

# Annual General Meeting 2008



Ladies and gentlemen, shareholders and employees

## **Improved operating profit for fourth consecutive year**

In 2007, the Board of Directors of Alfa Laval raised the goal for the operating margin (EBITA) to 15 percent over a business cycle. The target for return on capital employed was raised to at least 25 percent. The Board based these increases on the company's enhanced product mix, productivity improvements and the structural increase in demand from energy-related industries.

For the fourth consecutive year, we were able to report an improved operating profit, which amounted to nearly SEK 5 billion in 2007, equal to the combined earnings for 2003 to 2005.

## **Sharply improved profitability**

As seen on the red curve here, the operating margin has steadily improved in the past three years and amounted to 20 percent for full-year 2007.

The factors underlying the improvement were:

- A favorable product mix. We delivered a large number of major orders containing a high proportion of Alfa Laval's core products.
- Highly satisfactory capacity utilization in our production facilities. The favorable gearing effects on earnings confirm the efficient functioning of our production processes.
- Focus on profitability. Moreover, we are working on further developing our capacity to improve the customer and product mix.

## **Very strong order intake**

As seen on the solid yellow here, order intake in 2007 rose a full 18 percent to SEK 27.5 billion. The sharpest growth was reported in Latin America and Asia. In Brazil, the order intake rose 49 percent in a solid, broad-based upturn, and in China, the increase was 57 percent, primarily driven by strong demand from the shipbuilding industry.

During the year, Alfa Laval secured 15 orders worth more than EUR 5 M each, with a total value of SEK 1.2 billion. The orders were evenly divided between the various areas of application and countries, which suitably reflects Alfa Laval's broad scope and helps to spread risks.

Order intake from the key aftermarket sector rose approximately 20 percent.

## **Higher share of new products**

We continuously develop our products to strengthen our leading market positions. For 2007, Alfa Laval established the goal of increasing the percentage of sales from new products by 50 percent. At the same time, the period from concept to attained sales target shall be reduced by 25 percent. This is the foundation for profitability and a positive price trend.

We have increased our investments in research and development by 50 percent in the past three years. At the same time, we have improved the organizational conditions to get our products to the market more rapidly and achieve established sales targets. The largest investments were made in energy and energy-related application areas. Already in 2008, 30-percent more products will be introduced compared with 2007.

***[Break for product presentation]***

Alfa Laval's greatest contribution to improving the environment is undoubtedly made through our products. However, in 2007 we quantified our own environmental impact to be able to set goals for a reduction of CO<sub>2</sub> emissions. The analysis shows that Alfa Laval's total impact corresponds to what an average-sized refinery can reduce its CO<sub>2</sub> emissions by simply by installing our heat exchangers instead. This shows the magnitude of our contribution. The analysis also shows that emissions of greenhouse gases from transports – both transport of products and business travel – significantly exceed those from our plants.

We evaluate our transport companies on the basis of their activities for reducing emissions.

We are also working to divert transports by air to land and sea-based transports, which generate much lower emission levels.

We have about 1,500 company cars in 56 countries, and in connection with the renewal of leasing agreements, we are gradually replacing old cars with cars that result in lower emissions.

The aim is to reduce emissions of carbon dioxide by 15 percent between 2007 and 2011.

### **Acquisitions strengthen our strategic positions and our growth**

In 2007, we acquired companies that add 4 percent growth to our sales, which is also the average for Alfa Laval's acquired growth in the past three years.

Dutch company Helpman was consolidated in Alfa Laval in March 2007. The acquisition broadens our range of products and the synergies with Alfa Laval's sales organization are clear. Helpman's customers are active in industrial cooling of agricultural products, fruit and meat. Sales in 2007 totaled about SEK 200 M, with a workforce of 130.

Finnish company Fincoil was acquired in November. The acquisition supplements the company's product range and synergies with Alfa Laval are considerable. We envisage major opportunities to further develop the company. Fincoil has a world-leading position in the cooling of diesel power plants, and its customers include Wärtsilä and MAN. Sales in 2007 amounted to SEK 350 M with 150 employees.

The acquisitions of Helpman and Fincoil are two examples of product supplements in the area of industrial air heat exchangers. With these acquisitions, we have supplemented our Italian air heat exchanger unit and become one of the leaders in Europe, with combined sales exceeding SEK 1 billion.

Through the acquisition of DSO Fluid Handling and AGC Engineering, Alfa Laval strengthens its position in the sanitary market in the U.S. These companies jointly generate sales of SEK 120 M and add new sales channels to the aftermarket for the dairy and food industries.

In January 2007, Tranter acquired its distributor in China. The distributor's sales amount to SEK 100 M, with 100 employees in assembly, sales and service. The acquisition is part of efforts to strengthen the company's presence in China. In 2007, Tranter had sales of SEK 1.5 billion with 800 employees worldwide.

### **Structural changes continue to offer excellent growth opportunities**

Alfa Laval sees continuing favorable opportunities for growth in a number of areas, based on structural changes in demand.

### **Energy accounts for 40 percent of order intake**

Demand from the energy and energy-related industries accounts for slightly more than 40 percent of the Group's order intake. High-energy prices, environmental aspects and changes in the global energy policy map herald many opportunities for Alfa Laval. In such areas as oil and gas extraction, refineries, petrochemicals, renewable fuels, power generation, liquefied natural gas (LNG) and tar sand, extensive investments are being made both in new facilities and upgrades of existing plants. In addition, district cooling is growing rapidly as countries in warm latitudes quickly raise their standard of living. Generally, interest in reducing energy consumption is considerable, thereby raising the demand for plate heat exchangers.

### **Clean technologies protect the environment and reduce costs**

Environmental issues are attracting increasing attention – landing on both politicians' tables and in conversations between people. Currently, the most important matter is the greenhouse effect and the continuously rising emissions of carbon dioxide.

Environment-enhancing application areas account for approximately two thirds of Alfa Laval's sales, a figure that few companies can match. Heat transmission, meaning energy-efficiency/savings, account for slightly more than 50 percent. Separation, meaning the cleaning of liquids and gases, accounts for 25 percent, largely in the shape of measures that have directly favorable effects on the environment. Even our smallest area, flow products, offers tank-cleaning equipment that minimizes water consumption.

One of Alfa Laval's largest applications when it comes to reducing its customers' environmentally harmful emissions comprises products and systems for recovering heat. After a refinery in Switzerland installed our heat exchangers in its process, it achieved fuel savings of SEK 32 million and reduced its costs for emission rights by SEK 8 million as early as the first year. The pay-back period for this investment was about five months. Alfa Laval has installed a total of approximately 5,000 heat exchangers of the Compabloc type for the recovery of heat. In total, they contribute to emissions of carbon dioxide being reduced by about 12 million tons, corresponding to emissions from all car traffic in Sweden during one year.

The potential for this application is considerable, as you can see on the next slide, where the blue equipment reveals how small the percentage of all existing plants that has been replaced to date. The gray symbolizes existing installations using old ineffective heat exchangers.

### **Strong positions in emerging countries**

Nearly 50 percent of order intake derived from Eastern Europe, Asia and Latin America, where most of the countries are emerging markets. Few other companies within the Swedish engineering industry can match this figure. This provides us with continued favorable growth opportunities and serves as a counterbalance in the event of a decline in North America and Western Europe.

Strong local presence is Alfa Laval's hallmark, as exemplified by Russia. This slide shows that we have 15 local sales office in Russia, several of which on the other side of the Urals. The upswing in our sales has been broad-based and solid, a trend we expect to continue.

### **Globalization creates the need for seaborne transport**

Globalization is increasing the need for seaborne transport, which is favorable for our marine segment. The demand from the shipbuilding industry remained strong in 2007 for the fifth consecutive year and the order backlog now stretches all the way into 2010.

**The Alfa Laval share**

The upper blue graph shows the performance of the Alfa Laval share in 2007, when it rose 18 percent, while the Stockholm Stock Exchange as a whole dropped 6 percent. The green graph shows that the industrial index against which Alfa Laval is gauged rose 7 percent.

It is extremely gratifying to note that the number of shareholders has risen by nearly 50 percent to 19,000 since the last Annual General Meeting.

Finally, let me sincerely thank all of the employees of the Alfa Laval for their excellent work input during 2007.

---

A few hours ago, we released our report on the first three months of 2008. The report shows that Alfa Laval got off to an excellent start to the year, in terms of both order intake and operating profit.

Our high exposure to emerging markets comfortably offset the decline in the US, resulting in organic growth of 6 percent. Eastern Europe, Asia and Latin America, marked in red here, jointly accounted for 51 percent of the Group's order intake.

In absolute terms, order intake amounted to SEK 7.4 billion, the best quarter ever.

Operating profit rose 69% to SEK 1.4 billion. This means that the operating margin rose from 16.2 percent during the first quarter of 2007 to 22.5 percent this year.

Finally, our outlook for the near future:  
"We expect demand to remain at the currently high level."

THANK YOU