days	330	6.5	282	6.7
<b>Total</b>	<b>1,103</b>	<b>21.7</b>	<b>965</b>	<b>23.1</b>

## Note 22. Other short-term receivables

Split on type and maturity		
Consolidated		
SEK millions	2011	2010
Notes receivable	286	248
Financial leasing receivables	2	0
Other receivables	900	798
<b>Total</b>	<b>1,188</b>	<b>1,046</b>
Of which, not due within one year:		
Notes receivable	2	8
Other receivables	23	18
<b>Total</b>	<b>25</b>	<b>26</b>

## Note 23. Prepaid expenses and accrued income

Split on type		
Consolidated		
SEK millions	2011	2010
Prepaid expenses	141	141
Accrued income	33	40
<b>Total</b>	<b>174</b>	<b>181</b>

## Note 24. Other current deposits

Split on type and maturity		
Consolidated		
SEK millions	2011	2010
Deposits with banks	304	353
Bonds and other securities	93	210
Other deposits	86	12
<b>Total</b>	<b>483</b>	<b>575</b>
Of which, not due within one year:		
Deposits with banks	42	37
Other deposits	10	6
<b>Total</b>	<b>52</b>	<b>43</b>

## Note 25. 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 68 (77) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 88.8 percent.

## Note 26. Defined benefit obligations

The Group has defined benefit commitments to employees and former employees and their survivors. The benefits are referring to old age pension, survivor's pension, disability pension, health care and severance pay.

The defined benefit plans are in place in Austria, Belgium, Canada, France, Germany, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Norway, Philippines, South Africa, Sweden, Taiwan, the United Kingdom and the United States. Most plans have been closed for new participants and replaced by defined contribution plans for new employees. The amounts reported as reclassified are referring to plans that have been reclassified between defined benefit plans and defined contribution plans under IAS 19.

The following table presents how the net defined benefit liability is arrived at out of the present values of the different defined benefit plans, less the unrecognised actuarial losses, the unrecognised past service costs and the fair value of the plan assets.

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

Net defined benefit liability			
Consolidated			
SEK millions	2011	2010	2009
Present value of defined benefit obligation, unfunded	-928	-873	-934
Present value of defined benefit obligation, funded	-2,976	-2,702	-2,838
Present value of defined benefit obligation at year end	-3,904	-3,575	-3,772
Unrecognised actuarial losses	1,038	727	814
Unrecognised past service cost	3	3	8
Fair value of plan assets	2,357	2,233	2,166
Defined benefit liability	-506	-612	-784
Less amount disallowed	0	0	0
<b>(-) liability/(+) asset at December 31</b>	<b>-506</b>	<b>-612</b>	<b>-784</b>

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	2011	2010	2009
Current service cost	-43	-33	-37
Interest cost	-170	-176	-193
Expected return on plan assets	129	126	124
Actuarial losses	-57	-67	-41
Past service cost	0	0	0
Effect of any curtailments or settlements	11	3	-21
<b>(-) cost/(+) income</b>	<b>-130</b>	<b>-147</b>	<b>-168</b>

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	2011	2010	2009
Present value of defined benefit liability at January 1	-3,575	-3,772	-3,570
Translation difference	-27	271	123
Current service cost	-43	-33	-37
Interest cost	-170	-176	-193
Employee contributions	-4	-4	-6
Current year change in actuarial losses	-277	-61	-270
Past service cost	0	0	0
Effect of any curtailments or settlements	11	3	-21
Benefit payments	181	197	202
<b>(-) liability at December 31</b>	<b>-3,904</b>	<b>-3,575</b>	<b>-3,772</b>

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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	2011	2010	2009
Fair value of plan assets at January 1	2,233	2,166	1,974
Translation difference	14	-162	-46
Employer contributions	230	201	186
Employee contributions	4	4	6
Actual return on plan assets	57	221	248
Benefit payments	-181	-197	-202
<b>(+) asset at December 31</b>	<b>2,357</b>	<b>2,233</b>	<b>2,166</b>

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	2011	2010	2009
Defined benefit liability/asset at January 1	-612	-784	-850
Translation difference	-6	115	51
Net plan cost	-130	-147	-168
Employer contributions	230	201	186
Change in unrecognised actuarial gains/losses	12	3	-3
Change in unrecognised past service cost	0	0	0
Change in disallowed asset amount	0	0	0
<b>(-) liability/(+) asset at December 31</b>	<b>-506</b>	<b>-612</b>	<b>-784</b>

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	2011	2010	2009
<b>Assets</b>			
Fair value of plan assets	2,357	2,233	2,166
Less amount disallowed	0	0	0
	2,357	2,233	2,166
Netting	-2,011	-1,998	-2,030
<b>Assets in statement on financial position</b>	<b>346</b>	<b>235</b>	<b>136</b>
<b>Liabilities</b>			
Present value of defined benefit obligation at year end	-3,904	-3,575	-3,772
Unrecognised actuarial losses	1,038	727	814
Unrecognised past service costs	3	3	8
	-2,863	-2,845	-2,950
Netting	2,011	1,998	2,030
<b>Provision in statement on financial position</b>	<b>-852</b>	<b>-847</b>	<b>-920</b>

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

Actuarial assumptions			
Consolidated			
Percent	2011	2010	2009
Discount rate	4	5	6
Expected return on investment	6	6	9
Expected wage increase	3	3	4
Change in health care costs	8	8	8
Change of index for future increase of remunerations	3	3	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	2011		2010	
Change	1% increase	1% decrease	1% increase	1% decrease
<b>Effect on:</b>				
Current service costs and interest costs	-2	2	-2	2
Present value of the defined benefit obligation	-46	39	-43	37

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	Netherlands	Germany	Norway	Italy	Belgium	Other	Total
<b>Net defined benefit liability</b>									
Present value of the defined benefit obligation, unfunded	-552	-	-	-155	-	-41	-	-180	<b>-928</b>
Present value of the defined benefit obligation, funded	-916	-1,490	-248	-	-103	-	-72	-147	<b>-2,976</b>
Present value of the defined benefit obligation at year end	-1,468	-1,490	-248	-155	-103	-41	-72	-327	<b>-3,904</b>
Unrecognised actuarial losses	522	416	35	21	31	-	13	0	<b>1,038</b>
Unrecognised past service cost	-	-	-	-	-	-	0	3	<b>3</b>
Fair value of plan assets	683	1,188	241	-	84	-	53	108	<b>2,357</b>
Defined benefit liability	-263	114	28	-134	12	-41	-6	-216	<b>-506</b>
Less amount disallowed	0	0	0	0	0	0	0	0	<b>0</b>
(-) liability/(+) asset	-263	114	28	-134	12	-41	-6	-216	<b>-506</b>
<b>Net plan cost</b>	<b>-47</b>	<b>-33</b>	<b>-9</b>	<b>-12</b>	<b>-7</b>	<b>-1</b>	<b>-7</b>	<b>-14</b>	<b>-130</b>
<b>Sensitivity analysis</b>									
Increase in the present value of the defined obligations at Dec 31 at a decrease by 1 percent of the discount rate	-91	-265	-54	-2	-19	-	-11	-32	<b>-474</b>
Increase in the plan cost due to this *	-4	-22	-6	-1	-2	-	-5	-13	<b>-53</b>
Increase in the present value of the defined obligations at Dec 31 at an increase by 1 percent in medical costs	-46	-	-	-	-	-	-	-	<b>-46</b>
Increase in the plan cost due to this *	-2	-	-	-	-	-	-	-	<b>-2</b>
Increase in plan cost in 2012 if the plan assets decrease in value by 10 percent in 2011 *	-12	-11	-3	-	-1	-	0	-5	<b>-32</b>
<b>Cost for actuarial services</b>	<b>-2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>-3</b>
<b>Number of participants in the plans at December 31</b>									
Current employees (active members)	746	159	117	15	28	-	38	2,697	<b>3,800</b>
Current employees (only vested value for closed plans)	125	-	-	-	-	478	-	16	<b>619</b>
Former employees that are yet not pensioners	343	586	185	24	-	-	63	4	<b>1,205</b>
Pensioners	2,091	571	61	334	28	-	-	144	<b>3,229</b>
<b>Total</b>	<b>3,305</b>	<b>1,316</b>	<b>363</b>	<b>373</b>	<b>56</b>	<b>478</b>	<b>101</b>	<b>2,861</b>	<b>8,853</b>
<b>Remaining service period</b>									
Average remaining service period for active members (years)	10	11	11	4	11	-	19	19	<b>16</b>

\* all other things being equal

## Note 27. 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
<b>2010</b>							
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
<b>Total</b>	<b>2,365</b>	<b>-77</b>	<b>2</b>	<b>946</b>	<b>-824</b>	<b>-284</b>	<b>2,128</b>
Of which:							
current	1,926						1,496
non-current	439						632
<b>2011</b>							
Claims & warranty	1,233	0	146	543	-581	-165	1,176
Deferred costs	195	-1	2	52	-37	-19	192
Restructuring	166	0	-	154	-77	-23	220
Onerous contracts	90	0	-	31	-54	-1	66
Litigations	212	-2	5	10	-57	-1	167
Other	232	-1	51	212	-123	-60	311
<b>Total</b>	<b>2,128</b>	<b>-4</b>	<b>204</b>	<b>1,002</b>	<b>-929</b>	<b>-269</b>	<b>2,132</b>
Of which:							
current	1,496						1,612
non-current	632						520

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 550 (100) employees.

The provision for onerous contracts is relating to orders where a negative gross margin is expected. Provisions are made as soon as a final loss on the order can be expected. This can in exceptional cases happen already at the time when the order is taken. Normally this provision is relating to larger and complex orders where the final margin is more uncertain.

The provision for litigations refers to ongoing or expected legal disputes. The provision covers expected legal costs and expected amounts for damages or settlements.

Other refers to miscellaneous provisions that do not fall within any of the above categories.

## Note 28. Borrowings and net debt

Net debt		
Consolidated		
SEK millions	2011	2010
Credit institutions	1,485	465
Swedish Export Credit	1,787	-
European Investment Bank	1,162	-
Private placement	758	749
Capitalised financial leases	118	137
Interest-bearing pension liabilities	1	1
<b>Total debt</b>	<b>5,311</b>	<b>1,352</b>
Cash, bank and current deposits	-2,047	-1,903
<b>Net debt</b>	<b>3,264</b>	<b>-551</b>

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 139 (276) 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				
SEK millions	Current		Non-current	
	2011	2010	2011	2010
Currency:				
BRL	11	15	-	-
CNY	38	29	-	-
DKK	2	-	12	20
EUR	34	66	4,443	441
INR	8	17	14	31
KRW	-	18	-	-
USD	38	23	591	549
Other	1	5	-	-
<b>Total</b>	<b>132</b>	<b>173</b>	<b>5,060</b>	<b>1,041</b>
Of which, not due within five years:			2,055	749

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

**Loans with floating interest rate****Loan from credit institutions**

The senior credit facility with the previous banking syndicate was replaced on April 20, 2011 with a new senior credit facility of EUR 301 million and USD 420 million, corresponding to SEK 5,590 million with a new banking syndicate. At December 31, 2011 SEK 1,051 million of the facility was utilised. The facility matures in April 2016, with two one-year extension options.

The interest is based on applicable IBOR plus a mark up based on the relation between net debt and EBITDA and how much of the facility that is utilised as described below.

Net debt/EBITDA	Mark up at		
	0–33% utilisation	>33–66% utilisation	>66% utilisation
>2.50 – ≤2.75	1.00%	1.15%	1.30%
>2.00 – ≤2.50	0.75%	0.90%	1.05%
≤2.00	0.55%	0.70%	0.85%

At year end the mark up is 55 basis points. The corresponding mark up at year end in 2010 and 2009 was in both cases 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 223 million. The loan matures in December 2013. The interest is based on IBOR plus a mark up based on the relation between net debt and EBITDA as described below.

Net debt/EBITDA	Mark up at
>2.50 – ≤2.75	0.525%
>2.00 – ≤2.50	0.450%
≤2.00	0.375%

At year end the mark up is 37.5 (37.5) (37.5) basis points.

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

**Bilateral term loans with other lenders**

On June 8, 2011 Alfa Laval entered into a bilateral term loan with Swedish Export Credit split on one loan of EUR 100 million that matures in 2014 and one loan of EUR 100 million that matures in 2021, corresponding to SEK 1,787 million in total. The loans accrue interest at floating rate based on IBOR plus a mark up of 55 basis points and 95 basis points respectively.

On September 15, 2009 Alfa Laval entered into a finance contract with the European Investment Bank that gave Alfa Laval the option until March 15, 2011 to call for a loan of up to EUR 130 million. In March 2011 Alfa Laval called for a loan of EUR 130 million, corresponding to SEK 1,162 million. The loan matures in 2018. The loan accrues interest at floating rate based on IBOR plus a mark up of 70 basis points.

**Interest level of loans with floating interest rate**

The senior credit facility and the bilateral term loans accrue interest at floating rate. At the end of 2011 and 2009 the loans were accruing interest in the range of 1.71 % – 2.63 % and 0.48 % – 1.37 % respectively. At the end of 2010 the interest for the bilateral term loan was 1.65 percent. The average interest rate at the end of 2011 was 2.74 (2.50) (2.82) percent. The Group has chosen to hedge 45 (60) (63) percent of the loans to fixed interest rate, with a duration of 34.6 months. The average interest and currency duration including derivatives is 19.2 (18.5) months at the end of 2011.

**Loans with fixed rate****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, corresponding to SEK 758 million. The loan matures in April 2016. The interest was based on U.S. 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 loans 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 and between EBITDA and total interest expense as well as 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 between EBITDA and total interest expense, 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		
	Syndicated loan & bilateral term loans	Private placement	2011	2010	2009
Times					
Net debt / EBITDA	<2.75	<3.00	0.6	-0.1	0.1
EBITDA / total interest expense	>3.00	>3.00	27.7	35.4	15.1
Debt ratio	<1.70	N/A	0.22	-0.04	0.04

**Note 29. Other current liabilities**

Split by type		
Consolidated	2011	2010
SEK millions		
Financial lessee payable	118	137
Other non-interest bearing liabilities	1,238	1,339
<b>Total</b>	<b>1,356</b>	<b>1,476</b>

**Note 30. Accrued costs and prepaid income**

Split by type and maturity		
Consolidated	2011	2010
SEK millions		
Accruals for social security	286	258
Reserve for severance pay	141	123
Accrued interest expenses	19	9
Other accrued expenses	1,256	1,116
Prepaid income	29	18
<b>Total</b>	<b>1,731</b>	<b>1,524</b>
Of which, not due within one year:		
Accruals for social security	28	27
Reserve for severance pay	98	86
Other accrued expenses	34	29
<b>Total</b>	<b>160</b>	<b>142</b>

### Note 31. Pledged assets and contingent liabilities

Split by type		
Consolidated		
SEK millions	2011	2010
<b>Pledged assets</b>		
Other pledges and similar commitments	51	25
<b>Total</b>	<b>51</b>	<b>25</b>
<b>Contingent liabilities</b>		
Discounted bills	42	60
Performance guarantees	1,305	1,327
For joint ventures	33	33
Other contingent liabilities	342	273
<b>Total</b>	<b>1,722</b>	<b>1,693</b>

As of December 31, 2011 the Group had sold receivables with recourse totalling SEK 42 (60) 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 32. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 3.9 (4.0) (3.4) 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) million. Alfa Laval rents premises to DeLaval in Russia. The total rent income for this amounts to SEK 2 (4) (8) 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	2011	2010
<b>Receivables:</b>		
Accounts receivable	64	81
Other receivables	74	84
<b>Liabilities:</b>		
Accounts payable	1	1
Other liabilities	24	-

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	2011	2010	2009
Net sales	1,121	985	889
Other operating income	-	4	8
Other operating costs	-	-	-1

### Note 33. 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	2011	2010
Current assets	51	18
Non-current assets	6	1
Current liabilities	32	7
Non-current liabilities	6	0

Revenues/expenses			
Consolidated			
SEK millions	2011	2010	2009
Net sales	119	1	3
Other operating income	16	26	20
Other operating costs	-44	-25	-19

### Note 34. Work in progress on plant projects

Impact of percentage of completion method			
Consolidated			
SEK millions	2011	2010	2009
<b>Result items</b>			
Amount of recognised project sales revenue	1,827	641	486
<b>Work performed on ongoing projects</b>			
Aggregate amount of costs incurred and recognised profits (less recognised losses)	1,958	926	767
<b>Assets</b>			
Retentions	71	46	54
Gross amount due from customers for work in progress	404	301	14
<b>Liabilities</b>			
Advances received	484	353	294
Gross amount due to customers for work in progress	241	45	56

## Note 35. 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 304 (284) (287) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 1 (23) million. See Note 18 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	2011	2010	2009
<b>Maturity in year:</b>			
2010	N/A	N/A	271
2011	N/A	256	219
2012	321	217	160
2013	274	176	138
2014	205	140	124
2015	169	125	N/A
2016	117	N/A	N/A
Later	195	187	168
<b>Total</b>	<b>1,281</b>	<b>1,101</b>	<b>1,080</b>

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

Financial leases						
Consolidated						
SEK millions	Future minimum leasing fees for financial leases			Present value of financial leases		
	2011	2010	2009	2011	2010	2009
<b>Maturity in year:</b>						
2010	N/A	N/A	27	N/A	N/A	26
2011	N/A	21	21	N/A	21	20
2012	18	18	18	18	17	17
2013	17	17	16	16	16	15
2014	16	16	15	14	14	14
2015	15	15	N/A	13	13	N/A
2016	13	N/A	N/A	11	N/A	N/A
Later	39	51	58	31	44	49
<b>Total</b>	<b>118</b>	<b>138</b>	<b>155</b>	<b>103</b>	<b>125</b>	<b>141</b>

## Note 36. Parent company revenues from interests in group companies

Split by type			
Parent company			
SEK millions	2011	2010	2009
Dividends from subsidiaries	1,679	2,288	3,201
Received group contributions	405	1,154	878
<b>Total</b>	<b>2,084</b>	<b>3,442</b>	<b>4,079</b>

## Proposed disposition of earnings

### The unrestricted equity in Alfa Laval AB (publ) is SEK:

Profit brought forward	7,705,607,336
Net income 2011	1,962,457,664
	9,668,065,000

The Board of Directors propose a dividend of SEK 3.25 (3.00) per share corresponding to SEK 1,363,233,024 (1,258,368,945) and that the remaining income of SEK 8,304,831,976 (7,705,607,336) 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 1, 2012

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  
*President and CEO*

Our Auditors' Report concerning this Annual Report has been issued on March 5, 2012.

Kerstin Mouchard  
*Authorised Public Accountant*

Staffan Landén  
*Authorised Public Accountant*

# Auditor's report

To the annual meeting of the shareholders of Alfa Laval AB (publ),  
corporate identity number 556587-8054

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Alfa Laval AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 51–127.

## Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation, of the annual accounts in accordance with the Annual Accounts Act and, of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and

consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2011.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

## Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory 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 5, 2012

Kerstin Mouchard  
Authorized Public Accountant

Staffan Landén  
Authorized Public Accountant

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## Introduction by the Chairman of the Board

The following report describes the structure of Alfa Laval's corporate governance, the division of responsibility within the company and the control functions in place. In order for the Board of Directors and management to maintain the trust of Alfa Laval's shareholders and the market, we must be able to demonstrate that the company is characterized by sound corporate governance. However, this also requires transparent communication since openness enables people without direct insight into the company's daily operations to assess how well we as a Board manage the responsibility assigned to us by the shareholders. Combined, these two factors – openness and a well-developed structure – contribute to ensuring that the company conducts itself in an ethical manner in all situations, acting in accordance with the law and with the best interests of the shareholders in mind. At Alfa Laval, we strive to achieve the highest level of quality and maximum clarity with respect to management, governance and control in both our daily operations and the work of the Board. We hope that our commitment will be clearly demonstrated in this report.

In 2011, the work of the Board was largely devoted to the acquisition of Aalborg Industries – Alfa Laval's largest acquisition to date – and the company's subsequent integration. Following this acquisition, it was only natural to restructure the operations from two sales divisions to three, with the goal of expanding Alfa Laval's presence and boosting its competitiveness, thereby strengthening the company's position.

Other prioritized areas included the company's overall strategic direction, particularly in light of its revised growth target, which intensified the focus on organic growth. During the year, the Board also decided to initiate a process to acquire Alfa Laval India Ltd., and thereafter to apply for delisting. Although this course of action was partly adopted due to regulatory changes in India, it should be viewed as part of our strategy and a confirmation of our long-term belief in India and our operations there.

In other respects, several events occurred in the global economy that were worth observing and noting, particularly in light of the economic fluctuations experienced in recent years, which were fresh in our minds. Budget crises in a number of economies resulted in uncertainty and volatility in the world's stock exchanges, while emerging economies continued to grow. For us, it was important to establish an appropriate level of preparedness, while remaining firm in our efforts to ensure Alfa Laval's continued value growth.

Lund, March 2012  
Anders Narvinger  
*Chairman of the Board*



# Corporate Governance Report 2011

Alfa Laval is a public company listed on the NASDAQ OMX Exchange Stockholm. Accordingly, the company's governance is based on the Swedish Companies Act, the Swedish Annual Accounts Act and the rules of the exchange. It also complies, with only one exception, with the Swedish Code of Corporate Governance ("the Code"). Alfa Laval's Corporate Governance Report for 2011 is presented below, and has been reviewed by the company's auditors. The report provides a detailed description of the division of responsibility in Alfa Laval and also how the company's three decision-making bodies – the Annual General Meeting, the Board of Directors and the President – act and interact. The report is available on [www.alfalaval.com](http://www.alfalaval.com).

### Shareholders

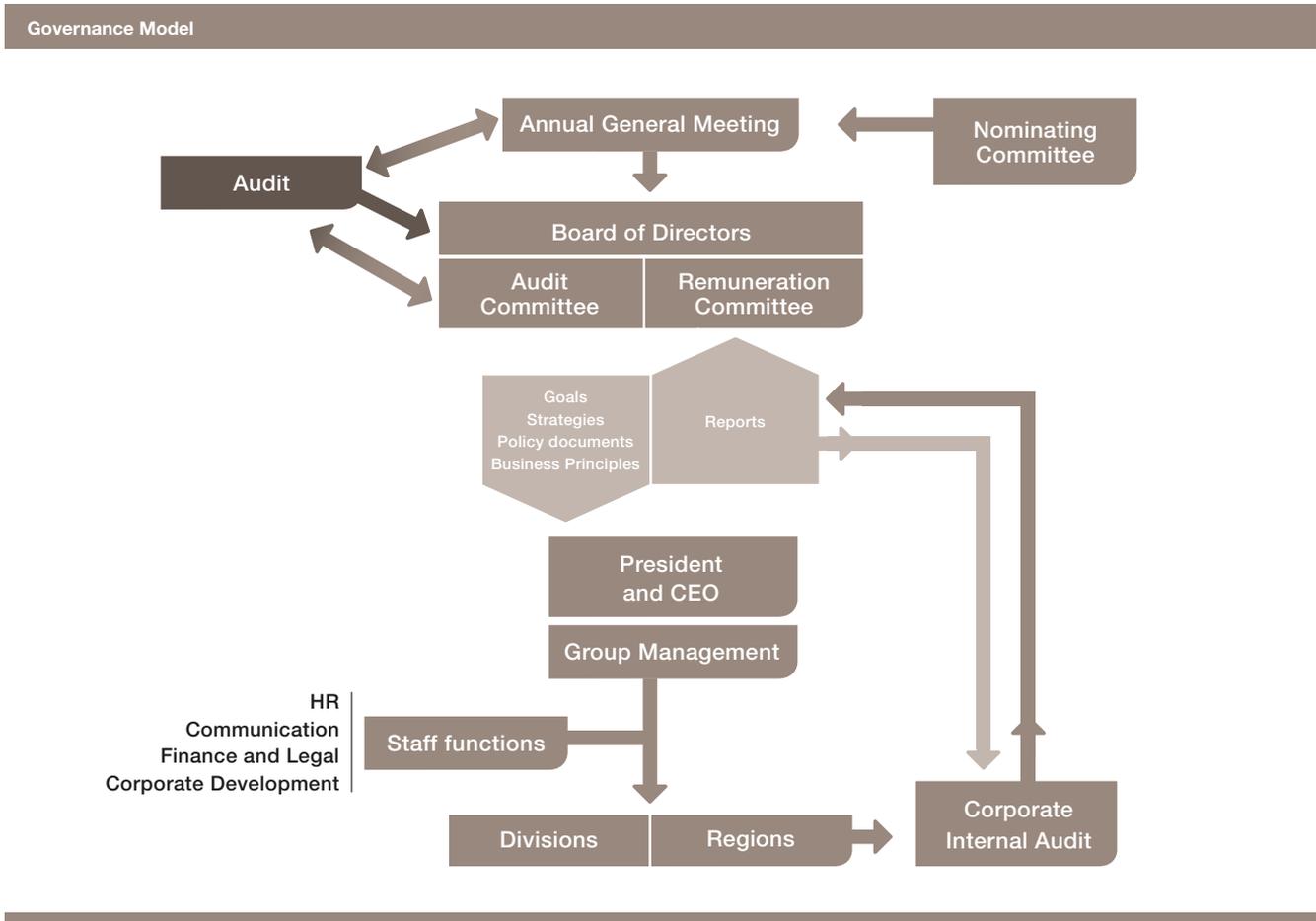
Alfa Laval's share was listed as early as 1901, but was delisted when the company was bought out from the Stockholm Stock Exchange in 1991. The company remained in private ownership until 2002, when it was relisted on the NASDAQ OMX Exchange Stockholm. The number of shares outstanding amounts to 419,456,315 and the number of shareholders totaled 36,567 at December 30, 2011. Tetra Laval was the largest owner and the only owner with a stake larger than 10 percent. Tetra Laval's holding at year-end amounted to 26.1 percent. Legal entities accounted for about 93 percent of holdings, while individuals accounted for the remaining

holdings. From a geographic perspective, the following countries were represented by the five largest shareholders: Sweden, the Netherlands, the UK, the US and Luxembourg. For more information about Alfa Laval's share and ownership structure, refer to pages 10 and 11.

### Alfa Laval – the company

The registered name of the company is Alfa Laval AB and the registered office of the Board of Directors shall be in Lund Municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The number of shares shall be not less than 298,000,000

and not more than 1,192,000,000. The fiscal year is the calendar year. The objective of the company's operations is to, directly or through subsidiaries and joint venture companies in and outside Sweden, develop, manufacture and sell equipment and installations, primarily in the areas of separation, heat transfer and fluid handling, and to administer fixed and movable property, and other related operations. The Articles of Association do not include any limitations regarding the number of votes a shareholder can cast at an Annual General Meeting. Nor does it include any specific rules regarding the appointment and dismissal of Board members or changes in the Articles of



Association. The Articles of Association are available in their entirety on Alfa Laval's website: [www.alfalaval.com](http://www.alfalaval.com). Alfa Laval's currently prevailing Articles of Association were adopted at the Annual General Meeting on April 20, 2009.

### Annual General Meeting

The Annual General Meeting is Alfa Laval's highest decision-making body. Each year, the Annual General Meeting appoints the members and Chairman of the Board of Directors, based on motions from the Nominating Committee. All shareholders are entitled to participate at the Annual General Meeting and each share has one vote. According to Alfa Laval's Articles of Association, the Annual General Meeting shall be held annually within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the Annual General Meeting takes place in April or May in Lund.

The Annual General Meeting for the 2010 fiscal year was held at Färs och Frosta Sparbank Arena in Lund on April 27, 2011. The Annual General Meeting was attended by 510 shareholders, in person or by proxy, representing 52.83 percent of the total number of shares and votes. Both of the company's external auditors attended, as did all Board members elected by the Annual General Meeting. Board Chairman Anders Narvinger was elected as the Meeting Chairman. The full register of all resolutions made at the Annual General Meeting is available as minutes published on Alfa Laval's website. The following list comprises only an extract of the resolutions passed:

- The Annual General Meeting adopted the income statement and balance sheet and resolved that the Board of Directors and President be discharged from liability.
- The Annual General Meeting resolved in accordance with the Board's motion that a dividend of SEK 3.00 per share be paid for the 2010 fiscal year.
- A resolution was passed to re-elect Board members Gunilla Berg, Arne Frank, Björn Hägglund, Anders Narvinger, Finn Rausing, Jörn Rausing, Lars Renström and Ulla Litzén.
- A resolution was passed that fees paid to non-executive directors on the Board shall amount to SEK 3,650,000 (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 motion for principles for remuneration to company management.
- A resolution was passed to authorize the Board, on one or more occasions before

the next Annual General Meeting, to repurchase a maximum of 5 percent of the company's shares outstanding.

### Nominating Committee

#### For the 2012 Annual General Meeting

In accordance with a resolution passed by the Annual General Meeting, the Chairman of the Board contacted representatives of the company's largest shareholders at the end of the third quarter and requested that they each appoint one member of the Nominating Committee. The composition of the Nominating Committee was communicated by a press release and on Alfa Laval's website on October 19, 2011. The following individuals are members of the Nominating Committee: Finn Rausing (appointed by Tetra Laval), Bo Selling (appointed by Alecta), Claes Dahlbäck (appointed by Foundation Asset Management), Jan Andersson (appointed by Swedbank Robur Funds) and Lars-Åke Bokenberger (appointed by AMF Pension). The holdings of the Nominating Committee represented 43.56 percent of the number of shares outstanding at September 30, 2011. The Chairman of the Nominating Committee is Finn Rausing and the Nominating Committee appointed Board Chairman Anders Narvinger as a member of the Nominating Committee and its Secretary. According to the Code, a majority of the members of the Nominating Committee are to be independent of the company and management. At least one member must be independent of the company's largest shareholders in terms of votes or the group of shareholders that jointly administer the company. The Chairman of the Nominating Committee may not be the Chairman of the Board or a Board member. Accordingly, Finn Rausing's position as Chairman constitutes a deviation from the Code. The reason for this deviation is that the Nominating Committee considers Finn Rausing to be exceptionally suitable to lead the work of the Committee in an efficient manner and thus achieve an optimal result for the company's shareholders.

Shareholders wishing to submit proposals to the Nominating Committee prior to the Annual General Meeting 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](mailto: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 five largest shareholders at the end of the third quarter and request that they each appoint one representative. 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 waive 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 composition of the Nominating Committee must be published at least six months prior to the Annual General Meeting. 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.

### Work of the Nominating Committee

The Nominating Committee shall prepare and submit motions to the shareholders at the Annual General Meeting regarding the election of Board members, the Chairman of the Board and, if applicable, auditors. It shall also submit motions in respect of remuneration to 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.

#### Composition of the Nominating Committee for the 2012 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval, %*
Finn Rausing	Tetra Laval	21.6
Bo Selling	Alecta	8.45
Claes Dahlbäck	Foundation Asset Management	5.60
Jan Andersson	Swedbank Robur Funds	5.02
Lars-Åke Bokenberger	AMF Pension	2.89

\* As of September 30, 2011

### Board of Directors

The Board of Directors shall comprise a minimum of four and maximum of ten members, with a maximum of four deputy members. The members are elected annually for the period until the conclusion of the next Annual General Meeting. In addition, the trade-union organizations appoint three employee representatives and three deputy employee representatives. Salaried employees in the company are invited to Board meetings as presenters and experts. The company's Chief Financial Officer participates in all meetings and Alfa Laval's Chief Legal Counsel serves as Board Secretary. For further information about the members of the Board, see pages 136–137. All Board members were re-elected to the Board in 2011.

Every year, a combined educational and study trip is undertaken to one of Alfa Laval's plants around the world. In 2011, the destination was India.

### The Board's formal work plan

The work of the Board is governed by a formal work plan that is determined annually following the Annual General Meeting.

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, which report to the Board. 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, including the meeting agenda and the requisite information or documentation on which to base decisions, must reach the Board members not later than one week prior to the date of the meeting. The formal work plan contains specific instructions 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 in 2011

In 2011, nine Board meetings were held, all of which were regularly scheduled and lasted an average of approximately three hours. Two meetings were held by phone and the other meetings were held in Lund, Malmö, Stockholm and Pune (India). 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 Annual General Meeting, a committee was commissioned consisting of Anders Narvinger, Finn Rausing and Ulla Litzén to execute the repurchase of shares during the period up to the next Annual General Meeting. No shares had been repurchased at year-end.

### 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. To supplement this information, the Nominating Committee also interviews selected Board members.

### The Board's responsibilities

The Board, whose responsibilities are governed by the Swedish Companies Act and its own formal work plan, prepares and evaluates Alfa Laval's overall long-term objectives and strategies. This includes establishing business and financial plans, checking and approving financial statements, adopting guidelines, making decisions on issues relating to acquisitions and divestments, and deciding on major investments and significant changes in Alfa Laval's organization and operations. 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. The Board (through its Audit Committee) procures auditing services and maintains ongoing contact with the company's auditors. In addition, the Board works to ensure that the company has a sound internal control function and formalized procedures. The Board also appoints the President and defines the instructions that the President must follow. Through the Remuneration Committee, the Board determines salaries and remuneration to the President and members of the executive management.

### Board Chairman and the responsibilities of the Chairman

The Board Chairman directs the work of the Board in a manner that ensures it complies with the Swedish Companies Act, is well organized and is conducted efficiently, so that the Board fulfills its tasks. In dialog with the company's President, the Chairman monitors operational developments and is responsible for ensuring that the other members receive, on an ongoing basis, information necessary for Board work to be performed in the most effective manner. The Chairman is responsible for evaluating the Board's work, participates in evaluation and development matters with respect to the Group's senior

executives and ensures that the Board's decisions are executed. The Chairman represents the company in ownership issues.

### Independent Board members

All members of the Alfa Laval Board elected by the Annual General Meeting 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, who cannot be considered independent due to their relation to Tetra Laval, which, on December 31, 2011, owned 26.1 percent of the shares in the company. The Code requires that a majority of the Board members elected by the Annual General Meeting are to be independent of the company and management. At least two members must be independent of the company's largest shareholders.

### Audit Committee

The Audit Committee formulates guidelines for the company's financial reporting and follow-up, and has the right to determine the focus of the internal audit. The Committee also examines the procedures for reporting and financial controls, the work of the external auditors, their qualifications and independence. 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. In accordance with the Code, a majority of these members must be independent of the company and management, and at least one member must also be independent of the company's largest shareholders. During 2011, the Audit Committee comprised Finn Rausing (Chairman), Gunilla Berg and Ulla Litzén. Alfa Laval's General Counsel, Mikael Wahlgren, is the Committee Secretary. During 2011, four meetings were held, of which one was held by phone, and the meetings held averaged slightly more than two hours in length. Minutes are kept of each meeting and distributed to the Board members. The company's Chief Financial Officer, the Head of the Internal Audit Function 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 statutory meeting. In 2011, the Committee comprised Anders Narvinger (Chairman), Jörn Rausing and Björn Häggglund. The Remuneration Committee held three meetings, of which two were held per capsulam. All members were in attendance. A number of phone meetings were also held to address ongoing issues. Minutes are taken at all meetings and the contents are distributed to the Board members.

### Remuneration to the Board

Remuneration to the Board members is determined by the Annual General Meeting based on the motions submitted by the Nominating Committee. The Chairman and members of the Audit Committee and the Remuneration Committee receive supplementary remuneration. No Board member is entitled to pension payments from the company, except Lars Renström, who is President and CEO.

### 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 its decision-making purposes. The President is also responsible for ensuring that the company's accounting complies with applicable laws and provisions. In support of sound corporate governance and to ensure that the company's actions follow the requisite ethical guidelines, Alfa Laval has a number of Business Principles. These affect how the company and its employees act with respect to the Group's environmental impact, social responsibility, business ethics and transparency. The principles are described in full on Alfa Laval's website, [www.alfalaval.com](http://www.alfalaval.com). The President has the support of the management group, to which responsibilities and authority 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. Group management comprises the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board. For further information regarding Group management, see pages 138–139.

The management group held six meetings in 2011, during which minutes were taken. In addition, quarterly reviews are held of all business developments in the company's divisions and geographic regions, which address such items as the business climate, earnings, earnings projections for the next 12 months and other specific issues affecting the respective business areas.

### Remuneration, pensions and severance pay/termination of employment

The remuneration principles for the President and other members of Group management are determined by the Annual General Meeting. For additional information, see pages 97 and 98.

### The company's auditors

Alfa Laval's auditors constitute a supervisory body appointed by the Annual General Meeting. Their assignment involves examining the Annual Report, evaluating the accounting policies employed, making significant judgments concerning corporate management, conducting an overall review of the interim report for the third quarter and evaluating the general presentation in the Annual Report. The result of the audit – the Audit Report – is communicated to shareholders in the Annual Report and at the Annual General Meeting. Additionally, the auditors present a statement regarding the discharge of liability of the Board of Directors, a statement regarding the adoption of the income statement and balance sheet by the Annual General Meeting and a statement

regarding the Corporate Governance Report. The number of auditors must be a minimum of one and maximum of two, with not more than two deputies. An authorized public accountant or registered auditing firm is appointed as the company's auditor and, where applicable, as deputy auditor. The 2008 Annual General Meeting 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 of these individuals are authorized public accountants with Ernst & Young AB. According to Alfa Laval's assessment, none of these auditors has any relationship to Alfa Laval, or any company related to Alfa Laval, that could affect their independent status in relation to the company. All of the auditors also possess the requisite competence to be able to execute their assignment as an auditor for Alfa Laval.

### Remuneration to auditors

(Refer to note 7 on page 99)

Attendance at Board meetings and committee meetings				
	Name	Board	Remuneration Committee	Audit Committee
Appointed by the Annual General Meeting	Anders Narvinger	● 9	● 3	–
	Gunilla Berg	9	–	4
	Arne Frank	7	–	–
	Björn Häggglund	9	3	–
	Ulla Litzén	9	–	3
	Finn Rausing	9	–	● 4
	Jörn Rausing	8	3	–
	Lars Renström	9	–	–
Employee representatives	Arne Kastö	7	–	–
	Jan Nilsson	8	–	–
	Susanna Norrby	6	–	–
	<b>Antal möten</b>	<b>9</b>	<b>3</b>	<b>4</b>

● Chairman

Remuneration to the Board			
Name	Board	Remuneration Committee	Audit Committee
Anders Narvinger	1,100,000	50,000	0
Gunilla Berg	425,000	0	75,000
Arne Frank	425,000	0	0
Björn Häggglund	425,000	50,000	0
Ulla Litzén	425,000	0	75,000
Finn Rausing	425,000	0	125,000
Jörn Rausing	425,000	50,000	0
Lars Renström	0	0	0
<b>Total</b>	<b>3,650,000</b>	<b>150,000</b>	<b>275,000</b>

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 sound 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 sound 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 sound 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 investment decisions, financial reporting requirements and the company's communications policy. The Board is also responsible for ensuring that the organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes. The Board assesses the performance and earnings of the operations through a package of reports including results, forecasts and analyses of key indicators. The Board also reviews the company's interim reports and year-end report.

The Board's Audit Committee, whose work and areas of responsibility were partly described on page 132, is tasked with ensuring compliance with the principles for financial reporting and internal control. The Committee also evaluates and manages the company's relationships with its external auditors, examines the company's financial reports and reviews its risk reports, information from risk assessments, disputes and potential improprieties. The Audit Committee holds meetings with the internal auditors, external auditors and various specialists in Group management and its support functions, and provides feedback on these meetings to the Board. In 2011, 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 other members of Group management. The Board's Audit Committee received

separate reports from the company's external auditors on three occasions.

The President is subject to instructions issued by the Board and is responsible for ensuring the existence of an efficient control environment. The President is also responsible for regular work on the internal control. Group management is responsible for managing and maintaining the internal control systems required to manage significant risks in the company's operating activities. Management is also responsible for clearly ensuring that all employees understand the requirements for, and the individual's role in, maintaining sound internal control.

The internal auditors report to the CFO and comprise the function that reviews and implements improvements to the internal control function, reports these results to the Audit Committee and proposes plans for the coming six to eight months. The internal auditors also issue reports from individual audits to the members of Group management concerned. A procedure is in place for performing regular reviews of the agreed actions 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 resources and auditors from the auditing company KPMG. In 2011, 24 internal audits were performed. These encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining such aspects as:

- Compliance with the systems, guidelines, policies and processes established for the Group's business operations.
- The existence of systems to ensure that financial transactions are carried out, archived and reported in an accurate and lawful manner.
- Opportunities to improve management control, the company's profitability and the organization, which may be identified during audits.

## Risk assessment

Within the framework of the company's operating activities and review functions, procedures are in place for risk assessments pertaining to the financial reporting. These procedures aim to identify and evaluate the risks that may affect internal control. 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 for identifying amendments to the accounting policies to ensure that these amendments are accurately reflected in the financial reporting. For more information on financial and operational risks, refer to pages 88–93.

## 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 enable the identification and timely prevention of risks becoming reality. Examples of control activities include clearly defined decision-making processes and the policy for decision-making in relation to, for example, investments, agreements, acquisitions and divestments, earnings analyses and other forms of analytical reviews, reconciliations, inventory-taking and automatic controls in the IT systems.

## 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 policies. Each year, the Board reviews how relevant and current these instruments are. An annual feedback function

is also in place, which is geared toward the company's senior executives. This feedback function is designed to ensure that Alfa Laval's internal instructions and rules are fully implemented. All managers who report directly to Group management are expected to review the guidelines and rules that apply to their respective areas 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 regulations, guidelines and manuals are communicated through several

internal channels to ensure sound control. The effectiveness of this communication is monitored continuously to ensure that the information is sufficiently accessible. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors. For communication with external parties, a clearly defined policy has been formulated. The aim is to ensure that all obligations with regard to information are met in a correct and complete manner.

#### **Monitoring**

The internal control process is mainly monitored by two entities: the Audit Committee and the internal audit function. The Audit Committee establishes the principles that apply for the company with respect to accounting and

financial reporting, and monitors compliance with these regulations. The Audit Committee also meets with the external auditors to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits. The Audit Committee establishes the direction, extent and time schedules for the internal audit team's work. The internal audit team reports the results of its audits to the Audit Committee and continuously to Group management so that any necessary measures may be taken. The scope of the internal audit includes operational efficiency, compliance with regulations and guidelines, and the quality of financial reporting from the subsidiaries.

Lund, March 2012  
*The Board of Directors*

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## 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 129–135) for Alfa Laval AB for 2011. The Board of Directors is responsible for the Corporate Governance Report and its compliance with the Swedish 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 financial statements.

Lund, March 5, 2012

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, Coor Service Management AB and Capio AB.  
Board member of JM AB, ÅF AB and Pernod Ricard SA.  
Independent of company and major shareholders.  
Number of shares in Alfa Laval: 40,000\* (40,000\*\*).



**Gunilla Berg**  
*Board member since 2004.*

Born: 1960.  
Executive Vice President and CFO of the TeraCom Group.  
Former positions include Executive Vice President and CFO of the SAS Group and Executive Vice President and CFO of the KF Group.  
Education: BSc. Econ from the Stockholm School of Economics.  
Board member of L E Lundbergföretagen AB.  
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 SweTree Technologies and the World Wide Fund for Nature, Sweden.  
Board member of, among others, Bergvik Skog AB, the Knut and Alice Wallenberg Foundation, the UN Global Compact and AB Karl Hedin.  
Independent of company and major shareholders.  
Number of shares in Alfa Laval: 12,000\* (12,000\*\*).



**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.  
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\*\*)

\* Holdings as of December 31, 2011.  
\*\* Holdings as of December 31, 2010.

## 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 Profilgruppen AB, Stråfors 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 extensive experience in auditing exchange-listed and internationally active companies. Among other assignments, he is auditor for Capio AB, Papyrus AB, Academedia AB, Lindab International 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, 2011.  
\*\* Holdings as of December 31, 2010.

## 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: 130,800\* (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: 72,744\* (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**  
*President, Marine & Diesel Division.*

Born: 1954.  
Employed by Alfa Laval since 1985.  
President of the Marine & Diesel Division since 2011. Formerly Regional manager in charge of the Western Europe and North America Region 2004-2011, the Asia and Latin America Region 2001-2004 and the Eastern Europe and Latin America Region 1999-2001.  
Education: B.L., lic.spec. IMD (PED).  
Number of shares in Alfa Laval: 460,000\* (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, India and Oceania Region.*

Born: 1954.  
Employed by Alfa Laval since 1985.  
Regional manager since September 1, 2004. Prior to this, he served as President of Alfa Laval China for more than ten years.  
Education: BSc. Chem Eng.  
Number of shares in Alfa Laval: 54,588\* (54,588\*\*).



**Nish Patel**

*Executive Vice President in charge of the Western Europe and North America Region.*

Born: 1962.  
Employed by Alfa Laval since 1984.  
Regional manager since 2011. Prior to this, he served as head of India and the UK.  
Education: Bsc. Eng.  
Number of shares in Alfa Laval: 47,552\*



**Peter Torstensson**

*Senior Vice President, Corporate Communications.*

Born: 1955.  
Employed by Alfa Laval since 1999.  
Senior Vice President, Corporate Communications since 1999. Formerly held such positions as President of Borstahusen Informationsdesign.  
Number of shares in Alfa Laval: 76,000\* (76,000\*\*).



**Peter Bailliere**

*Senior Vice President, Human Resources.*

Born: 1963.  
Employed by Alfa Laval since 2007.  
Senior Vice President, Human Resources, since July 1, 2007.  
Many years of experience with Volvo Cars, most recently as head of Group Human Resources.  
Education: Master of Sociology, Bachelor in Fiscal Law.

\* Holdings as of December 31, 2011.  
\*\* Holdings as of December 31, 2010.

# Ten-year overview

Ten-year overview										
Consolidated										
SEK millions, unless otherwise stated	2011	2010	2009	2008	2007	2006	2005	2004 *	2003 **	2002
<b>Profit and loss</b>										
Net sales	28,652	24,720	26,039	27,850	24,849	19,802	16,330	14,986	13,909	14,595
Comparison distortion items	-170	90	-225	-168	54	-120	-73	37	6	-29
Operating income	4,691	4,401	4,030	5,736	4,691	2,552	1,377	1,438	1,138	1,220
Financial net	-15	-37	-270	-395	-134	-177	-278	-177	-321	-848
Result after financial items	4,676	4,364	3,760	5,341	4,557	2,375	1,099	1,261	817	372
Non-controlling interests									-41	-34
Taxes	-1,425	-1,248	-1,023	-1,534	-1,377	-650	-171	-421	-130	-218
<b>Net income for the year</b>	<b>3,251</b>	<b>3,116</b>	<b>2,737</b>	<b>3,807</b>	<b>3,180</b>	<b>1,725</b>	<b>928</b>	<b>840</b>	<b>646</b>	<b>120</b>
<b>Financial position</b>										
Goodwill	9,543	5,952	6,143	5,383	4,459	3,706	3,531	2,978	3,099	3,369
Other intangible assets	3,502	2,581	2,490	1,890	1,275	1,191	1,067	924	1,101	1,334
Property, plant and equipment	3,936	3,512	3,548	3,546	2,824	2,514	2,553	2,480	2,756	3,083
Financial long-term assets	1,664	1,568	1,542	1,376	1,128	784	676	601	671	752
Inventories	6,148	4,769	4,485	5,972	5,086	3,793	3,091	2,453	2,218	2,279
Current receivables	7,663	6,884	6,584	9,238	7,420	5,987	4,467	3,976	3,631	3,590
Current deposits	483	575	302	544	190	229	342	257	659	414
Cash and bank	1,564	1,328	1,112	1,083	856	546	479	415	555	606
<b>TOTAL ASSETS</b>	<b>34,503</b>	<b>27,169</b>	<b>26,206</b>	<b>29,032</b>	<b>23,238</b>	<b>18,750</b>	<b>16,206</b>	<b>14,084</b>	<b>14,690</b>	<b>15,427</b>
Equity	15,144	13,582	12,229	10,493	7,937	6,831	5,811	5,269	4,897	4,512
Non-controlling interests									104	108
Provisions for pensions etc.	852	847	920	990	877	941	903	789	755	721
Provisions for taxes	1,930	1,617	1,390	1,161	1,090	949	767	760	817	990
Other provisions	2,132	2,128	2,365	2,252	1,810	1,281	957	948	891	989
Non-current liabilities	5,060	1,041	1,626	3,394	3,068	2,006	2,702	2,307	3,492	4,234
Current liabilities	9,385	7,954	7,676	10,742	8,456	6,742	5,066	4,011	3,734	3,873
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>34,503</b>	<b>27,169</b>	<b>26,206</b>	<b>29,032</b>	<b>23,238</b>	<b>18,750</b>	<b>16,206</b>	<b>14,084</b>	<b>14,690</b>	<b>15,427</b>

\* 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.

# 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.

## Ten-year overview

Consolidated										
SEK millions, unless otherwise stated	2011	2010	2009	2008	2007	2006	2005	2004 *	2003 **	2002
<b>Key ratios</b>										
Orders received	28,671	23,869	21,539	27,464	27,553	24,018	18,516	15,740	14,145	14,675
Order backlog at year end	13,736	11,552	11,906	14,310	14,730	12,359	7,497	4,763	4,021	4,340
EBITA	5,117	4,772	4,360	5,992	5,034	2,891	1,692	1,732	1,633	1,726
EBITDA	5,566	5,197	4,751	6,296	5,299	3,153	1,957	1,993	1,926	2,058
EBITA-margin %	17.9%	19.3%	16.7%	21.5%	20.3%	14.6%	10.4%	11.6%	11.7%	11.8%
EBITDA-margin %	19.4%	21.0%	18.2%	22.6%	21.3%	15.9%	12.0%	13.3%	13.8%	14.1%
Adjusted EBITA	5,287	4,682	4,585	6,160	4,980	3,010	1,765	1,695	1,627	1,755
Adjusted EBITDA	5,736	5,107	4,976	6,464	5,245	3,273	2,030	1,956	1,920	2,087
Adjusted EBITA-margin %	18.5%	18.9%	17.6%	22.1%	20.0%	15.2%	10.8%	11.3%	11.7%	12.0%
Adjusted EBITDA-margin %	20.0%	20.7%	19.1%	23.2%	21.1%	16.5%	12.4%	13.1%	13.8%	14.3%
Profit margin %	16.3%	17.7%	14.4%	19.2%	18.3%	12.0%	6.7%	8.4%	5.9%	2.5%
<i>Excl. goodwill and step-up values:</i>										
Capital turnover rate, times	6.3	5.6	5.2	5.6	6.4	6.3	5.5	5.3	5.0	4.4
Capital employed	4,560	4,399	5,052	4,973	3,863	3,137	2,958	2,822	2,807	3,283
Return on capital employed %	112.2%	108.5%	86.3%	120.5%	130.3%	92.2%	57.2%	61.4%	58.2%	52.6%
<i>Incl. goodwill and step-up values:</i>										
Capital turnover rate, times	1.8	1.9	2.0	2.5	2.7	2.5	2.2	2.0	1.8	1.7
Capital employed	16,324	12,752	12,976	11,144	9,289	8,062	7,470	7,317	7,667	8,565
Return on capital employed %	31.3%	37.4%	33.6%	53.8%	54.2%	35.9%	22.7%	23.7%	21.3%	20.2%
Return on equity %	22.9%	24.4%	24.5%	42.8%	44.1%	25.3%	16.0%	15.9%	13.2%	2.7%
Solidity %	43.9%	50.0%	46.7%	36.1%	34.2%	36.4%	35.9%	37.4%	33.3%	29.2%
Net debt	3,264	-551	533	2,074	2,397	1,478	2,013	1,884	2,401	3,499
Net debt to EBITDA, times	0.6	-0.1	0.1	0.3	0.5	0.5	1.0	0.9	1.2	1.7
Debt ratio, times	0.22	-0.04	0.04	0.20	0.30	0.22	0.35	0.36	0.49	0.78
Interest coverage ratio, times	28.6	35.9	15.2	26.2	23.7	14.4	6.9	7.4	5.0	3.0
Cash flow from:										
operating activities	3,429	4,098	5,347	4,062	3,264	2,619	1,617	1,203	1,654	1,924
investing activities	-5,497	-1,417	-2,620	-1,333	-1,676	-1,578	-665	36	-457	-548
financing activities	2,317	-2,431	-2,667	-2,599	-1,291	-935	-973	-1,353	-1,167	-1,320
Investments	555	429	451	747	556	373	324	388	259	277
Average number of employees	14,667	12,078	11,773	11,821	10,804	9,923	9,524	9,400	9,194	9,292
Earnings per share, SEK ***	7.68	7.34	6.42	8.83	7.12	3.78	1.98	1.78	1.45	0.35
Free cash flow per share, SEK ***	-4.93	6.38	6.46	6.38	3.60	2.33	2.13	2.78	2.68	4.03

\* Restated to IFRS. \*\* 2003 and earlier in accordance with Swedish GAAP. \*\*\* The figures for 2008 until 2002 have been recalculated due to the 4:1 split.

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# 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](http://www.alfalaval.com/investors) – is updated continuously with annual reports, quarterly reports, press releases and presentations. Annual reports also are sent to those shareholders who have notified the company that they wish to receive a copy.

Press conferences, analyst meetings and conference calls are arranged by Alfa Laval in conjunction with the publication of the company's quarterly reports and a capital markets day is organized each year, during 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 and 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 from the financial market during this period.

## Financial information during 2012

Alfa Laval will publish quarterly reports on the following dates in 2012:

Year-end report 2011	February 7
First-quarter report	April 23
Second-quarter report	July 17
Third-quarter report	October 23

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## Annual General Meeting 2012

The Annual General Meeting of Alfa Laval AB (publ) will be held on Monday, April 23, 2012 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 will be 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 will be placed in Dagens Nyheter. As a service to existing shareholders, information about the Annual General Meeting will be sent to them by mail. The following information 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 AB not later than Tuesday, April 17, 2012, and register their intention to participate, along with any assistants, not later than Tuesday, April 17, 2012 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 17. 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](mailto:arsstamma.lund@alfalaval.com)

– Fax: +46 (0)46 36 71 87

– Website: [www.alfalaval.com](http://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 will begin 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 3.25 per share be paid. The proposed record date for this dividend is Thursday, April 26, 2012. If the Meeting approves the proposal, the dividend is expected to be distributed on Wednesday, May 2, 2012. 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 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.

Read more at [www.alfalaval.com](http://www.alfalaval.com) and [www.alfalaval.com/investors](http://www.alfalaval.com/investors)

