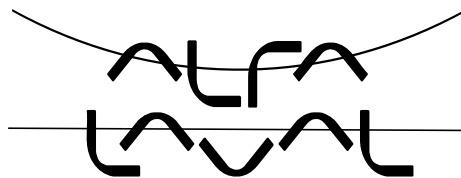


# Fourth quarter and full year 2008



"2008 was a very good year for Alfa Laval with record sales and record profit. Net sales in the quarter increased by 4.4 percent to the record level SEK 8.1 billion, which together with a favourable product mix gave an EBITA of SEK 1.7 billion and an operating margin of 21.3 percent.

The demand however decreased towards the end of the year and order intake reached SEK 6.2 billion in the fourth quarter. The decrease was most significant within Marine, while the positive trend for the customer segments Energy & Environment and Parts & Service continued. The downturn in the quarter was especially apparent in Central and Eastern Europe and Asia at the same time as Western Europe and North America came out on about the same level as the corresponding quarter 2007.

Due to the decline in demand during the quarter and the expectations for 2009 restructuring initiatives to reduce capacity and costs have been further intensified."

*Lars Renström, President and CEO*

---

## **Fourth quarter:**

**Order intake** decreased by 15.0 percent \* to SEK **6,181** (6,576) million.

**Net sales** increased by 4.4 percent \* to SEK **8,096** (7,220) million.

**Adjusted EBITA** was SEK **1,721** (1,675) million, including adverse foreign exchange effects of SEK 65 million.

**Adjusted EBITA-margin** was **21.3** (23.2) percent.

**Restructuring costs** of SEK **270** million have been charged to the P&L.

**Result after financial items** was SEK **1,211** (1,587) million.

**Result after tax** amounted to SEK **870** (1,056) million.

**Earnings per share** amounted to SEK **2.03** (2.42).

**Cash flow from operating activities** was SEK **877** (1,250) million.

## **Full year 2008:**

**Order intake** decreased by 0.4 percent \* to SEK **27,464** (27,553) million.

**Net sales** increased by 11.5 percent \* to SEK **27,850** (24,849) million.

**Adjusted EBITA** was SEK **6,160** (4,980) million, including adverse foreign exchange effects of SEK 291 million.

**Adjusted EBITA-margin** was **22.1** (20.0) percent.

**Restructuring costs** of SEK **270** million have been charged to the P&L.

**Result after financial items** was SEK **5,341** (4,557) million.

**Result after tax** increased to SEK **3,807** (3,180) million.

**Earnings per share** increased to SEK **8.83** (7.12).

**Cash flow from operating activities** was SEK **4,062** (3,264) million.

\* excluding exchange rate variations

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The Board of Directors will propose to the Annual General Meeting a dividend of SEK 2.25 (2.25) per share.

## **Outlook for the first quarter**

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

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

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<b>Key figures</b> SEK millions, unless otherwise stated	<b>Oct 1 - Dec 31 2008</b>	Oct 1 - Dec 31 2007	<b>2008</b>	2007	2006
<b>Order intake</b>	6,181	6,576	27,464	27,553	24,018
<b>Net sales</b>	8,096	7,220	27,850	24,849	19,802
<b>Adjusted EBITDA 1)</b>	1,821	1,749	6,464	5,245	3,273
<b>Adjusted EBITA 2)</b>	1,721	1,675	6,160	4,980	3,010
<b>Adjusted EBITA - margin 2)</b>	21.3%	23.2%	22.1%	20.0%	15.2%
<b>Result after financial items</b>	1,211	1,587	5,341	4,557	2,375
<b>Return on capital employed 3)</b>			53.8%	54.2%	35.9%
<b>Return on equity capital 3)</b>			42.8%	44.1%	25.3%
<b>Solidity</b>			36.1%	34.2%	36.4%
<b>Net debt to EBITDA, times</b>			0.3	0.5	0.5
<b>Debt ratio, times</b>			0.20	0.30	0.22
<b>Cash flow from operations</b>	877	1,250	4,062	3,264	2,619
<b>Investments</b>	293	315	747	556	373
<b>No. of employees 4)</b>			12,119	11,395	10,115

- Adjusted EBITDA – "Earnings before interests, taxes, depreciation, amortisation of step up values and comparison distortion items."
- Adjusted EBITA – "Earnings before interests, taxes, amortisation of step up values and comparison distortion items."
- Calculated on a 12 months' revolving basis.
- Number of employees at the end of the period.

The fourth quarter and full year report has been issued on February 4, 2009 by the President and Chief Executive Officer Lars Renström by proxy from the Board of Directors.

Lund, February 4, 2009,

Lars Renström  
President and Chief Executive Officer  
Alfa Laval AB (publ)

## Review report

### Introduction

We have reviewed this fourth quarter and full year 2008 report. The Board of Directors and the President are responsible for the preparation and presentation of this report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this report based on our review.

### Scope of review

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Conclusion

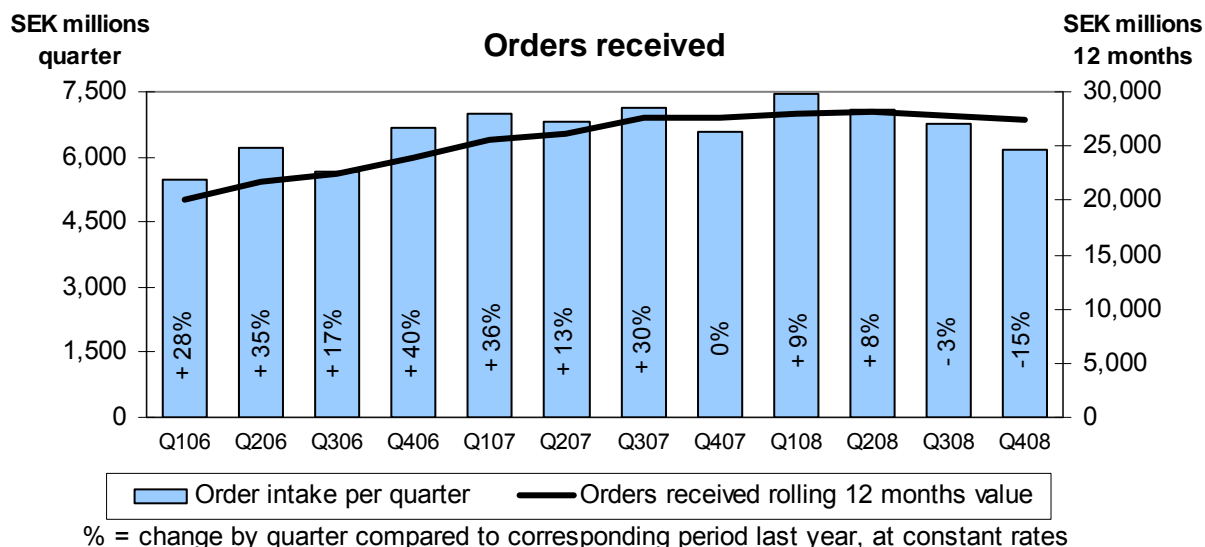
Based on our review, nothing has come to our attention that causes us to believe that the fourth quarter and full year 2008 report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act and for the Parent company in accordance with the Swedish Annual Accounts Act.

Lund, February 4, 2009,

Kerstin Mouchard  
Authorised Public Accountant

Staffan Landén  
Authorised Public Accountant

## Management's discussion and analysis



Order analysis	Oct 1 - Dec 31
<b>2007 (SEK millions)</b>	6,576
Structural change	2.5%
Currency effects	9.0%
Organic development	-17.5%
Total	-6.0%
<b>2008 (SEK millions)</b>	6,181

Orders received amounted to SEK 6,181 (6,576) million for the fourth quarter. Excluding exchange rate variations, the order intake for the Group was 15.0 percent lower than the fourth quarter last year. Adjusted for acquisitions of businesses <sup>5)</sup> the corresponding figure is a decrease by 17.5 percent.

This decrease is composed of cancellations in Marine representing 7.0 percent, decrease in Marine order intake representing 4.5 percent and a decrease in order intake in all other segments representing 6.0 percent.

Orders received amounted to SEK 27,464 (27,553) million during 2008. Excluding exchange rate variations, the order intake for the Group was 0.4 percent lower than last year. Adjusted for acquisitions of businesses <sup>5)</sup>, the corresponding figure is a decrease by 2.9 percent.

Orders received from the aftermarket "Parts & Service" has continued to develop positively during 2008 and increased by 7.7 percent compared to last year excluding exchange rate variations. Its relative share of the Group's total orders received was 21.6 (19.8) percent.

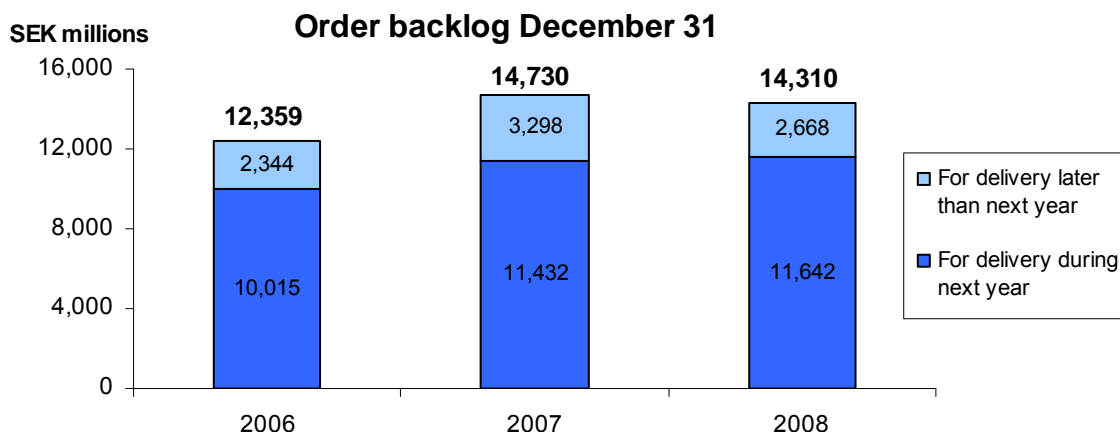
### Large orders <sup>6)</sup> in the fourth quarter:

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

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

5. Acquired businesses are: Hutchison Hayes Separation at August 15, 2008, Pressko at July 31, 2008, Standard Refrigeration at June 1, 2008, Høyer Promix at February 11, 2008, Fincoil, at December 1, 2007, AGC Engineering at July 2, 2007, Helpman at April 4, 2007, DSO at March 16, 2007

6. Orders with a value over EUR 5 million.



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

### CONSOLIDATED INCOME STATEMENT

Amounts in SEK millions	Oct 1 - Dec 31 2008	Oct 1 - Dec 31 2007	Jan 1 - Dec 31 2008	Jan 1 - Dec 31 2007
Net sales	8,096	7,220	27,850	24,849
Cost of goods sold	-4,905	-4,354	-16,481	-15,340
Gross profit	3,191	2,866	11,369	9,509
Sales costs	-902	-704	-3,194	-2,751
Administration costs	-368	-311	-1,239	-1,159
Research and development costs	-215	-206	-718	-643
Other operating income *	284	165	522	362
Other operating costs *	-502	-186	-1,004	-627
Operating income	1,488	1,624	5,736	4,691
Dividends	0	1	2	2
Interest income and financial exchange gains	139	98	397	271
Interest expense and financial exchange losses	-416	-136	-794	-407
Result after financial items	1,211	1,587	5,341	4,557
Taxes	-341	-531	-1,534	-1,377
Net income for the year	870	1,056	3,807	3,180
Attributable to:				
Equity holders of the parent	862	1,046	3,774	3,137
Minority interests	8	10	33	43
Earnings per share (SEK)	2.03	2.42	8.83	7.12
Average number of shares **	423,695,476	433,053,056	427,500,307	440,611,504

\* The line has been affected by comparison distortion items, see separate specification on page 6.

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

Excluding exchange rate variations, the invoicing was 4.4 percent higher than the fourth quarter last year. Adjusted for acquisitions of businesses the corresponding figure is 1.8 percent.

Excluding exchange rate variations, the invoicing was 11.5 percent higher than last year. Adjusted for acquisitions of businesses, the corresponding figure is 9.0 percent.

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

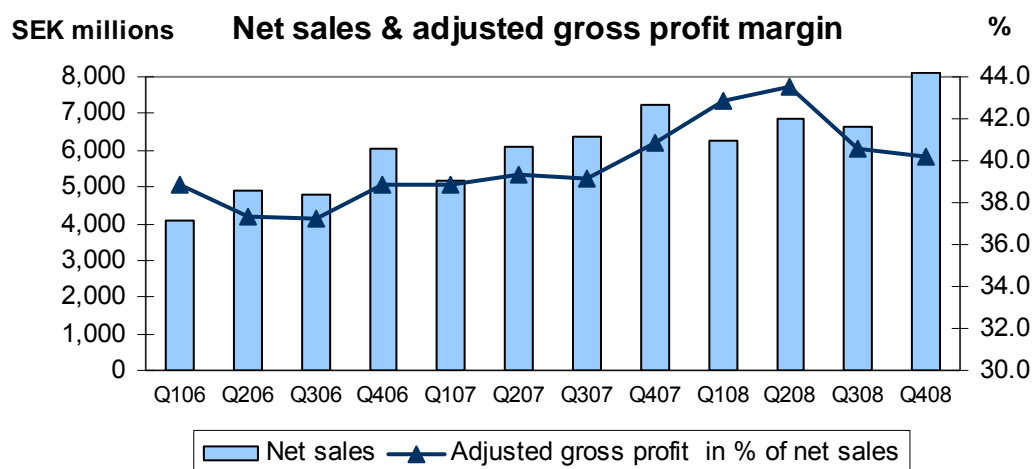
The costs for research and development have amounted to SEK 718 (643) million, corresponding to 2.6 (2.6) percent of net sales. Adjusted for exchange rate variations and acquisitions of businesses, the costs for research and development have increased by 9.3 percent compared to last year.

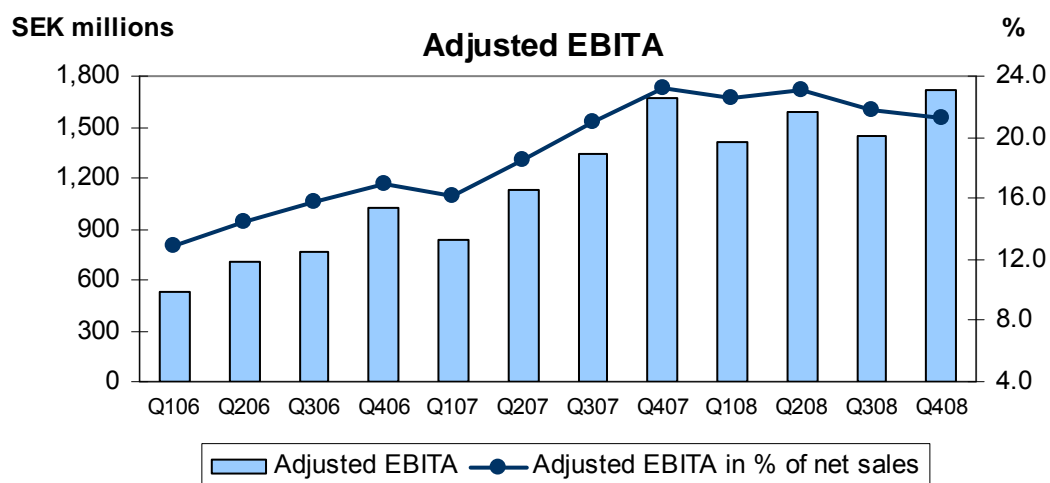
<b>Income statement analysis</b>	<b>Oct 1 - Dec 31 2008</b>	Oct 1 - Dec 31 2007	<b>Jan 1 - Dec 31 2008</b>	Jan 1 - Dec 31 2007
SEK millions				
Net sales	8,096	7,220	27,850	24,849
<b>Adjusted gross profit *</b>	<b>3,256</b>	<b>2,954</b>	<b>11,625</b>	<b>9,852</b>
- in % of net sales	<b>40.2</b>	<b>40.9</b>	<b>41.7</b>	<b>39.6</b>
Expenses **	-1,435	-1,205	-5,161	-4,607
- in % of net sales	17.7	16.7	18.5	18.5
<b>Adjusted EBITDA</b>	<b>1,821</b>	<b>1,749</b>	<b>6,464</b>	<b>5,245</b>
- in % of net sales	22.5	24.2	23.2	21.1
Depreciation	-100	-74	-304	-265
<b>Adjusted EBITA</b>	<b>1,721</b>	<b>1,675</b>	<b>6,160</b>	<b>4,980</b>
- in % of net sales	<b>21.3</b>	<b>23.2</b>	<b>22.1</b>	<b>20.0</b>
Amortisation of step up values	-65	-88	-256	-343
Comparison distortion items	-168	37	-168	54
EBIT	1,488	1,624	5,736	4,691

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

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

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



**Comparison distortion items**

	Oct 1 - Dec 31 2008	Oct 1 - Dec 31 2007	Jan 1 - Dec 31 2008	Jan 1 - Dec 31 2007
Amounts in SEK millions				
<b>Operational</b>				
Other operating income	182	128	420	308
Comparison distortion income	102	37	102	54
Total other operating income	284	165	522	362
Other operating costs	-232	-186	-734	-627
Comparison distortion costs	-270	-	-270	0
Total other operating costs	-502	-186	-1,004	-627

The operating income has been affected by comparison distortion items of SEK -168 (54) million. In the income statement these are reported gross as a part of other operating income and other operating costs.

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

The income in 2007 referred to realised gains mainly on sale of properties in Finland, Belgium and Argentina. In total properties were sold for SEK 72 million with a realised gain of SEK 54 million.

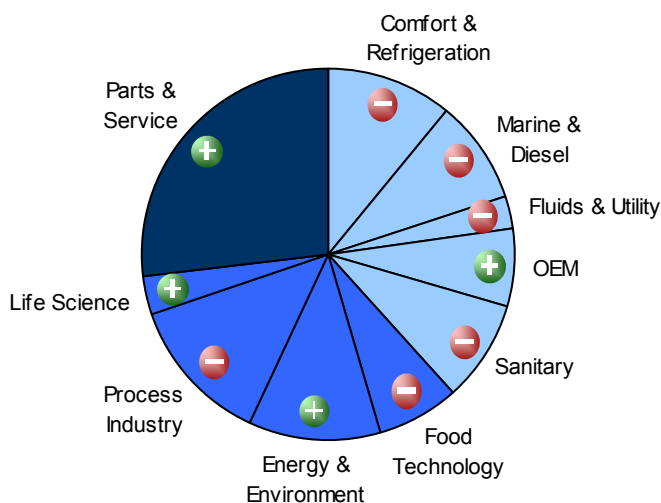
**Consolidated financial result and taxes**

The financial net has amounted to SEK -181 (-179) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on debt to the banking syndicate of SEK -94 (-65) million, interest on the private placement of SEK -44 (-40) million and a net of dividends and other interest income and interest costs of SEK -43 (-74) million.

The net of realised and unrealised exchange rate differences amounts to SEK -214 (45) million.

**Divisional reporting**

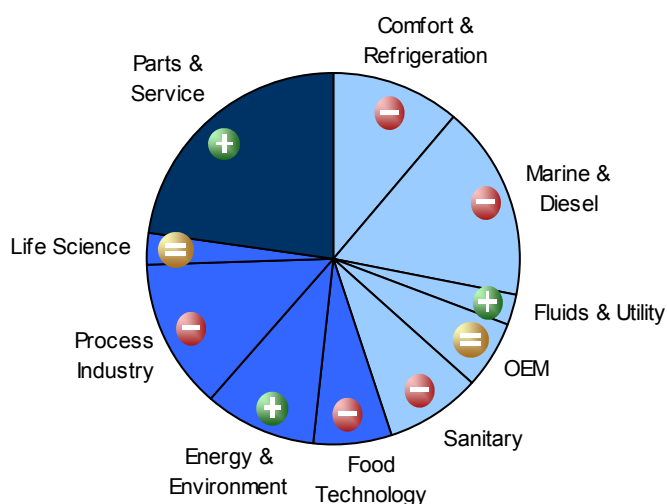
**Orders received by segment Q4 2008**



- + = increase
- = decrease
- = = unchanged (+/- 3 %)

compared to corresponding period last year, at constant rates adjusted for acquisitions of businesses

**Orders received by segment 2008**



- = Equipment
- = Process Technology
- = Parts & Service

**Equipment division**

	Oct 1 - Dec 31 2008	Oct 1 - Dec 31 2007	Jan 1 - Dec 31 2008	Jan 1 - Dec 31 2007
SEK millions				
Orders received	3,309	3,832	15,804	15,896
Order backlog *			7,926	7,915
Net sales	4,349	3,612	15,657	13,586
Operating income	922	827	3,573	2,805

\* At the end of the period.

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

Orders received decreased by 0.5 percent and net sales increased by 14.8 percent during 2008 compared to last year. Adjusted for acquisitions of businesses, the corresponding figures are a decrease by 4.3 percent and an increase by 10.9 percent.

The Equipment division showed an overall decline in the fourth quarter, mainly due to the development within Marine which was affected by a slow market activity following the global financial turbulence, as well as cancellations. Within Diesel there were continued strong investments in diesel power plant capacity, but larger projects were delayed. Sanitary was on a lower level than the corresponding quarter last year, mainly

as a result of postponed projects for dairy applications mostly in China and Western Europe. For Comfort & Refrigeration order intake fell short of the same quarter last year, primarily due to non-repeat large orders in the Middle East and Russia. The development for Fluids & Utility was somewhat behind due to slower activity in the metal working industry. OEM continued to perform well and orders rose following strong demand from air-conditioning and heat pump manufacturers. A growing installed base of products boosted demand for Parts & Service, which also benefitted from upgrading needs in the marine market. From a geographical perspective Western Europe and Asia were both weak, pressured by the development in Sanitary and Marine. North America on the other hand reported an order intake above last year.

*Operating income (excluding comparison distortion items)*

The increase in operating income during 2008 compared to the last year is mainly explained by a higher gross profit due to volume and increased margins, partially offset by sales and administration costs and adverse foreign exchange effects.

### Process Technology division

	<b>Oct 1 - Dec 31 2008</b>	<b>Oct 1 - Dec 31 2007</b>	<b>Jan 1 - Dec 31 2008</b>	<b>Jan 1 - Dec 31 2007</b>
SEK millions				
Orders received	2,864	2,736	11,636	11,594
Order backlog *			6,365	6,766
Net sales	3,734	3,599	12,143	11,242
Operating income	813	834	2,726	2,265

\* At the end of the period.

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

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

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

*Operating income (excluding comparison distortion items)*

The increase in operating income during 2008 compared to last year is foremost explained by a higher gross profit due to the increased volume and improved margins, to some extent offset by increased sales and administration costs.



## Operations division and Other

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

### Operations division and Other

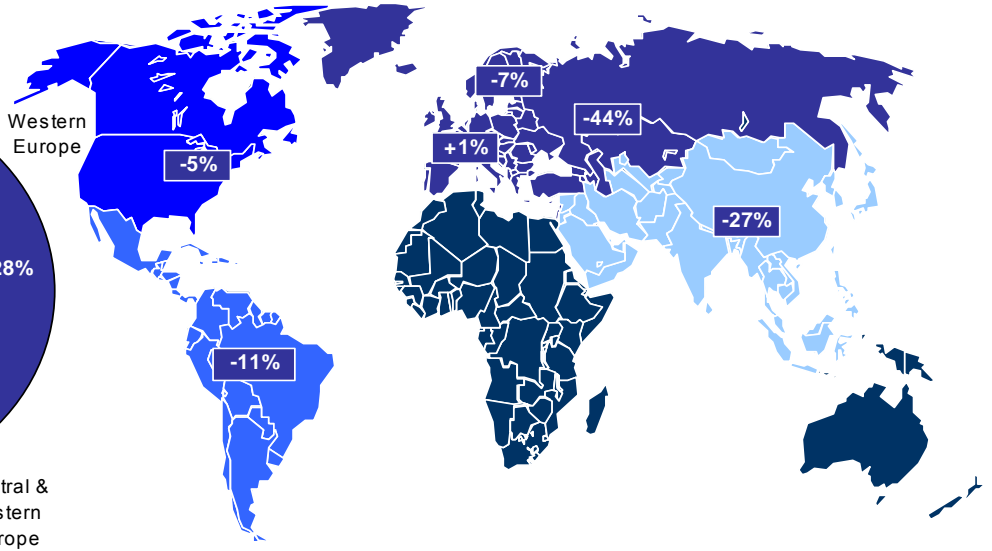
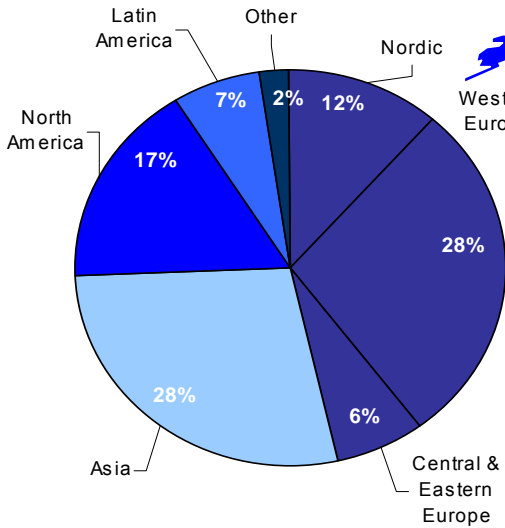
SEK millions	<b>Oct 1 - Dec 31 2008</b>	Oct 1 - Dec 31 2007	<b>Jan 1 - Dec 31 2008</b>	Jan 1 - Dec 31 2007
Orders received	8	8	24	63
Order backlog *			19	49
Net sales	13	9	50	21
Operating income	-79	-74	-395	-433

\* At the end of the period.

### Reporting by geographical markets

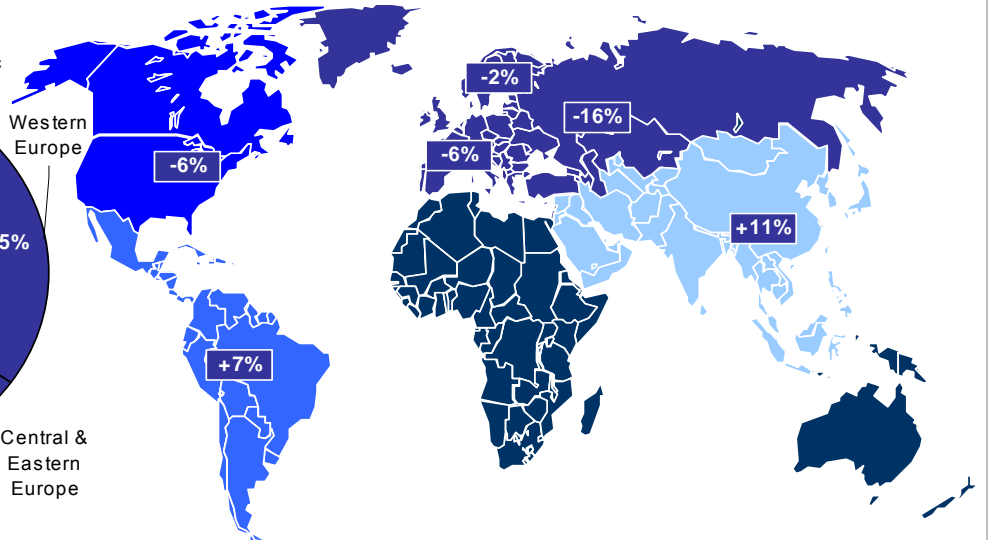
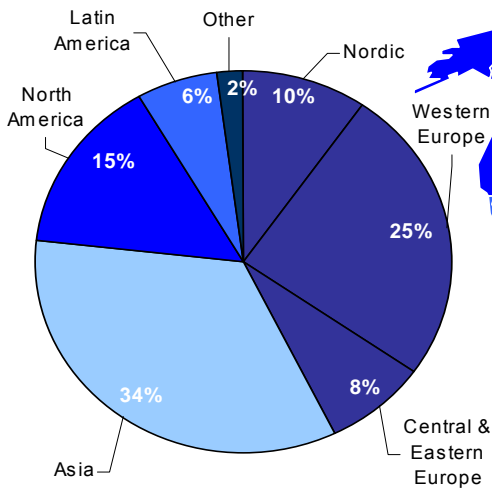
The Group's secondary segments are geographical markets. All comments are after adjustment for exchange rate fluctuations.

Orders received quarter



= Compared to Q4 2007 after adjustment for exchange rate fluctuations

Orders received YTD



= Compared to YTD 2007 after adjustment for exchange rate fluctuations

**Western Europe including Nordic**

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

**Central and Eastern Europe**

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

**North America**

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

**Latin America**

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

**Asia**

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

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

<b>CONSOLIDATED CASH-FLOW STATEMENTS</b>	<b>Jan 1 - Dec 31 2008</b>	<b>Jan 1 - Dec 31 2007</b>
Amounts in SEK millions		
<b>Cash flow from operating activities</b>		
Operating income	5,736	4,691
Adjustment for depreciation	560	608
Adjustment for other non-cash items	-879	-73
	<u>5,417</u>	<u>5,226</u>
Taxes paid	-1,868	-1,130
	<u>3,549</u>	<u>4,096</u>
Changes in working capital:		
(Increase)/decrease of current receivables	87	-1,163
(Increase)/decrease of inventories	-192	-1,110
Increase/(decrease) of liabilities	264	896
Increase/(decrease) of provisions	354	545
<b>(Increase)/decrease in working capital</b>	<b>513</b>	<b>-832</b>
	<u>4,062</u>	<u>3,264</u>
<b>Cash flow from investing activities</b>		
Investments in fixed assets (Capex)	-747	-556
Divestment of fixed assets	140	79
Acquisition of businesses	-726	-1,199
	<u>-1,333</u>	<u>-1,676</u>
<b>Cash flow from financing activities</b>		
Received interests and dividends	219	49
Paid interests	-266	-229
Realised financial exchange differences	-245	-64
Repurchase of shares	-766	-1,497
Dividends to owners of parent company	-963	-698
Dividends to minority owners in subsidiary	-20	-27
(Increase)/decrease of other financial assets	-380	-13
Increase/(decrease) of liabilities to credit institutions	-178	1,188
	<u>-2,599</u>	<u>-1,291</u>
<b>Net increase (decrease) in cash and bank</b>	<b>130</b>	<b>297</b>
Cash and bank at the beginning of the year	856	546
Translation difference in cash and bank	97	13
<b>Cash and bank at the end of the period</b>	<b>1,083</b>	<b>856</b>
Free cash flow per share (SEK) *	6.38	3.60
Capex in relation to sales	2.7%	2.2%
Average number of shares **	427,500,307	440,611,504

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

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

Cash flow from operating and investing activities amounted to SEK 2,729 (1,588) million during 2008. As a result of increased volumes and profit the cash flow was charged with increased tax payments. Depreciation, excluding allocated step-up values, was SEK 304 (265) million during the year, whereas the investments were SEK 747 (556) million.

**CONSOLIDATED BALANCE SHEET**

Amounts in SEK millions	Dec 31 2008	Dec 31 2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	7,273	5,734
Property, plant and equipment	3,546	2,824
Other non-current assets	1,376	1,128
	<u>12,195</u>	<u>9,686</u>
<b>Current assets</b>		
Inventories	5,972	5,086
Accounts receivable	5,706	5,049
Other receivables	2,941	2,074
Derivative assets	591	297
Other current deposits	544	190
Cash and bank *	1,083	856
	<u>16,837</u>	<u>13,552</u>
<b>TOTAL ASSETS</b>	<b>29,032</b>	<b>23,238</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Shareholders' equity	10,378	7,846
Minority interest	115	91
	<u>10,493</u>	<u>7,937</u>
<b>Non-current liabilities</b>		
Liabilities to credit institutions	2,538	2,368
Private placement	856	700
Provisions for pensions and similar commitments	990	877
Provision for deferred tax	1,161	1,090
Other provisions	403	409
	<u>5,948</u>	<u>5,444</u>
<b>Current liabilities</b>		
Liabilities to credit institutions	247	339
Accounts payable	2,700	2,522
Advances from customers	2,444	1,895
Other provisions	1,849	1,401
Other liabilities	4,142	3,478
Derivative liabilities	1,209	222
	<u>12,591</u>	<u>9,857</u>
Total liabilities	18,539	15,301
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>29,032</b>	<b>23,238</b>

\* The item cash and bank is mainly relating to bank deposits.

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

**Borrowings and net debt**

Consolidated SEK in millions	Dec 31 2008	Dec 31 2007
Credit institutions	2,785	2,707
Private placement	856	700
Capitalised financial leases	58	34
Interest-bearing pension liabilities	2	2
Total debt	3,701	3,443
Cash, bank and current deposits	-1,627	-1,046
Net debt	2,074	2,397

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

The private placement of USD 110 million matures in 2016.

**Repurchase of shares**

The Annual General Meeting 2008 and 2007 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandates refer to repurchase of up to 5 (10) percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchases will be made through purchases on OMX Nordic Exchange Stockholm. The outcome of the mandates has been as follows:

**Specification of repurchase of shares**

Mandate from Annual General Meeting 2007:	2007			2008			
	April 1 - June 30	July 1 - Sept 30	Oct 1 - Dec 31	Jan 1 - March 31	Total	Cancelled May 27	Left to cancel *
Number of repurchased shares	1,011,969	2,246,920	343,650	1,084,200	4,686,739	-4,323,639	363,100
Corresponding number after 4:1 split	4,047,876	8,987,680	1,374,600	4,336,800	18,746,956	-17,294,556	1,452,400
Percentage of outstanding shares	0.9%	2.0%	0.3%	1.0%	4.2%	-3.9%	0.3%
Cash-out and decrease of equity in parent company and consolidated Group (SEK millions)	-426	-939	-132	-367	-1,864		
Mandate from Annual General Meeting 2008:	2008						
	April 1 - June 30	July 1 - Sept 30	Oct 1 - Dec 31	Total			
Number of repurchased shares	0	2,658,900	3,242,650	5,901,550			
Percentage of outstanding shares *	0.0%	0.6%	0.8%	1.4%			
Cash-out and decrease of equity in parent company and consolidated Group (SEK millions)	0	-219	-180	-399			

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

**CHANGES IN CONSOLIDATED EQUITY**

Amounts in SEK millions	Jan 1 - Dec 31 2008	Jan 1 - Dec 31 2007
<b>At the beginning of the period</b>	7,937	6,831
<b>Changes attributable to:</b>		
<b>Equity holders of the parent</b>		
Repurchase of shares	-766	-1,497
Increase of ownership in Alfa Laval (India) Ltd	-	56
Cash flow hedges	-580	-26
Translation difference	839	155
Deferred tax	228	6
Net income for the period	3,774	3,137
Dividends	-963	-698
<b>Subtotal</b>	2,532	1,133
<b>Minority</b>		
Decrease of minority in Alfa Laval (India) Ltd	-	-56
Translation difference	11	13
Net income for the period	33	43
Dividends	-20	-27
<b>Subtotal</b>	24	-27
<b>At the end of the period</b>	10,493	7,937

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

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

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

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

## **Ownership and legal structure**

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

## **Material factors of risk and uncertainty**

The main factors of risk and uncertainty facing the Group concern the price development and availability of strategic metals, fluctuations in major currencies, the turmoil in the financial markets and when the business cycle driven downturn in the demand for the company's products comes and how deep the downturn will be. It is the company's opinion that the description of risks made in the Annual Report for 2007 is still correct. For additional information reference is made to the coming Annual report for 2008.

## **Asbestos-related lawsuits**

The Alfa Laval Group was as of December 31, 2008, named as a co-defendant in a total of 315 asbestos-related lawsuits with a total of approximately 395 plaintiffs. Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

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

## **Purchase of businesses**

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

On August 15, 2008 Alfa Laval acquired the US company Hutchison Hayes Separation, which is a leading provider of separation equipment, parts and services, mainly to the US energy related industries. Hutchison Hayes will operate as a separate organisation and adds a complementary channel for centrifugal separation equipment and service, primarily to the energy related industries in the US. The company's sales in 2008 were SEK 139 million.

On July 31, 2008 Alfa Laval acquired the German company Pressko AG, which is specialized in developing and manufacturing fully welded heat exchangers. Pressko AG will be integrated into Tranter, which is a separate organisation within the Alfa Laval Group. Pressko's sales for 2008 were SEK 44 million.

On June 13, 2008 Alfa Laval acquired 44 percent of the Swedish company Ageratec that develops innovative process solutions for the biodiesel industry. On December 29, 2008 Alfa Laval increased its ownership to about 68 percent and Ageratec became a subsidiary. Ageratec's sales during 2008 amounted to SEK 58 million.



On June 1, 2008 Alfa Laval acquired the US company Standard Refrigeration, a leading supplier of shell-and-tube heat exchangers for a variety of refrigeration, air-conditioning and industrial applications in the North American market. Standard Refrigeration will be integrated into Alfa Laval in order to capture synergies such as a wider product portfolio combined with an enhanced market presence. In 2008 the company had sales of SEK 249 million.

On February 11, 2008 Alfa Laval acquired the Danish company Høyer Promix A/S. The company has a turnover of approximately DKK 12 million and develops, produces and markets agitators mainly for the food and pharma industry. The company has been merged into Alfa Laval Tank Equipment A/S.

## Accounting principles

The fourth quarter and full year 2008 report is prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The accounting principles are according to IFRS (International Financial Reporting Standards) as adopted by the European Union.

## Parent company

The parent company's result after financial items was SEK 2,289 (1,237) million, out of which net interests were SEK 36 (40) million, realised and unrealised exchange rate gains and losses SEK 10 (1) million, dividends from subsidiaries SEK 2,201 (1,208) million, consideration from external captive SEK 55 (-), costs related to the listing SEK -3 (-2) million, fees to the Board SEK -4 (-4) million, cost for annual report and annual general meeting SEK -3 (-3) million and other administration costs the remaining SEK -3 (-3) million.

### PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	<b>Oct 1 - Dec 31 2008</b>	Oct 1 - Dec 31 2007	<b>Jan 1 - Dec 31 2008</b>	Jan 1 - Dec 31 2007
Administration costs	-6	-3	-13	-10
Other operating income	55	-	55	-
Other operating costs	1	-1	0	-2
Operating income/loss	50	-4	42	-12
Dividends	-	-	2,201	1,208
Interest income and similar result items	29	10	50	44
Interest costs and similar result items	0	-1	-4	-3
Result after financial items	79	5	2,289	1,237
Appropriation to tax allocation reserve	-239	-378	-239	-378
Income tax	-197	-311	-200	-318
Tax on received Group contribution	237	413	237	413
Net result for the year	-120	-271	2,087	954

**PARENT COMPANY BALANCE SHEET**

Amounts in SEK millions	<b>Dec 31 2008</b>	Dec 31 2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Shares in group companies	4,669	4,669
<b>Current assets</b>		
Receivables on group companies	3,465	2,385
Other receivables	253	1
Cash and bank	-	-
	<u>3,718</u>	<u>2,386</u>
<b>TOTAL ASSETS</b>	<b>8,387</b>	<b>7,055</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Restricted equity capital	2,387	2,387
Unrestricted equity capital	<u>4,593</u>	<u>3,628</u>
	6,980	6,015
<b>Untaxed reserves</b>		
Tax allocation reserve, taxation 2005	81	81
Tax allocation reserve, taxation 2006	25	25
Tax allocation reserve, taxation 2007	254	254
Tax allocation reserve, taxation 2008	378	378
Tax allocation reserve, taxation 2009	<u>239</u>	<u>-</u>
	977	738
<b>Current liabilities</b>		
Liabilities to group companies	236	47
Accounts payable	1	1
Tax liabilities	<u>193</u>	<u>254</u>
	430	302
<b>TOTAL EQUITY CAPITAL AND LIABILITIES</b>	<b>8,387</b>	<b>7,055</b>

**Proposed disposition of earnings**

The parent company has unrestricted funds of SEK 4,593 (3,628) million. The figure for 2008 has been affected by the repurchase of shares by SEK -766 (-1,497) million.

The Board of Directors propose a dividend of SEK 2.25 (2.25) per share corresponding to SEK 950 (973) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 3,644 (2,655) million be carried forward. The dividend per share last year has been recalculated due to the 4:1 split.

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

**Proposal to cancel repurchased shares and make a bonus issue**

The Board will propose to the Annual General Meeting 2009 to cancel the repurchased shares. Currently 7,353,950 shares are held by the company. Cancellation of these shares means that the share capital will decrease with SEK 19 million. At the same time the Board will propose that the share capital is increased by a bonus issue with the same amount decided by the Annual General Meeting. In this way the size of the

share capital is restored and the company avoids to have to obtain permission from Bolagsverket or if disputed the local court to cancel the repurchased shares.

### **Date for the next financial reports during 2009**

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

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

### **Events after the balance sheet date**

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

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

### **Annual General Meeting**

The Annual General Meeting of Alfa Laval AB (publ) will be held on Monday April 20, 2009, at 16.00 in Färs & Frosta Sparbank Arena, Klostergårdens idrottsområde, Stattenavägen in Lund. .

### **Annual Report 2008**

The Annual Report for 2008 is estimated to be published and distributed to shareholders that have asked for a copy during week 13. The Annual Report will also be available on [www.alfalaval.com](http://www.alfalaval.com).