Annual Report 2007

Sustainability Report • Corporate Governance Report

Leading in growing energy and environmental markets

Contents

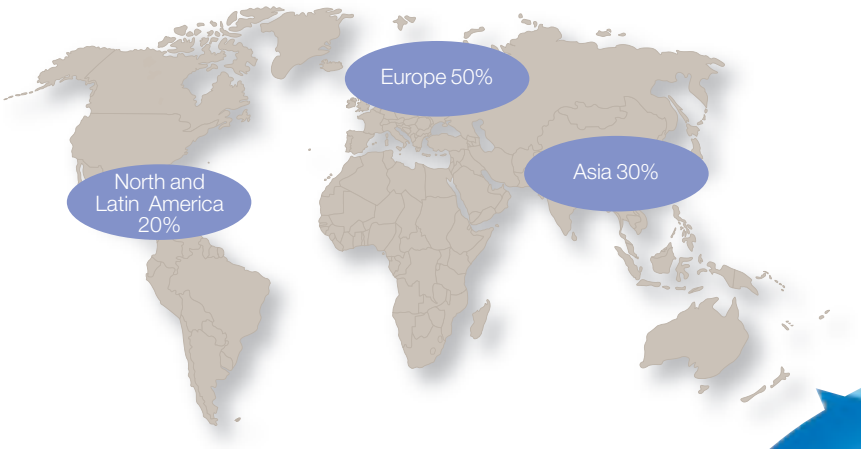
Cover:

From sewage to ecocycle

Waste water

Every second, thousands of cubic meters of this mixed slush are released around our planet. At present, only a fraction is treated. The least we can do for Mother Earth is to ensure that the cycle is closed in an efficient and environmentally-sound manner. The basic principle is clean in, clean out. In other words, a sound ecocycle approach. Alfa Laval has built up unique expertise within this important area. We can offer industries and municipalities customized solutions for the treatment of water and other substances. It concerns everything from individual products such as decanters, sludge thickeners and heat exchangers to entire wastewater treatment systems. Clean water is not only about appeasing your conscience. It is actually also an investment that is profitable in the long term. Water is a valuable commodity in short supply, which we must protect.

Alfa Laval in two minutes

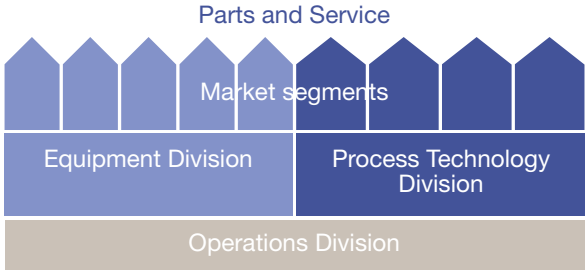


At least 5 percent growth per year

The principles for Alfa Laval's growth strategy is that the company should grow more quickly than its competitors and that growth should be achieved with favorable profitability. The goal is an average annual growth rate of at least 5 percent over a business cycle.

Sales in more that 100 countries

Alfa Laval has broad geographic coverage and a strong local presence. The company sells its products in approximately 100 countries and in over half of these has its own sales organizations. About 50 percent of sales are in Europe, 30 percent in Asia, Oceania and the Middle East and 20 percent in North and South America. Some 26 large production units (16 in Europe, six in Asia, three in the US and one in Brazil), and 70 service centers are placed strategically around the world. Alfa Laval has approximately 11,500 (10,000) employees. The largest numbers of employees are in Sweden (2,275), India (1,265), Denmark (1,100), the US (950) and France (850).



Customer-driven business concept

"To optimize the performance of our customers' processes. Time and time again."

Creating a sustainable, profitable company requires that customers are continually provided added value. For shareholders, Alfa Laval shall be an attractive, long-term investment, which the company achieves through continuously improving its attractiveness – as a supplier, partner, employer and customer.

Three divisions and nine segments mean close relations with customers

Alfa Laval markets its products in nine different customer segments and to gain a distinct customer focus the segments are divided into two sales divisions: the Process Technology Division and the Equipment Division. In addition, there is a special organization to serve the aftermarket, Parts and Service. The third division, the Operations Division, is responsible for production procurement, manufacturing and logistics to supply the sales units with products at the right time and the right quality.

Strengthened market positions through acquisition

To further strengthen its leading positions in selected markets, Alfa Laval continuously searches for companies to acquire or with which to cooperate. To achieve this, the Group has the management capacity and the financial strength. During 2007, four acquisitions were carried out adding 4 percent in growth.

Reduced environmental impact

In recent years, Alfa Laval has mapped the company's environmental impact, primarily emissions of carbon dioxide (CO_2). The goal is to reduce CO_2 emissions by 15 percent between 2007 and 2011.

At the same time, Alfa Laval's products and solutions contribute major environmental gains for customers, for example, approximately 5,000 Compabloc heat exchangers reduce customers' CO_2 emissions comparable to the emissions from all passenger cars in Sweden during one year.

Increased profitability goal – operating margin of 15 percent

The Board of Directors of Alfa Laval performed a review of the company's financial goals in the autumn of 2007. The company's improved product mix and productivity combined with a structural increase in demand from energy-related industries have prompted an increase in the goal for operating margin (EBITA) to 15 percent over a business cycle and the goal for return on capital employed to at least 25 percent.

Three key technologies that play a decisive role

Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling. These technologies have been developed by the company over a long time and which today play a decisive role in many industrial processes within a number of industries. Alfa Laval holds leading global positions within all of these technology areas.

Heat transfer

Separation

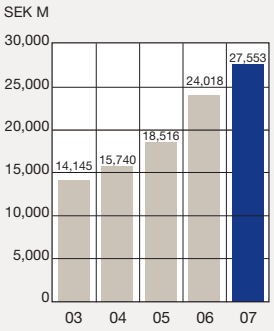
Fluid handling

35-40 new products each year

Continuous development of products is necessary to enhance competitiveness and maintain leading positions. Up to 3.0 percent of sales is invested yearly in research and development, resulting in 35-40 new products each year.

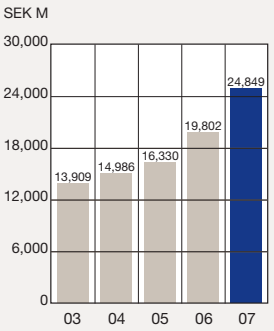
Order intake nearly doubled in five years

Since 2003, the order intake has increased from SEK 14,145 M to SEK 27,553 M. In 2007, order intake rose by slightly more than 18 percent.



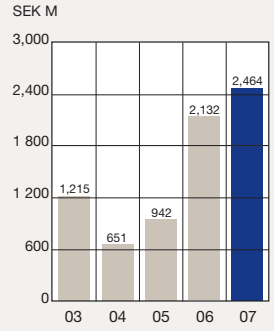
Continued strong rise in sales

During the past five years, sales rose from SEK 13,909 to SEK 24,849 M. In 2007, sales were up 29 percent.



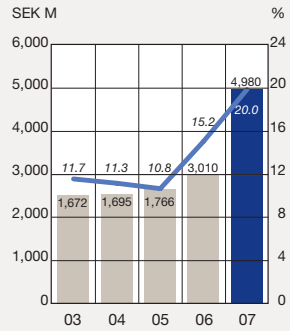
Free cash flow of about SEK 2.5 billion

Alfa Laval generated a free cash flow of SEK 2,464 M (2,132) in 2007.



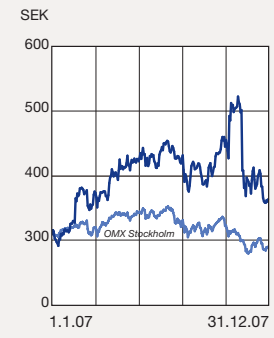
Focus on profitability increased operating margin by slightly more than 8 percentage points

Operating margin (adjusted EBITA) rose from 11.7 percent in 2003 to 20 percent in 2007. In 2007 alone, operating margin rose 4.8 percentage points.



Share rose 18% in 2007

During 2007, the Alfa Laval share rose 18 percent, compared with OMX Nordic Exchange Stockholm that declined 6 percent during the same period.



Highlights 2007

- Continued **very high demand** in most of the company's final markets – primarily the energy industry and energy-related sectors – contributed to the increase in order intake with 18 percent compared with 2006 by SEK 27.6 billion.
- **Favorable growth in base business**, meaning orders valued at less than EUR 0.5 M, which account for some 80 percent of total order intake.
- **Operating income[2] rose** to SEK 4,980 M (3,010).
- **The goal for operating margin was raised to 15 percent** over a business cycle. The goal for **return on capital employed was raised to at least 25 percent**. The growth target remains at an average of 5 percent annually over a business cycle.
- **Acquisitions of four companies** that combined add **about 4 percent growth**. Among others, Finnish Fincoil, with sales of SEK 375 M, and Netherlands-based Helpman, with sales of SEK 220 M, were acquired. Both sell industrial cooling products, with air heat exchangers as the largest product.
- Alfa Laval **acquired an additional 13 percent of Alfa Laval India (Ltd)** through a public offer and now holds an ownership interest of 77 percent.
- **3.2 percent of shares outstanding were repurchased.** Alfa Laval has a mandate to buy back up to 10 percent of shares outstanding through to the 2008 Annual General Meeting.
- The Board proposes a **dividend of SEK 9.00** (6.25) per share for 2007.

Amounts in SEK M unless otherwise stated	+/- %[6]	2007	2006	2005	2004 [7]	2003
Order intake	+15	27,553	24,018	18,516	15,740	14,145
Net sales	+25	24,849	19,802	16,330	14,986	13,909
Adjusted EBITDA [1]	+60	5,245	3,273	2,030	1,956	1,920
Adjusted EBITA [2]	+65	4,980	3,010	1,766	1,695	1,627
Operating marginal (adjusted EBITA [2]), %		20.0	15.2	10.8	11.3	11.7
Profit after financial items	+92	4,557	2,375	1,099	1,262	817
Return on capital employed, %		54.2	35.9	22.7	23.7	21.3
Return on shareholders' equity, %		44.1	25.3	16.0	15.9	13.2
Earnings per share, SEK	+89	28.48	15.10	7.92	7.12	5.78
Dividend per share, SEK	+44	9.00 [3]	6.25	5.10	4.75	4.00
Equity per share, SEK	+16	71.10	61.2	52.00	47.20	43.80
Free cash flow per share, SEK [4]	+55	14.42	9.32	8.52	11.10	10.71
Equity ratio, %		34.1	36.4	35.9	37.4	33.3
Debt/equity ratio, multiple,		30	22	35	36	49
Number of employees [5]	+13	11,395	10,115	9,429	9,527	9,358

1) Adjusted EBITDA – Operating income before depreciation and amortization of goodwill and impairment of other surplus values, adjusted for items affecting comparability.
2) Adjusted EBITA – Operating income before amortization of goodwill and other surplus values, adjusted for items affecting comparability.
3) Board proposal for the Annual General Meeting.
4) Free cash flow is the sum of cash flow from operating and investing activities.
5) Number of employees at the end of the period.
6) Percentage change between 2006 and 2007.
7) Restated to IFRS.

Improved operating profit for the fourth consecutive year

In October 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 can report an improved operating profit, which amounted to nearly SEK 5 billion.

Sharply improved profitability

The operating margin has steadily improved in recent years and amounted to 20 percent for 2007.

The factors underlying the improvement were:

- An exceptionally 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. Capacity is being expanded in those product areas in which we note a structural growth in demand.
- Focus on profitability. Thanks to our strong market positions and the added value we create for our customers, we have managed to offset higher raw material prices in most instances. Moreover, we are working on further developing our capacity to improve the customer and product mix.
- Higher efficiency in production, sales and administration.

Very strong order intake

Order intake in 2007 rose a full 18 percent to slightly more than SEK 27,5 billion. All geographic regions performed highly favorably. 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 are evenly divided between the various areas of application and countries, which suitably reflects the broad scope of Alfa Laval. Order intake from the key aftermarket sector rose approximately 20 percent. In particular, the maturing installed base in the rapidly expanding markets of China, India and Russia performed favorably.

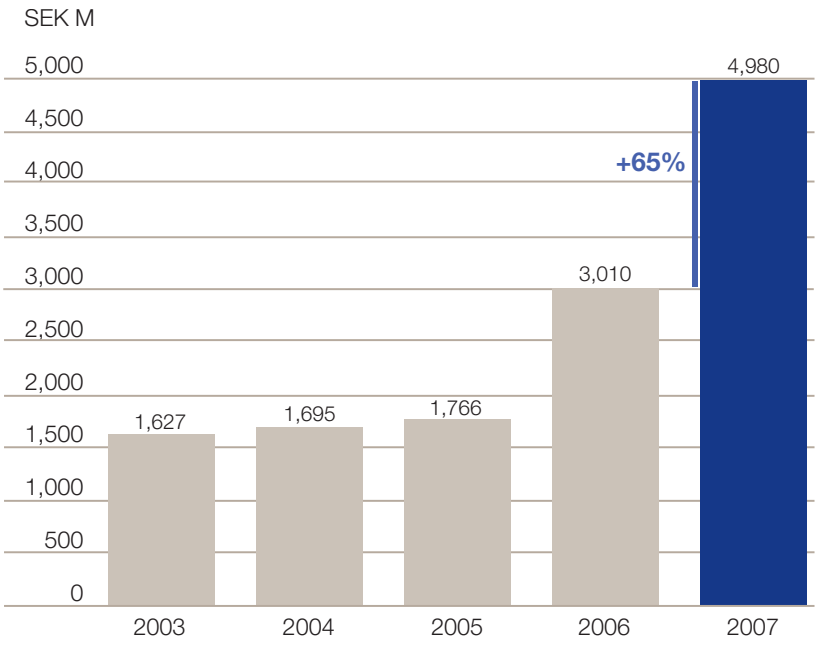
"Order intake from the key aftermarket sector rose approximately 20 percent"

Higher number 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 organizational conditions to launch products on 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.

Improved operating profit for the fourth consecutive year*



* Adjusted EBITA

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.

Acquisitions must primarily involve companies that supplement Alfa Laval's existing business in terms of products, geography or in the form of new sales channels.

Working with a number of brands offers further opportunities for consolidation in industries in which we hold a leading position.

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. We now have a strong position in this area in terms of both products and geography, with total sales of SEK 1 billion.

The 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 SEK 220 M, with a workforce of 130. As early as 2007, Helpman contributed positively to earnings per share.

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 cooling diesel power plants, and its customers include Wärtsilä and MAN. Sales in 2007 amounted to SEK 375 M with 150 employees. Fincoil is expected to contribute positively to earnings per share in 2008.

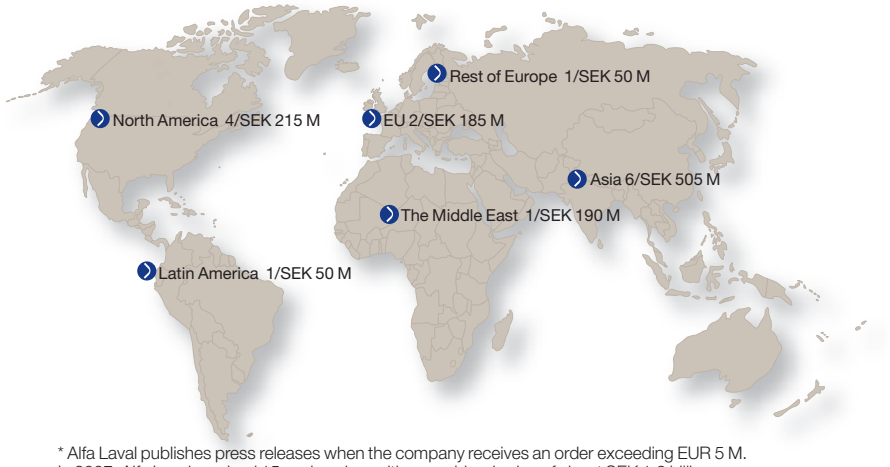
Through the acquisition of DSO Fluid Handling and AGC Engineering, Alfa Laval will strengthen its position in the sanitary market in the U.S. These companies jointly generate sales of SEK 120 M and add new sales channels to the aftermarket for the dairy and food industries. The companies will market their products independently of Alfa Laval following a multi-brand strategy.

"Structural changes continue to offer excellent growth opportunities"

The acquisition of U.S.-company Tranter in 2006 is an excellent example of a new sales channel. As a result of the acquisition, Alfa Laval strengthens its leading position in heat transfer. In 2007, Tranter reported sales of approximately SEK 1.5 billion, with about 500 employees worldwide.

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.

Major orders* (number of orders/SEK M)



* Alfa Laval publishes press releases when the company receives an order exceeding EUR 5 M. In 2007, Alfa Laval received 15 such orders with a combined value of about SEK 1.2 billion.

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, liquefied natural gas (LNG), refineries and petrochemicals, there are extensive investments both in new facilities and upgrades of existing plants. Alfa Laval has a solid position in the production of bioethanol and biodiesel. Sales for these applications were very strong at the beginning of the year but since declined sharply due to the lower profitability of investing in new plants during the year. District cooling is growing rapidly as countries in warm latitudes quickly raise their standard of living. Generally, there is a major interest in reducing energy consumption, thereby raising the demand for plate heat exchangers.

Clean technologies spare the environment and reduces costs

Environmental issues are receiving wide-

spread 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. For decades, Alfa Laval's products have contributed to environmental gains and cost savings thanks to more efficient processes, and we see major opportunities for structural growth based on a more intense focus on environmental issues, particularly the increasing costs of environmentally harmful emissions.

"We acquired companies that add 4 percent growth"

Strong positions in rapidly developing BRIC countries

Economic growth in China and the need for investment in China and India are creating a large, high-consumption middle class and a consequent need for investment, which favors global demand. China is Alfa Laval's second largest market after the U.S. and a number of activities are in progress to strengthen the Group's presence through organic growth as well as acquisitions. The term "BRIC countries" refers to Brazil, Russia, India and China – four large and rapidly growing economies. In 2007, they accounted for a combined 23 percent of the Group's total order intake, compared with 13 percent in 2002.

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

In a bid to improve the company's capital structure, the Board utilized its mandate to repurchase shares in Alfa Laval AB in 2007, with the intention of cancelling them. A total of 3.2 percent of shares were repurchased at an amount of SEK 1,497 M and the average price was SEK 415 per share.

In 2007, Alfa Laval's share rose 18 percent, while the Stockholm Stock Exchange as a whole declined 6 percent and the SX20 Industrials – the industrial index against which Alfa Laval is gauged – rose 7 percent. Since its listing in May 2002, the share has climbed 360 percent, while the Stockholm Stock Exchange as a whole has risen by 95 percent.

Outlook for the near future

"We expect demand to remain on the current high level."

(Included in the year-end report for 2007 as published on February 6, 2008).

Finally, I would like to take this opportunity to offer my great appreciation to all employees of the Alfa Laval Group for yet another year of highly commendable work efforts.

Lund, March 2008

Lars Renström
President and CEO

During 2007, Alfa Laval acquired four companies that added about 4 percent growth. The most recent acquisition, Fincoil in Finland, was also the year's largest with sales of some SEK 375 M. Combined with the earlier acquisition of Helpman in the Netherlands (sales of about SEK 220 M) and the existing operations in Italy, Alfa Laval has created a leading position in air heat exchangers for the cooling industry in Europe (read more on page 9). The application area for the product is broad, from cooling in diesel-driven power plants to keeping tulips from Amsterdam at the proper temperature.

Improved internal processes and market positions raise the financial goals

Delivering results

Alfa Laval's business concept is to optimize performance in customers' processes. Each person in the company must contribute with results so that Alfa Laval continually develops. This involves delivering results.

There is a strong desire within Alfa Laval to attain the established goals, both large and small. This is and must be a driving force for all employees. The attainment of financial goals is the final confirmation of the company's success.

Resources for successful operations

The basis for Alfa Laval's business model and the foundation for the company being able to achieve its financial goals is to continuously create added value for the customers.

Alfa Laval's global operations are based on three key technologies – heat transfer, separation and fluid handling – as well as technological know-how and expertise in a broad range of applications. The company is organized into three divisions. The Equipment and Process Technology divisions market the company's products and solutions. The Operations Division produces and delivers the company's products. To ensure the long-term functioning of the supplied equipment and to nurture and develop customer relations, Alfa Laval has a well-developed global service organization – Parts & Service.

Strategies for growth

Alfa Laval's strategies are based on leading positions in well-defined market segments. Alfa Laval has the financial as well as organizational expertise and the capacity to successfully manage and integrate operations that strengthen the company's offering.

Financial goals for dividends and development

Alfa Laval manages operations to achieve three financial goals for growth, operating margin and return. In recent years, the company has attained or surpassed these particular financial goals. This creates shareholder value through an annual dividend to the shareholders and increased value of the company.

Financial goals

As a result of Alfa Laval's improved product mix and productivity, combined with a structural increase in demand from energy-related industries, the Board of Directors raised the goals for operating margin and return.

Invoicing growth, %

Goal: Minimum average of 5 percent annually over a business cycle.
The goal is to be attained through a combination of organic and acquired growth. The underlying organic growth of Alfa Laval's markets is expected to be on par with global GDP growth. To this is to be added technological substitution that is favorable for Alfa Laval, which increases growth.

Goal fulfillment in 2007: Growth in invoicing was about 29 percent. 25 percent was organic growth and 4 percent was growth derived acquisitions.

Operating margin**, % of sales

Goal*: 15 percent over a business cycle.
Goal fulfillment in 2007: The margin was 20 percent. The factors underlying the sharp growth of the operating margin are the company's enhanced product mix, productivity improvements and the high volume during the year.

**Goal raised from 10-13 percent to 12-15 percent in 2006. Goal raised to 15 percent in fourth quarter of 2007.*
***Adjusted EBITA.*

Return on capital employed, %

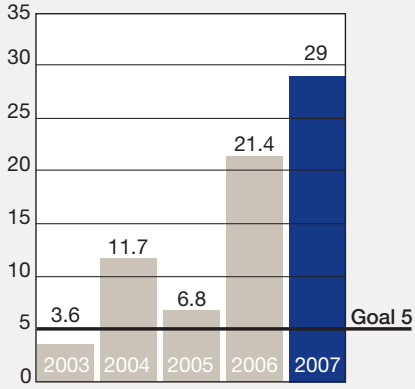
Goal*: at least 25 percent.
Despite the substantial goodwill and allocated surplus values, the goal for the return on capital employed is a minimum of 25 percent. The level has been set taking into account the low level of capital tied-up in current operations.

Goal fulfillment in 2007. The return was 54.2 percent. During the six past years, the return goal* has been exceeded as a result of continuous improvements in capital employed and higher operating earnings.

**Goal raised from at least 20 percent to at least 25 percent in fourth quarter of 2007.*

Financial standards

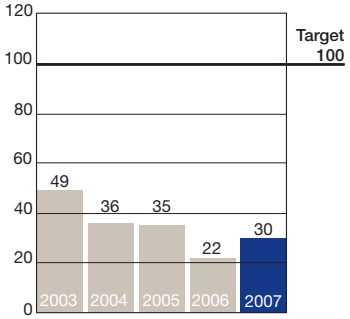
As a supplement to the financial goals, Alfa Laval has established target standards for certain key financial ratios to assist the company in meeting its financial goals.

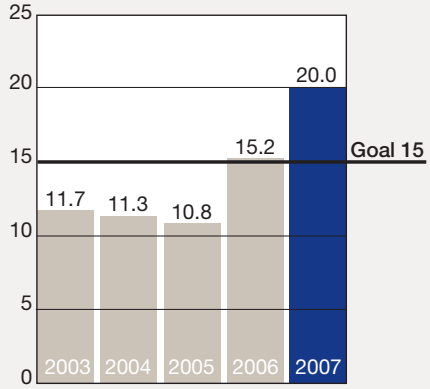


Debt/equity ratio, %

Target: below 100 percent.

In the long term, the debt/equity ratio is to be less than 100 percent, which means that borrowed capital may not exceed 100 percent of the book value of shareholders' equity. Although the ratio may increase in connection with major acquisitions, this should be viewed as merely a temporary rise, since cash flow and earnings are expected to offset this effect. At year-end 2007, the debt/equity ratio was 30 percent.





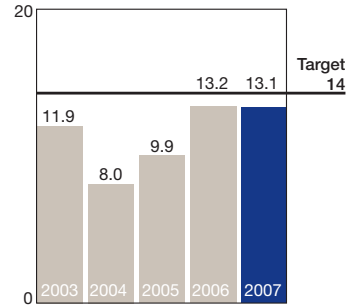
Cash flow from current operations*, %

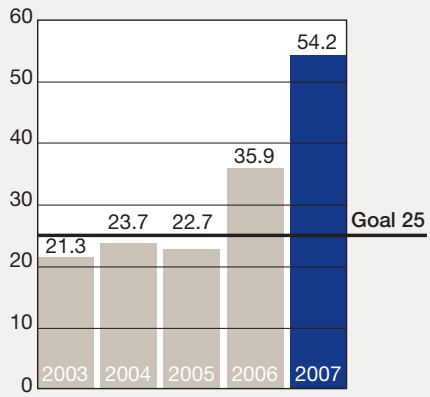
Target: 14 percent of sales.**

The value is just below the goal for operating margin, since organic growth normally increases working capital. Regardless of the debt/equity ratio, the free cash flow will be considerable but within the framework of the debt/equity ratio standard set by Group. During 2007, cash flow from current operation was 13.1 percent.

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

***The target was increased from 9-12 percent to 11-14 percent during the fourth quarter of 2006. The target was raised to 14 percent in the fourth quarter of 2007.*



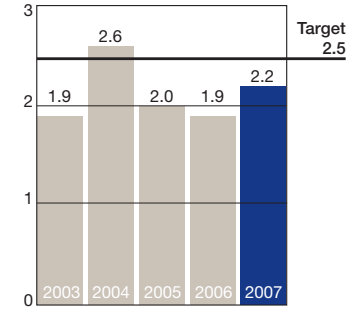


Investments, %

Target: 2.5 percent of sales.

This investment level creates scope for replacement investment and an expansion of capacity in line with organic growth for the Group's existing core products. During 2007, investments accounted for about 2.2 percent of sales.

To meet the rising demand for the Groups' products more effectively, it is estimated that the investment level in 2008 will be approximately 3 percent. The assessment is that thereafter the long-term target of 2.5 percent will be attained.



Three areas for profitable growth

ALFA LAVAL'S GROWTH GOAL is to grow at an average 5 percent annually over a business cycle. The basic approach is to grow faster than the market, with growth accompanied by favorable profitability. Overall growth in the underlying markets in which Alfa Laval is active is expected to increase at a rate equal to the average global GDP growth. By working systematically in the three areas noted below, Alfa Laval will continue to attain profitable growth and strengthen its market positions.

1. Current products and services

The quality of Alfa Laval's products is high. Combined with the company's strong market positions and the customer-focused sales organization, this offers good prospects for the current products to continue to be the key part of the company's future profitable growth. In addition, the R&D organization is continually improving the product range to boost its competitiveness. The proximity of the company's organization to the market in various segments simplifies and enhances the effectiveness of the customer dialog. Read more about Alfa Laval's research and development on page 20.

2. Aftermarket

One of the most important overall strategies for Alfa Laval is to continue to develop and expand the aftermarket, that is, the sales of spare parts and service. This provides customer benefits, enhances closer customer relations, provides favorable profitability and is less sensitive to economic fluctuations. Creating continuous customer contact also provides added support to new sales.

The age of the installed base differs depending on what part of the world the product is located. In general, the products are older in Western Europe and the US and younger in Central and Eastern Europe as well as Latin America and Asia. Consequently, in pace with the growing age of the installed base in the rapidly growing countries, the growth potential of the aftermarket is expanding in these markets. Customers in the western world tend to be more receptive to outsourcing the maintenance of their equipment to professional service companies such as Alfa Laval. Accordingly, the company's product offering to develop the aftermarket has expanded and service agreements in particular are playing an increasingly important role (see pages 32-33 for more information).

3. New market concepts and key products

Alfa Laval constantly seeks new ways of assisting customers to optimize their processes. This involves identifying requirements as well as problems from the customer's perspective. Two good examples of this are Pure Ballast, a completely new product for cleaning ships' ballast water – which is a growing environmental threat; and Alfdex, an innovative solution for cleaning crankcase gases from diesel engines.

The identification and addition of complementary products and new key products are also crucial growth factors that can further broaden Alfa Laval's offering, making the company a more comprehensive and valuable partner. Two excellent examples of this are the acquisition of the Finnish company Fincoil and the Dutch company Helpman during 2007, both with strong regional market positionsin the cooling industry in Europe, with air heat exchangers as the largest product.

Selected market segments	Comfort & Ref.	Marine & Diesel	OEM	Fluids & Utility	Sanitary	Food	Energy & Envir.	Process Industry	Life Science
Heat transfer	●	●	●	●	●	●	●	●	●
Separation		●	●	●	●	●	●	●	●
Fluid handling	○	○	○	○	●	●	○	○	●

The solid circles show the segment in which Alfa Laval's products are currently sold. The empty circles show the segments in which Alfa Laval's products were previously sold but for which the company made a strategic decision to dispose of operations.

Strategy for growth – geographically

Parallel with the focused product development and the expanded service concept, Alfa Laval develops new geographical markets to continue growth within the specified areas. This is an integral part of ongoing operations.

Strategy for acquisitions and alliances

Alfa Laval's business concept of optimizing performance in customers' processes, time and time again, is the obvious base for the company's acquisition and alliance strategy. This means that Alfa Laval shall pursue acquisitions and alliances:

- that strengthen existing key technologies
- that involve key products
- that involve supplementary products that complement current products and strengthen the offering in customer segments.

Alfa Laval has a special central function – Corporate Development – to facilitate work involving acquisitions and alliances in a systematic and efficient manner. Alfa Laval has the requisite financial strength and management resources to expand via acquisitions.

Toward the leading position in air

The market for heat transfer is large, The total value is estimated at about SEK 75 billion. Alfa Laval holds the leading position in plate heat exchangers, a position it does not hold in air heat exchangers. Two years ago Alfa Laval established the goal of becoming number one also within the market for this heat transfer product.

Alfa Laval estimates that the market for heat exchangers in Europe is SEK 5.5 billion. The global market is more difficult to assess. It is approximately at least twice as large.

When Alfa Laval decided to be leading in air heat exchangers, the company had sales of this product of about SEK 200 M, with a solid position in southern Europe, but had difficulty in becoming strong north of the Alps. Growing organically with own product development would not be sufficient to achieve the leading position – primarily, it would take a very long time. Accordingly, parallel with product development Alfa Laval examined the possibilities of growing through acquisitions.

During 2007, growth within air heat exchangers took a couple of interesting strides forward through two attractive acquisitions. First, the Dutch company Helpman was acquired, with sales of slightly more than SEK 200 and a strong geographic position in central Europe, Thereafter, Finnish Fincoil was acquired, with sales of SEK 375 M and a strong geographic position in northern Europe, including the Baltic States and Russia.

This means that annual sales of air heat exchangers is now about SEK 1 billion and that Alfa Laval strengthened its position in Europe – a position that the company is developing further.

Air heat exchangers for the refrigiration industry in Europe	
Jan. 1, 2007	**Jan. 1, 2008**
1. Günther, Germany	1. Günther, Germany
2. GEA, Germany	2. Alfa Laval
3. Luwe, Italy	3. GEA, Germany
4. Alfa Laval	4. Luwe, Italy

Acquisitions and divestments 1999 – 2007

Between 1999 and 2007, Alfa Laval acquired 16 companies or units with overall sales of about SEK 3,730 M. This represents an average annual growth of SEK 414 M . During the same period, eight companies/units with overall sales of SEK 1,085 M were divested. Divestments have been radically reduced in recent years and are expected to continue to remain at a very low level, since all units in the Group are currently part of core operations.

Year	Company	Reason*	Sales, SEK M**
1999			
Acquisitions:	Vicarb Group, France	Product	425
	Scandibrew, Denmark	Product	70
	Kvaerner Hetland, U.S.	Product	50
	Dorr Oliver, U.S.	Product	125
Divestments:	Thermotechnik		50
	Cardinal		40
2000			
Acquisitions:	Separator division in Wytworna Sprzeta, Poland	Product	20
Divestments:	Tetra Pak division in an Indian company		50
	Aircoil		50
2001			
Acquisitions:	An additional 13 percent of share capital in Alfa Laval India.	Geography	Did not affect sales
Divestments:	Rema Control		70
	Industrial Flow		650
2002			
Acquisitions:	DSS, Denmark	Product	90
Divestments:	-		
2003			
Acquisitions:	Toftejorg, Denmark	Product/channel	210
	Biokinetics, U.S.		550
Divestments:	-		
2004			
Acquisitions:	-		
Divestments:	Tri-Lad		75
2005			
Acquisitions:	Packinox, France	Product	450
Divestments:	-		
2006			
Acquisitions:	Tranter, U.S.	Channel	900
	Fruit concentration, Sweden	Channel	45
	Tranter, China	Product	100
Divestments:	Biotechnology project transaction		100
2007			
	Fincoil, Finland	Product	375
	Helpman, Netherlands	Product	200
	DSO, U.S.	Geography	50
	AGC Engineering, U.S.	Geography	70
	Additional 13% of share capital in Alfa Laval India (total ownership 77%)	Geography	Did not affect sales
Divestments:	-		

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

**Refers to annual sales before acquisitions and divestments

Structural changes create continued growth

High energy prices drive the demand for efficient new solutions.

Increased demand for clean technologies.

Strong position in the BRIC countries.

Globalization increases seaborne transportation.

Alfa Laval sees continued possibilities for continuing growth based on structural changes in a number of areas.

The fundamental aspect is that a technological substitution is under way in which Alfa Laval's technology in heat transfer, the plate heat exchanger, is continuously replacing shell-and-tube exchangers. Alfa Laval estimates that this substitution contributes to increased sales of about an average of 1 percent annually.

In addition to this technological substitution, Alfa Laval see major possibilities for growth based on structural changes within four areas. The following pages describe Alfa Laval's potential for structural growth in the energy industry and energy-related sectors, environmental applications, increased seaborne transportation as a result of globalization and growth in what is referred to as the BRIC countries – Brazil, Russia, India and China, where Alfa Laval has built a strong position over many decades.

More than 40 percent of sales driven by a growing energy sector

Today, more than 40 percent of Alfa Laval's sales are to the energy industry and energy-related sectors. Sales are equally distributed between the Process Technology and Equipment divisions and the products are used in the extraction, processing and use of energy.

Alfa Laval has analyzed growth opportunities and has allocated greater resources to raise sales even more, notably in oil and gas production, biofuel, power generation, refining and petrochemicals as well as the important aftermarket.

Oil and Gas extraction – presence is increasingly important for the oil industry

Alfa Laval's compact and highly efficient products are playing an increasingly significant role in the extraction of oil and gas, for example oil drilling to ever-deeper depths. Obviously, a supplier of such equipment must have the right products. However, it has become increasingly important to have a presence wherever the end customers are located, since these are more frequently involved directly in procurement decisions.

Alfa Laval enjoys a considerable competitive advantage as a result of the company's presence with application-skilled personnel and service facilities in, for example, countries in the Middle East. Developing comparable expertise takes time.

One factor that is at least as important in competitiveness is Alfa Laval's global organization. It can coordinate projects for the global network that are based on current facilities in a manner that most competitors cannot match.

Weakening in very large oil and gas projects

LNG – liquefied natural gas – and GTL (Gas-To-Liquids) – are now major trends in the gas sector. LNG is an efficient manner of transporting gas, while GTL represents an entirely new approach to using gas.

The expansion of the extraction of gas for transport to other countries (LNG) has grown sharply in recent years. This has favored Alfa Laval, which has secured several major projects in the Middle East, which resulted in two of the company's largest orders to date. However, Alfa Laval does not foresee that any very large orders, exceeding SEK 100 M, will be placed the near future.

The most interesting development in the gas area involves GTL. Gas can now be developed into fluid products, such as vehicle fuel. Moreover, small gas sources that

Alfa Laval's compact and highly efficient products are playing an increasingly significant role in the extraction of oil and gas, for example drilling to ever-deeper depths.

were not previously economically viable to use are now becoming profitable. The major process and patent holders are Exxon and Shell. At year-end 2006, there were two pilot plants worldwide. At the same time there were 25-30 major projects on the drawing board. Qatar – a leading country in LNG – has stated that it also wishes to be a leading player in GTL. Alfa Laval's products are well positioned for GTL applications.

Refining and petrochemicals – capacity build-out continues

Major investments are currently in progress in the refining and petrochemicals sectors to expand capacity and boost efficiency of existing plants. There is also a new need for lighter fractions, which could drive plant modernization and new construction.

Alfa Laval's sales to refineries have grown from slightly more than SEK 1 billion in just a few years. The increase is primarily attributable to the acquisition of Packinox, which has had a dual impact. Packinox' good relations with refinery customers have facilitated increased sales of Alfa Laval's heat exchangers to the refining industry. The overall market for heat transfer products for the refining and petrochemical sector is estimated to be worth SEK 6 billion. Alfa Laval assesses that the favorable development within the refinery and petrochemical sector will continue in the years immediately ahead.

Power and heat production –unutilized potential

In the production of electricity and heat, Alfa Laval has essentially moved in pace with industry growth. However, Alfa Laval's ambition is to grow faster than the market. To achieve this, products are being adapted to the primary process, that is, the steam process. Alfa Laval is achieving this through the further development of existing technologies.

Alfa Laval believes that there is an attractive future market in electricity and heat production. The installed base of power plants is rather old. An average of some 75 percent of plants are more than ten years old and a 60 percent are more than 20 years old. Maintenance and the rebuild of existing facilities account for some 50 percent of investments in power generation.

Biofuel – market slowed during second half of 2007

Demand for biofuel has risen sharply in recent years. Growth is occurring in essentially all geographic markets. In the U.S., – which has had the highest growth – investment slowed sharply during the second half of the year, while investments in South America, primarily in Brazil, remained strong.

Bioethanol is produced mainly from corn and cane sugar, while biodiesel uses various types of oils as the raw material – such as rapeseed oil or palm oil. Alfa Laval's products are required in both processes.

Rapid market development is in progress in biofuel and the challenges for suppliers to the industry are to continually work towards process development. The major goal is to be able to use cellulose as raw material. The negative market development during 2007 – with rising raw material prices as a key factor ¬– resulted in the development toward cellulose accelerated. However, it is difficult to foresee when this technology will be commercialized.

Alfa Laval's sales to the biofuel market in 2007 amounted to about SEK 1.4 billion. Alfa Laval estimates that this figure will decline substantially in 2008.

Aftermarket – increasingly greater part of aftermarket sales from energy industry

Alfa Laval's sales to energy market results in an increased focus on the aftermarket in the industry. One approach is to increase training efforts for energy applications, another is that the number of service centers is increasing, with a special emphasis on geographic areas with a high proportion of energy-related industries. Naturally, such an area is the Middle East, where a new service center was inaugurated at the end of 2007.

Based on the strong new sales to energy-related industries in recent years, Alfa Laval considers that the growth possibilities for the aftermarket in this sector has strengthened significantly in recent years.

In the production of electricity and heat, Alfa Laval has the ambition to grow faster than the market. Therefore, the company's products are being developed to be used in the primary process.

Clean technologies safeguard the environment and cut costs

Environmental issues are becoming increasingly prominent – both in the political sphere and as a topic in everyday conversation. The major question is the greenhouse effect and constantly rising carbon-dioxide emissions. For several decades, Alfa Laval's products have contributed to environmental benefits and cost savings, thanks to efficient processes. Today, these twofold gains from the company's products are more relevant than ever. From the cost viewpoint, rising trade in emissions rights is also gaining significance for global industry.

Superior technology cuts carbon-dioxide emissions

Products and systems designed to recycle heat comprise one of Alfa Laval's major applications in reducing environmentally hazardous emissions by customers. Alfa Laval's products utilize waste heat initially produced in the process for other downstream process applications. The company's compact plate heat exchangers permit the recovery of some 95 percent of heat – representing a 30 percentage point efficiency increase compared with competing technology, namely, shell-and-tube heat exchangers.

For industries such as refineries and power production, Alfa Laval's products and solutions for heat recovery have very great importance in the form of reduced energy use among other aspects.

For such industries as refining and power production, heat recovery is key factor in the form of reduced energy utilization. By cutting energy consumption by 1 MW, a customer saves some SEK 2 M in lower fuel consumption (970 tons) and SEK 300,000 in emission rights (2,500 tons of carbon dioxide).

By using a compact plate heat exchanger from Alfa Laval (Compabloc) instead of conventional technology (shell-and-tube), an average refinery can cut its emissions by some 30,000 tons annually.

Repaid in five months

A Swiss refinery installed Compabloc in its process and achieved fuel savings of SEK 32 M and reduced the cost of emissions rights by SEK 8 M already during the first year. The payback time for the investment was about five months.

Overall, Alfa Laval has installed some 15,000 Compabloc heat exchangers, of which 5,000 were for heat recovery. Combined, these units made an aggregate contribution to reducing carbon-dioxide emissions by some 12 million tons – corresponding to total emissions from all passenger cars in Sweden over a year!

Major potential

Alfa Laval sees considerable potential for this application in the future. Adding to the efficiency of global industrial processes in an effort to reduce carbon-dioxide emissions is a structural change that Alfa Laval expects will continue for many years ahead. Consequently, products such as Compabloc are deemed to offer tremendous potential. A full 95 percent of all prospective customers continue to use traditional technology based on shell-and-tube heat exchangers.

To develop even more efficient products for this highly attractive market, Alfa Laval is investing major resources in R&D in this particular area. During the past years, the resources earmarked specifically for this application have been increased threefold.

A bridge to fresh water

Globalization is driving the use of seaborne transport. The marine market has grown sharply over the past three years, accounting for 18 percent of Alfa Laval's total order intake in 2007. Many of these applications are direct environmental applications in pace with the growing threat to the world's oceans from, for example, the release of bilge water from vessels, the movement of ballast water across the world's oceans and direct emissions from vessel engines. Overall, the company believes that Alfa Laval has some sort of product on three out of every four ocean-going vessels.

Pure Thinking – with the environment in mind

Alfa Laval has combined a number of its products for the marine market within a marketing concept designated "Pure Thinking." Three of these are presented below: cleaning of ballast water, production of fresh water and cleaning of bilge water.

Ballast water, a growing environmental threat – and a potentially vast market

Ballast water onboard vessels is a major and growing environmental problem. Vessels that carry ballast water across the oceans also transport various organisms, animals or plants that have no natural enemies and can thus reproduce rapidly. Shipping lines are seeking a solution that is compact, does not require chemicals and can operate throughout a vessel's service life. Alfa Laval has developed a product in cooperation with WALLENIUS Water. The solution is based on a patented, advanced ultraviolet technology that kills all organisms in the water. The equipment can be tailored in line with vessel size, and the clean water can be pumped directly into the sea. Alfa Laval secured its first orders for the product in 2007. The market for the product is expected to be worth as much as SEK 1 billion annually and Alfa Laval aims to take the leading position in the industry.

Pure Water – fresh water on board – without chemicals or other emissions

Alfa Laval's on-board generators for fresh water use waste energy from the vessel's engines in their production process. The product does not require chemicals and does not produce any environmentally hazardous emissions. Each year a vast amount of water is produced in this environmentally friendly manner via Alfa Laval's products. The company estimates it has installed this product on some 60,000 vessels and each freshwater generator produces some 5,000 cubic meters of water annually.

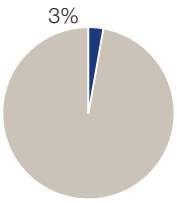
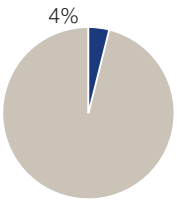
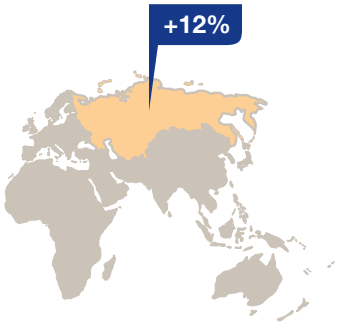
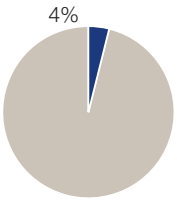
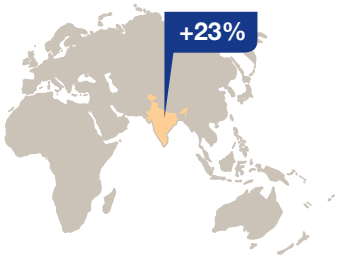
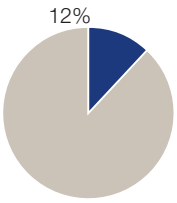
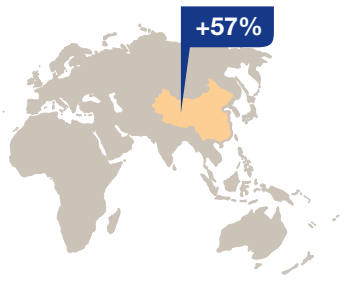
Pure Bilge – bilge water from the engine room is cleaned efficiently and made environmentally compatible

A good deal of wastewater collects at the bottom the vessel's engine room. This is contaminated in various ways, particularly by various types of oils and fuel. To date, the practice has been to pump this water straight back into the sea. However, current legislation states that this water must be purified down to a level of 15 ppm (particles per million liters).

Alfa Laval's solution is based on the company's high-speed separator technology, which means that the vessel does not need to use chemicals or filters and even the tiniest drop of oil is removed. The product is highly efficient and effective and meets legislative requirements by a wide margin.

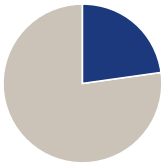
Globalization is driving transports to sea and the marine market is important for Alfa Laval. Many of the company's products to this market are direct environmental applications, for example cleaning of ballast water.

Continued highly strong growth in fast-growing markets

COUNTRY	SHARE OF GROUP ORDER INTAKE	PERCENTAGE INCREASE IN ORDER INTAKE IN 2007
BRAZIL **Presence:** since 1959. 130 employees in sales, service and manufacturing. Network of agents and distributors to ensure that the company's products and services reach potential customers. **Order intake:** About SEK 825 (550) M. Brazil has considerable natural resources. Consequently, it is only logical to expect the Process Technology Division to account for most of the order intake. There is a substantial installed base, offering major potential for continuing favorable growth in the aftermarket.		
RUSSIA **Presence:** since 1903. 285 employees in sales, services and manufacturing. Production is conducted outside Moscow. Alfa Laval has 13 regional sales offices ranging from Murmansk to Vladivostok. **Order intake:** About SEK 1,010 (900) M. With a large installed base that is growing rapidly, along with the focus on a greater presence, the prospects of increasing the aftermarket are highly favorable.		
INDIA **Presence:** since 1937. Alfa Laval holds a 77-percent interest in a company listed on the Mumbai Exchange. 1,265 employees in sales, service and manufacturing in Pune, where products in all three technologies are manufactured. **Order intake:** About SEK 1,050 (850) M. The Process Technology Division accounts for the greater share. Both the Equipment Division and the aftermarket have grown sharply in the past year.		
CHINA **Presence:** since 1984. 800 employees. Two wholly owned production plants for the manufacture of products in all three technology areas. **Order intake:** SEK 3.3 (2.1) billion. China is Alfa Laval's second largest market. Order intake is well balanced between the two sales divisions. The aftermarket has expanded sharply, thanks to the growing installed base and rising customer service requirements.		

The "BRIC" countries – Brazil, Russia, India and China – are four large and rapidly growing economies whose GDP growth exceeds the world average. China and India have been driving forces in global growth in recent years.

Alfa Laval has had a presence in these countries for a number of decades. High growth rates in the BRIC countries means that they now account for an ever-increasing share of the Group's total order intake. In 2007, their share of order intake advanced from 18 to 23 percent. Alfa Laval has been selective in its ventures, thus expansion in these countries contributes to the Group's overall goal of attaining growth accompanied by profitability.



The BRIC countries account for about 23 percent of Alfa Laval's sales.

MARKETS IN FOCUS

Biofuel and oil extraction

The ethanol program in Brazil commenced in the 1970s and output has progressed from one million liters to 16 billion liters annually, making ethanol a major export product. Biodiesel is a new trend in Brazil and investments are now in progress, especially in various refinery processes.

The state-owned oil company, Petrobras, pursues continual investment programs and is a key customer for Alfa Laval. New oil discoveries suggest a rising level of activity can be expected in this area.

The world's most extensive district heating system

Russia is a major player in district heating. Some 70 percent of the population lives in housing connected to district heating and 40 percent of the total energy consumption derives from district heating. The current systems are obsolete and very inefficient.

Other attractive industries for Alfa Laval are refining, brewing and power generation, notably nuclear power. The Winter Olympics in 2014 will be held in the Russian city of Sochi, which is expected to entail new investment programs.

Migration into major cities – an urgent environmental problem

Currently, 340 million people live in the cities. In ten years time, this figure is expected to be 430 million. The authorities have drawn up an environmental plan that earmarks USD 11 billion for environmental programs in 65 cities, of which USD 1.5 billion will be expended on municipal wastewater treatment systems.

Another attractive sector for Alfa Laval is renewable fuel, an area in which development is driven by legislation mandating a minimum 10 percent of renewable fuel in vehicles.

The Indian brewing industry is expected to grow at a rate of some 20 percent in the foreseeable future.

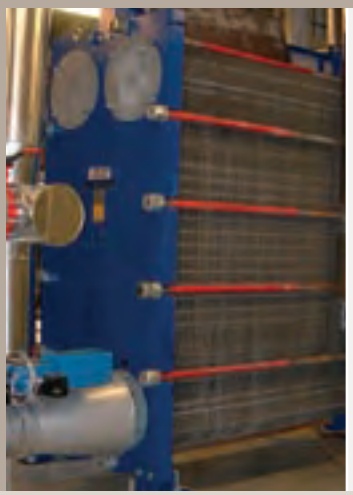
Marine market moving to the East

In 1970, 50 percent of the world's ships were built in Europe and 40 percent in Asia. Today, 70 percent is built in Asia. China is already number one worldwide, both in terms of the number of vessels and tonnage. Alfa Laval has had a presence in the marine market in China since 1960 and has a leading position in all key technologies. During the past two years, output in China has increased in the form of separators and tank-cleaning products for marine applications.

Other attractive industries for Alfa Laval are nuclear power, waste management and brewing.

Three basic technologies with leading global positions

Heat transfer



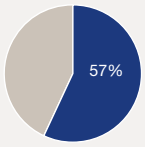
KEY TECHNOLOGIES	SELECTED MARKET SEGMENTS	COMPETITORS
Heat transfer	Comfort & Refrigeration ●	Plate heat exchangers • GEA (Germany) • Hisaka (Japan) • APV (U.K.) • SWEP (U.S.)
	Marine & Diesel ●	
	OEM ●	
	Fluids & Utility ●	
	Sanitary ●	
	Food ●	
	Energy & Environment ●	
	Process Industry ●	
	Life Science ●	

Market position

1

More than 30 percent of the world market

Share of Group's new sales in 2007



Separation

SELECTED MARKET SEGMENTS	
Comfort & Refrigeration	
Marine & Diesel	●
OEM	●
Fluids & Utility	●
Sanitary	●
Food	●
Energy & Environment	●
Process Industry	●
Life Science	●

High-speed separators
- GEA (Germany)
- Mitsubishi Kakoki Kaisha (Japan)
- Pieralisi (Italy)

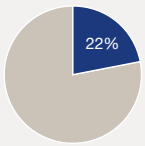
Decanters
- GEA (Germany)
- Pieralisi (Italy)
- Guinard/Andritz (France, Austria)
- Flottweg (Germany)

Market position

1

25-30% of the world market

Share of Group's new sales in 2007



Fluid handling

SELECTED MARKET SEGMENTS	
Comfort & Refrigeration	
Marine & Diesel	
OEM	
Fluids & Utility	
Sanitary	●
Food	●
Energy & Environment	
Process Industry	
Life Science	●

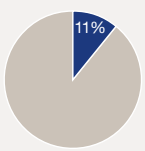
Sanitary fluid handling
- GEA (Germany)
- APV (U.K.))
- SPX/Waukesha Cherry Burrell (U.S.)
- ITT Industries (U.S.)

Market position

1

10-12% of the world market

Share of Group's new sales in 2007



Alfa Laval's operations are based on three key technologies – heat transfer, separation and fluid handling, all of which are of crucial significance for many industrial processes. Heat transfer products accounted for 57 (51) percent of new sales in 2007, separation products for 22 (25) percent, and fluid handling products for 11 (12) percent. The remainder – product purchases and consulting – accounted for 10 (12) percent.

Alfa Laval is the global leader in all three technology areas. The strongest position is in plate heat exchangers, with an estimated market share of more than 30 percent. The combined market share for separators and decanters is estimated to be 25-30 percent, with fluid handling accounting for a global market share of 10 percent.

DESCRIPTION

Various technologies for heat transfer are used in most industrial processes for heating, cooling, freezing, ventilation, evaporation and condensation of fluids. As a result of the numerous applications, there are many customers in the chemical, food processing, oil and gas production, power generation and marine industries and for temperature control and ventilation of buildings.

Decisive significance

A heat exchanger transfers heating or cooling from, for example, one fluid to another. The products are of decisive significance in ensuring the efficiency of the entire manufacturing process. In many cases, they offer a far more efficient energy utilization, with lower costs and minimum environmental impact. The main products in Alfa Laval's product range are compact plate heat exchangers.

Plate heat exchangers

Plate heat exchangers are made up of a series of corrugated plates assembled close to each other. Between the plates there are two channels with a cold and a warm medium. These pass on each side of the plates and in opposite directions to each other. Heating or cooling is transferred via the plates. Gasketed plate heat exchangers are sealed with rubber gaskets. Brazed plate heat exchangers have been developed to cope with higher pressures and temperatures. Welded plate heat exchangers have been developed to handle even higher pressures and temperatures.

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

Wide-ranging application area

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

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

High-speed separators and decanter centrifuges

Alfa Laval's products in centrifugal separation are dominated by high-speed separators and decanter centrifuges. Separators with high rotation speeds are used primarily for separating liquids from each other. Decanter centrifuges are normally based on horizontal separation technology and work at slower speeds. They are used, for example, in dewatering sludge in wastewater treatment plants. A third separation product is membrane filtration, which is the established solution for separating very small particles.

Transporting and regulating fluids in an efficient and safe manner are crucial processes in industry. In recent years, Alfa Laval has focused on sanitary fluid handling, in which hygiene requirements are stringent.

Providing exact flows

The company's pumps, valves and installation material are used in fluid handling in such applications as the production of beverages, dairy products, food, pharmaceutical products as well as health and personal care products. Among other applications, the products are used to attain exact pumping of all type of fluids in sanitary applications. Customers often integrate many of Alfa Laval's products for fluid handling into their systems, and thus, continually require product deliveries.

Products for sanitary applications

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

Continued investment in markets with structural growth

ALFA LAVAL'S BRAND has been associated with innovation for more than a century. Today's research and development is continuing along the same lines and focuses on future technical solutions for today's as well as tomorrow's markets. In recent years, the development of new products ands services has focused on areas in which Alfa Laval has seen structural growth, such as energy and the environment and special applications for the rapidly growing economies.

An ongoing and consistent focus on research and development (R&D) has been crucial in building, strengthening and developing the company's global market leadership. Total R&D expenses in 2007 amounted to SEK 643 (526) M, or 2.6 (2.7) percent of the Group's total sales. Each year Alfa Laval launches 35-40 new products as well as a similar number of product improvements. The company has more than 200 patents on proprietary products.

Product improvements and intelligent functions

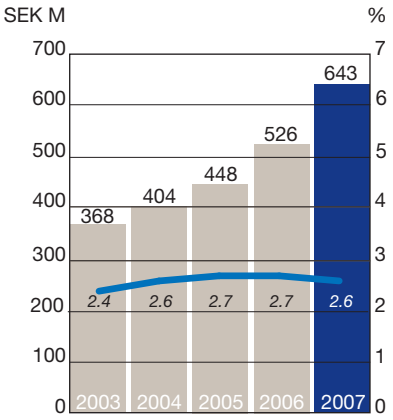
The basis for the Group's research and development is a long-term approach to basic research and applied development, focusing on heat transfer, separation and fluid handling. To remain competitive, products are updated and improved in pace with changes in customer demands and requirements. These frequently involve relatively small changes that offer the potential for major improvements for customers. To increase market potential in current operations, the product range is being broadened with the inclusion of products for other capacities, pressure levels and temperatures. Alfa Laval also develops product versions in new materials, automates and incorporates intelligent functions in products.

Skilled product centers shorten development times

With five specific product centers and about 290 employees working across function borders, the organization can prioritize and concentrate its resources on fewer activities. The product centers combine the development and technology know-how with the expertise within various applications. The result is products that reach the market fasters and with the promised customers value.

The overall goal is secure Alfa Laval's leading positions through being the first on the market with innovations and to attain product profitability in the shortest possible time. For Alfa this is a structured process that starts with an idea, which is then developed through different phases before being launched and finally the new product achieves its sales targets.

R&D costs
and percentage of net sales



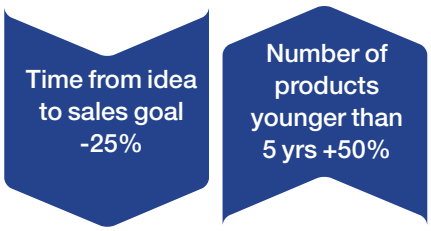
Distinct goals for new products

During 2007, Alfa Laval established two goals for its product development.

Compared with today, the time from idea to achieving sales targets shall be reduced by 25 percent by 2009. At the same time the number of products younger than five years shall increase by 50 percent.

Already in 2008, Alfa Laval plans to increase the number of new products by 30 percent compared with 2007. Own development of products is the most important way to improve and develop the product range. Nevertheless, rapid access to a market can also be attained through an acquisition or alliance.

Distinct goals for new products



Examples of products launched in 2007

Heat transfer

Gasketed plate heat exchangers

A more cost-efficient product series

Frontline 10 is an update of an existing product series for the food industry. To minimize higher materials costs, an entirely new frame has been developed that is more cost-efficient.

Supplementing the comfort cooling range

TL35-B is part of Alfa Laval's broad range for comfort cooling. The TL35-B combines the demands for high capacities, precise temperature control, compactness and an high heat utilization

First product in a new plate family

Compact, good heat utilization and available in a number of different material combinations makes it excellent for use in various processing, industrial and marine applications.

Copper-brazed plate heat exchangers

More compact solution

The latest product is part of an entirely new series of heat exchangers intended for hot-water heaters. The new design optimizes the heat-transfer surface, resulting in more compact and cost-efficient solutions.

New heat exchanger for new cooling media

The air-conditioning industry is undergoing a change toward more environmentally sound cooling media. The product is part of a new series of heat exchangers designed specifically for the R410A cooling medium. It handles larger capacities and higher operating pressures than earlier products of the same size.

Separation

Prioritizing products for the energy industry

In addition to the focus on products for production of renewable fuels, special interest has been shown for crude oil in which Alfa Laval has expanded its range of separators to be able to offer products to a broader range of projects.

New range for the marine industry

Alfa Laval has a new range of modules for the important marine business that offer greater flexibility and more possibilities to select the right product for the vessel. More configurations can be selected, which means faster and more exact service and support from Alfa Laval

Larger products for biotech industry

Customers within the biotech industry are increasing their production and are demanding increasingly more efficient products. Alfa Laval's customized range of separators have gained an even more high-efficiency product as a result of the which the industry achieves even higher capacities. The market has already shown high interest in the new product.

Fluid Handling

Expanded global platform for unique valves

All the valves are being launched in the sanitary market for dairy products, beverages and foods, all of which have very stringent hygiene and safety standards.

Regionally adapted pumps to meet Chinese demands

A broad range of centrifugal pumps with regional adaptations have been launched to increase competitiveness on the sanitary market in China.

Expansion of platform for new tank-cleaning products

Two new versions of cleaning chemical tanks in the marine segment.

Linyi turns soybean waste into valuable treasure

Linyi Shansong Biological Products, located in Linyi in south Shandong Province in China, has become a key company in the development and production of soy protein in and outside China.

In the space of just a few years, the company has become the major Chinese producer of soy-based functional foods and ingredients for food production based on soybeans.

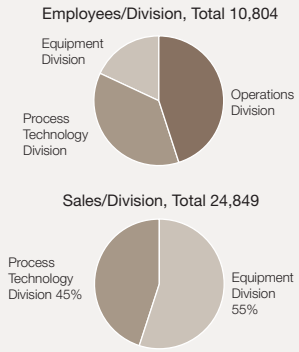
Linyi's production plant is a key reference for Alfa Laval's efforts in China and other countries. The company has established a strategic partnership with Alfa Laval, whose deliveries consist of decanter centrifuges, high-speed separators, and products for fluid handling and membrane filtration systems.

The membrane systems are used to treat whey from soybeans and the process is viewed as an environmental success. In China, the whey is frequently dumped or treated as waste, with serious implications for the environment.

"In principle, nothing is lost in our soybean processing system. We have turned the waste into a highly valuable treasure," explains Zhang Lifeng, Chief Engineer at Linyi Shansong.

THE GROUP

Alfa Laval is organized on the basis of three divisions: one that produces and supplies the company's products, the Operations Division, and two that market and sell the products, the Equipment Division and the Process Technology Division. The two sales divisions are divided up into nine market segments, permitting the company's sales personnel to work closely with customers in specific industries.



SALES

Equipment Division

The Division's customers have a well-defined and regularly recurring requirement for Alfa Laval's products. Sales are conducted mainly to customers other than end users, meaning system builders and contracting companies, as well as to dealers, agents and distributors.

Since it is strategically important that products are available worldwide, the Division is continually increasing the number of sales channels. The strategy is to retain and strengthen global market positions, and to identify new applications for products in areas with good growth potential.

The Division works in five market segments: Sanitary, Comfort & Refrigeration, Marine & Diesel, Fluids & Utilities and OEM plus the aftermarket segment, Parts & Service.

SIGNIFICANT EVENTS IN 2007

- Sales increased 24 percent to SEK 13,586 M.
- High energy prices were a driving force in the demand for compact heat exchangers in, for example, district heating, air conditioning and heat pumps.
- High levels of shipbuilding for the fifth consecutive year resulted in a continuing strong order intake for Marine & Diesel.
- A good investment climate in the food industry resulted in high demand for sanitary components for production and cooling.
- The aftermarket continued to show stable growth.

Process Technology Division

The Division serves customers that require specially adapted solutions to boost their process efficiency. Sales are conducted mainly through the Group's own sales companies.

Alfa Laval combines expertise in its key technologies with solid know-how of customer processes, and offers package solutions that cover everything from individual products to systems, complete solutions and efficient customer service.

The Division is organized on the basis of four customer-oriented segments: Process Industry, Energy & Environment, Food Technology, and Life Science, as well as the aftermarket segment, Parts & Service.

- Sales rose by 27 percent to SEK 11,242 M.
- Continuing powerful growth in the power, refining and petrochemicals industry and inorganic industries.
- The sizeable oil and gas-related projects secured in 2005 and 2006 were not repeated. However, growth was favorable for base transactions and mid-size projects.
- A robust beginning to the year in biofuel was following by a definite decline.
- The Food Technology segment reported sharp growth in a number of areas, primarily in the brewery sector and for the extraction of Omega 3.
- The biotechnology industry increased its investment pace, resulting in favorable growth in 2007.

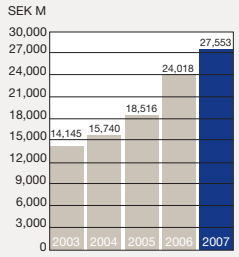
PURCHASING, PRODUCTION, DISTRIBUTION

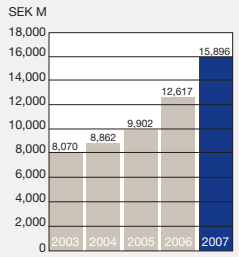
Operations Division

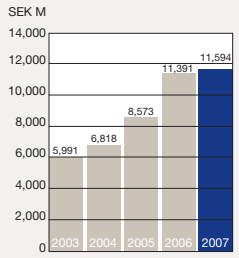
The Division is responsible for production purchases, manufacturing and logistics. Centralization creates optimum delivery reliability, increased productivity and reduced energy costs, that is, the utilization of economies of scale. With a global perspective and coordination of these functions, Alfa Laval offers reliable access to the company's products worldwide.

- Continuing investments in production as part of efforts to meet higher order intake.
- Investment continued in China and India to expand production capacity and to enhance the company's presence in these regions.
- About 70 percent of production units have installed Lean Six Sigma corresponding to 88 percent of delivered value.
- Successful integration of Helpman.

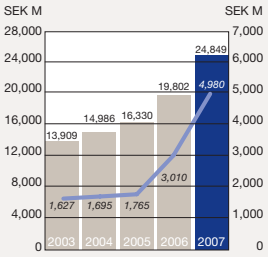
ORDER INTAKE

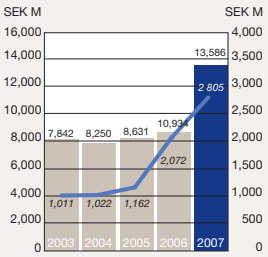


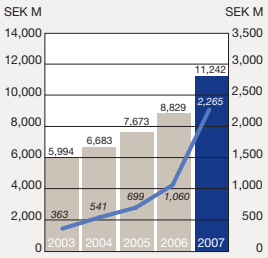




NET SALES AND OPERATING RESULT*

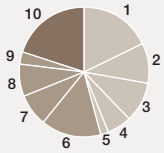




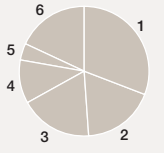


*Adjusted EBITA

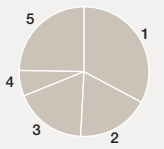
ORDER INTAKE/ CUSTOMER SEGMENT



1	Marine&Diesel	18 %
2	Sanitary	10
3	Comfort&Refrigeration	10
4	OEM	6
5	Fluids&Utility	2
6	Process Industry	15
7	Energy&Environment	8
8	Food	8
9	Life Science	3
10	Parts&Service	20

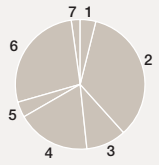


1	Marine&Diesel	31 %
2	Comfort&Refrigeration	18
3	Sanitary	18
4	OEM	11
5	Fluids&Utility	4
6	Parts&Service	18

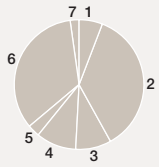


1	Process Industry	33 %
2	Energy&Environment	18
3	Food	18
4	Life Science	6,5
5	Parts&Service	24,5

ORDER INTAKE/ GEOGRAPHIC MARKET



1	Sweden
2	Other EU
3	Other Europe
4	North America
5	Latin America
6	Asia
7	Other



1	Sweden
2	Other EU
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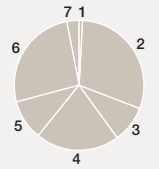
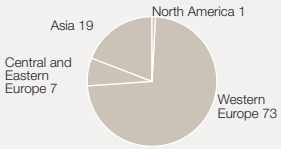
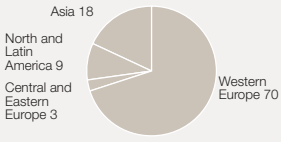


1	Sweden
2	Other EU
3	Other Europe
4	North America
5	Latin America
6	Asia
7	Other

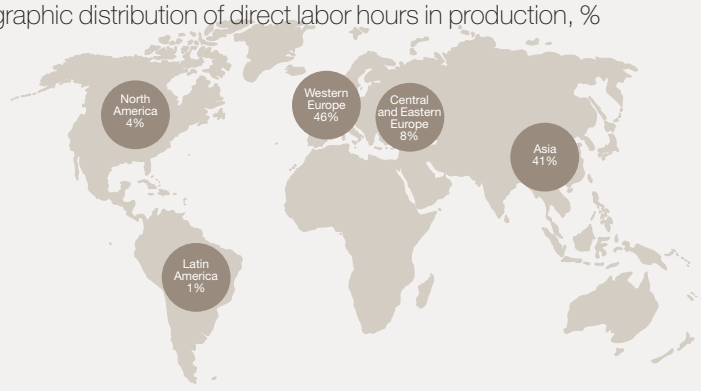
Investments by geographic market, %



Purchases by geographic market, %

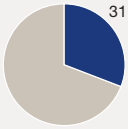
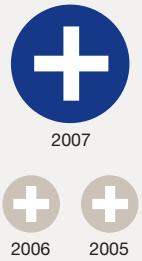
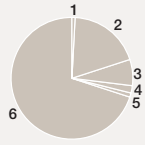
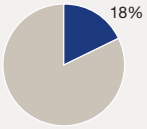
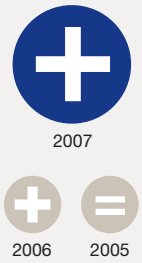
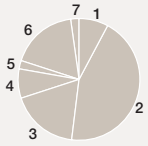
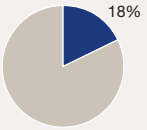
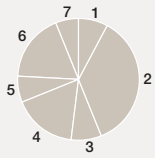
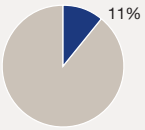
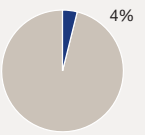
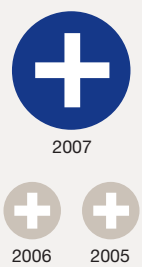
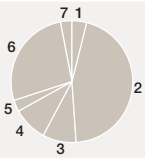
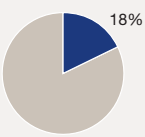
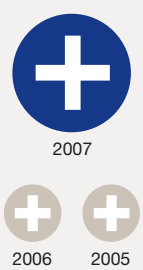


Geographic distribution of direct labor hours in production, %



Continuing robust growth in marine, dairy and industrial cooling

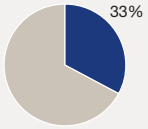
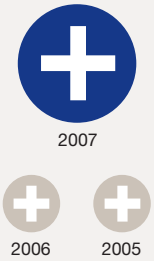
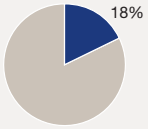
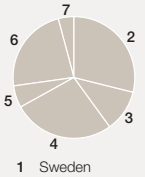
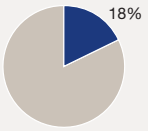
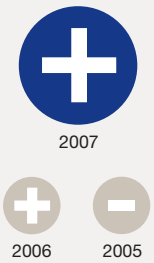
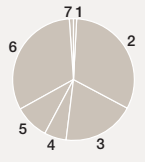
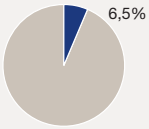
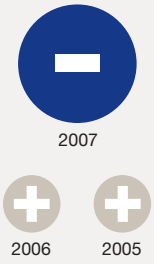
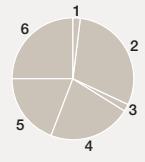
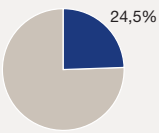
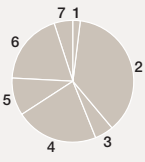
Market segment	Development in 2007
Marine & Diesel 	**Continuing expansion, notably in China** Expansion in the global marine industry continued unabated. China and Korea are winning market shares from the other shipbuilding nations. Entirely new markets are also emerging, such as Turkey and Vietnam. Turkey is now one of the major marine industry countries in Europe. The market for the building of diesel engines showed solid growth. Alfa Laval's largest customer, Wärtsilä, reported extremely favorable order intake, with a sharp impact on growth in order intake for the diesel segment. Efforts aimed at approaching the Chinese market continued. During the year, module manufacture of separators and fuel-oil modules for the entire Asia market was established. The Pure Thinking environmental platforms for environmental products for the marine industry began to show results during the year. More than 100 units of the PureVent product (solutions for cleaning crankcase gases) and 25 units of PureBallast (cleaning of ballast water) were sold.
Comfort & Refrigeration 	**Cooling – new hot area** During the year, the product line was supplemented with two acquisitions in the area of air cooling. The new, comprehensive product platform has made a major contribution to Alfa Laval being able to report sharp growth in the "Cooling" area. Despite a slowing pace in the construction industry in the U.S., 2007 was a record year for the segment in the North American market resulting in the winning of a number of major cooling projects. The construction boom continued in the Middle East, and Alfa Laval's solid market position contributed to the continuing high order intake. During 2007, the company's position was consolidated in the Russian market, both in the rapidly growing cooling area and in the extensive area of district heating.
Sanitary 	**Structural investments create business opportunities** The continuing positive business climate resulted in yet another strong year for the segment. From the geographic viewpoint, growth was notably high in Asia, Eastern Europe and Latin America. The BRIC countries (Brazil, Russia, India and China) continue to grow in significance for the segment. Continuing consolidation and structurally based investments in the dairy industry made a positive contribution, resulting in deliveries to major projects. Several attractive projects were secured from the dairy industry, in which Alfa Laval's strategic partner, Tetra Pak, continues to strengthen its positions. The cosmetics and pharmaceuticals industry also showed a sharp increase in order intake. The highest growth is expected in the pharmaceuticals industry in general throughout Asia, where Alfa Laval's presence and focus on working with sales channels have provided results.
OEM (Original Equipment Manufacturer) 	**All areas expanded rapidly** All three customer areas "Industry," "Air Condition/Heat Pump" and "Engine" showed a strong order intake. Alfa-Laval's production capacity rose throughout 2007 as part of efforts to meet the increasing demand. Growth for heat pumps is driven by the increasing environmental demands. From previously being a Scandinavian trend, demand is rising in other markets. Increased focus on smaller customers continues to yield success and a number of new customers began to buy products from Alfa Laval. The Engine segment grew sharply and, thanks to a broad product program, Alfa Laval has managed to increase shipments to existing customers. Plate heat exchangers represent a new technology in this area and is gaining increasing acceptance.
Fluids & Utility 	**Continuing robust growth in several markets** The segment has seen continuing solid growth in most geographic markets, with particularly the Nordic region, Germany, Italy, India and China expanding better than in the preceding year. In particular, markets for plate heat exchangers powered growth, with higher order intake from machine and system designers, for example. The segment's prioritization of superior and more efficient market coverage resulted in continuing profitable growth. Also, the segment's continuing focus on the hydraulics market provided favorable results. A continuing important activity is the supply to the metal-working industry of new user-friendly separation systems for such applications as cutting fluids cleaning through the sale of the Alfa Pure range. In the case of smaller separation systems, the segment has focused on the further development of cooperation agreements with external parties, resulting in superior market coverage and continuing favorable growth.
Parts & Service (Aftermarket) 	**Attractive progress in Russia** The aftermarket continued to expand in all segments and geographic regions. The high-growth, emerging countries showed attractive development trends, with Russia showing particularly sharp growth. Alfa Laval's well-developed service network represents a major competitive advantage, favoring both new sales and the aftermarket. The key marine segment displayed excellent growth, thanks to such factors as a "Harbor support" product, which entails that Alfa-Laval boards vessels and inspects separators and heat exchangers as part of preventive service programs. Comfort & Refrigeration also reported favorable growth, with the maintenance of district heating and district cooling as the primary products.

Share of the Division's order intake	Change in order intake[1]	Geographic distribution (order intake)	Operations
		 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Others	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 fresh water. Customers are shipyards and manufacturers of diesel engines. About two thirds of the world's vessels carry some Alfa Laval products onboard. The customer list includes Hyundai, Hun Dong, Fincantieri, Wärtsilä and MAN/B&W.
		 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Others	Heat exchangers are sold primarily for use in systems for district heating and cooling, air conditioning of plants, offices and shopping malls. Other major application areas are maintaining refrigeration and freezing compartments and ice rinks at the correct temperature. Customers range from major multinational companies to small local installation companies. Examples of customers are Climespace, York, Mycom, Bejer Ref and Hurre. Eastern Europe, with its extensive district heating systems, is an important growth market.
		 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Others	Alfa Laval's products are used to produce liquid and viscous foodstuffs, pharmaceuticals and hygiene products. Customers are active in the beverage, dairy, food, pharmaceutical and biotech industries – all of which have very stringent requirements in terms of hygiene and safety. The largest customer is Tetra Pak, a leading supplier of process and packaging systems for the food industry.
		 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Others	Customers in the segment include manufacturers of air-conditioning systems, air compressors, air dryers, diesel engines and gas boilers. Customers integrate Alfa Laval's products – frequently brazed plate heat exchangers – into their products. Alfa Laval's strategy is to form partnerships with customers to jointly develop new products. Customers include Baxi, Merloni, Cummins, IVT/Bosch and Carrier.
		 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Others	Alfa Laval's plate heat exchangers optimize energy utilization and ensure temperature control. Most industries use various types of expensive fluids in their production operations. Separators clean these fluids so that they can be recovered and reused, thereby cutting operating expenses and protecting the environment. Customers include Big Daishowa Seiki, Metso Paper, Bosch Rexroth, Inductotherm och Spirax Sarco.
		 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Others	Customers are active in the Division's entire segment, in addition to OEMs. The aftermarket is a priority area and the overall strategy is to develop and expand spare parts and service operations. This provides customer value, brings customers closer to Alfa Laval, and is less sensitive to variations in the business cycle. By creating continual customer contacts, it facilitates new sales. Read more on pages 32-33.

[1] ±3% compared with immediately preceding year

Continuing sharp growth in power, refining and petrochemicals

Market segment	Development in 2007
Process Industry	**Continuing rapid growth in base business** The primary driving forces for the segment are: • Higher demand and increased investments in metal and steel • Wide-ranging investments in petrochemicals and refining in China, India and the Middle East • High material and energy prices are raising the overall demand for compact and efficient solutions for heat transfer The sharp growth in base business continued in 2007, with the petrochemicals showing a particularly positive trend. During the first six months of the year, the biofuel segment continued to show solid growth, with the U.S. as the dominant market, although Europe and Latin America also reported high growth rates. Investment dipped during the second half of the year as a result of rising raw materials costs, falling ethanol prices and higher investment costs for plants. Continuing high activity in refining and compact heat exchangers continues to win market shares from traditional technology, thanks to sale organization's keener focus and increased market presence.
Energy & Environment	**Higher demand for power generation** During the past two years, Alfa Laval has enjoyed robust growth in Oil & Gas, primarily thanks to several major orders in projects involving Liquid Natural Gas (LNG) in the Middle East. Alfa Laval does not anticipate additional similar orders, primarily due to limited resources to project construction. However, there is still a need for higher LNG output in an effort to meet the rising demand for energy. Geographically, the traditional energy markets such as the US, UK and Norway reported solid growth figures. Alfa Laval has also made a breakthrough in the key Russian market, with initial orders from Gazprom. The positive trend in the nuclear market, where Alfa Laval has a well-established position, continued, notably in Asia. The Environment area reported record-high order intake in 2007. Growth derived primarily from the sharp expansion in North America.
Food Technology	**Record-high order intake** The steep growth in 2007 is attributable, in part, to a number of significant investments in projects to process krill. Alfa Laval has been very successful in these projects and has developed a technology to produce krill meal and krill oil – operations frequently conducted in extremely adverse weather conditions. The major investments in this area were made in Russia and Norway. Alfa Laval also continued to develop a strong position and business in vegetable proteins, primarily soybean proteins and in the industry for fruit concentrates. Moreover, order intake from breweries showed highly attractive growth during the year. The major geographical markets are Russia, Ukraine and India. The market for olive oil was flat in the leading European countries such as Italy, but displayed a favorable trend in Greece and in the new olive producing countries, such as the U.S.
Life Science	**Higher investment levels in biotechnology in the US** The US dominates the biotechnology market and the investment level was higher in 2007 than in 2006. In the U.S., Alfa Laval commenced the year with very high order intake for separators. The trend continues towards moving the primary production of pharmaceuticals to low-cost countries. Environmental surveys in China have delayed decisions for new products and expansion projects, but recently granted permits have raised investment potential. Heat exchangers and membrane sales are rising steadily, but the center of gravity is pharmaceuticals.
Parts & Service (Aftermarket)	**Higher revenue from high-growth markets** All regions and segments showed favorable increases in order intake. Alfa Laval has secured many major upgrade orders in the process and energy segments (petrochemicals, oil gas and power) driven primarily by capacity expansion. Solid growth in sales of separators resulted in an increase in the aftermarket for these products. Alfa Laval's continual investments in the service and sales structure in the rapid growth areas worldwide – primarily China, Russia, India and Middle East – resulted in higher service revenue from the installed base.

Share of the Division's order intake	Change in order intake [1]	Geographic distribution (order intake)	Operations
			Alfa Laval's products are used for manufacturing petrochemical products, plastics, polymers, metals, minerals, biofuels, starch, paper and sugar. Alfa Laval has many well-known customers in the process industry including BASF, Bayer, Dow and Delta T.
			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. In the wastewater treatment segment, Alfa Laval supplies systems that reduce sludge volumes so that they can be managed in a cost-efficient manner. Customers include Exxon Mobil, Technip, Chiyoda, Petrobras, Statoil, General Electric, China Nuclear Corp., Thames Water and City of Chicago.
			Alfa Laval supplies process solutions for the beverages and food industries. Among other applications, solutions are used in the production of beer, wine, fruit concentrates, milk proteins and milk sugars (casein and lactose), liquid foodstuffs, vegetable proteins as well as, meat and fish proteins. Customers include global groups such as Cargil, ADM, Nestlé, Heineken and Anheuser-Busch.
			Customers are active in the pharmaceutical, biotechnology, hygiene and health food product industries. Alfa Laval has developed a series of products and solutions that meet the extremely strict safety and hygiene requirements imposed by the industries and supervisory authorities. Customers include many major pharmaceutical groups such as Eli Lilly, GlaxoSmithKline and Genentech.
			Customers are active in all the division's segments. The aftermarket is a priority area and the overall strategy is to develop and expand spare parts and service operations. It offers customer value, brings customers closer to Alfa Laval and is less sensitive to variations in the business cycle. By creating continual customer contacts, it facilitates new sales. Read more on pages 32-33.

[1] ±3% compared with immediately preceding year

Continued expansion to meet increasing order intake

THE OPERATIONS DIVISION is responsible for production purchases, manufacturing and logistics. Centralization creates the optimum delivery reliability through increased productivity and reduced energy costs.

With a global perspective and coordination of these functions, Alfa Laval offers reliable access to the company's products worldwide.

Manufacturing

Continued expansion to meet the increasing order intake

Alfa Laval has approximately 5,200 (4,800) employees working in production, spread over 26 major manufacturing units, of which 16 are located in Europe, six in Asia, three in the US and one in Brazil. In recent years, production has been concentrated to fewer, product-specialized plants located according to market proximity and cost level. At the same time, the company's acquisitions have added new units and the Operations Division is working to integrate the acquisitions of the Dutch company Helpman and Finnish Fincoil. Work on Helpman's facility in Groningen, the Netherlands, was completed in 2007, while the integration of Fincoil's facility in Helsinki, Finland commenced at the beginning of 2008.

In recent years, several plants have been expanded and a series of capacity investments were made in preparation for the increased order intake. In 2007, these efforts intensified. During the year, major investments were made in Sweden (Ronneby, Lund and Eskilstuna), Denmark (Söborg) and in France (Fontanil and Chalon sur Saone, Alfa Laval Packinox).

High-value products that require advanced technical expertise are manufactured in production centers primarily in Western Europe. In 2007, the main part of the production units continued to adapt and increase capacity for a higher order input in line with the company's growth targets. This capacity expansion will also continue in 2008.

Increased presence in Asia

In 2007, approximately 41 percent of the direct working hours were performed in low-cost countries in Asia. For several years, Alfa Laval has worked on successively increasing and broadening the range of locally manufactured products in low-cost countries such as India and China.

In 2006, manufacturing of high-speed separators was discontinued in Madrid, Spain. To maintain and increase capacity, an assembly unit for high-speed separators was built in China. Competitive advantages are thereby created through increased presence in the important Chinese market.

Alfa Laval has significant production in China and India. Because these large markets are experiencing strong growth, Alfa Laval continuously reviews its production presence in both countries. Alfa Laval is working on broadening the range of products in the production plants to be able to supply the right product and right service to the customers as quickly and effectively as possible in pace with growth.

Quality

Lean SixSigma and ISO 14001 initiatives

Lean SixSigma is an improvement program that is also a way to change the employees' attitudes to change efforts. The program consists of two parts: one that improves existing processes and one that develops new processes. In 2007, the Lean SixSigma initiative continued and, at the end of 2007, 70 percent (35) of the production units were Lean SixSigma certified, which corresponds to approximately 88 percent of the total delivery value.

At year-end, Alfa Laval had 45 people, trained and certified as so-called "Black belts", who lead improvement activities at the company's production plants. During the year, Alfa Laval implemented a complete Lean SixSigma measurement system to follow development. The Lean SixSigma concept contributes to the company's equal

career opportunity efforts as 20 percent of those certified are women.

In 2007, focus was placed on studying underlying causes of complaints and internal scrapping in more detail. The Lean SixSigma concept plays an important role here too.

Work on ISO 14001 certification also continued during the year. At the end of 2007, 11 (5) units were ISO 14001 certified, accounting for 69 (47) percent of the total delivery value.

In 2007, Alfa Laval also launched a concept to improve proximity to market and knowledge about the company's customers and their needs. This knowledge will be used as a basis of the improvement efforts that are a part of achieving operational excellence.

Since November 1, 2006, EU regulations have been in place that set requirements on the traceability of all products that handle liquid foods. To meet these requirements, Alfa Laval has built a system that registers all products for these industries.

Purchasing

The Purchasing organization

For several years, Alfa Laval has had regional purchasing offices in strategic markets such as China, India, Mexico and Central Europe. These functions work to build supplier networks to meet the demands set by increasing volumes and the product range.

With local purchasers, Alfa Laval sees potential for significant savings. The increased order intake of 2007 placed great demands on the purchasing organization. The positive business climate limits access to materials and purchased components. However, the company also noted an improvement in the latter part of the year.

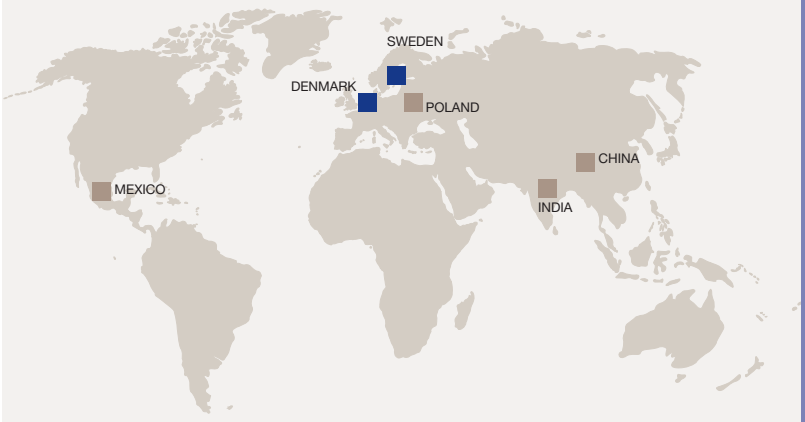
Raw materials

Continued high prices on many raw materials

Stainless steel accounts for the major share of Alfa Laval's raw material purchases. The price of stainless steel depends on two components: the base price of steel and the price of metal alloys. The base price of steel rose during the first part of the year, but indicated a downward trend in the latter part of the year. Prices of the most important metal alloys, nickel and molybdenum, remained very high. Prices of copper and aluminum also remained at very high levels throughout 2007.

Titanium is also an important raw material for Alfa Laval. There has been a shortage of titanium in the market for a number of years. Alfa Laval believes that this shortage will prevail during the first part of 2008 and the price will consequently remain high. Demand for titanium is primarily controlled by the production of aircraft, both military and commercial, although certain equipment for power generation also uses substantial amounts of titanium.

Purchasing



The corporate purchasing organization Regional purchasing organizations

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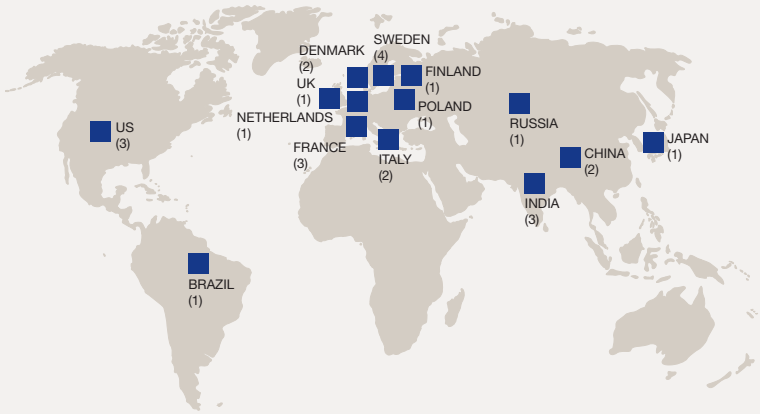
Production



Production units

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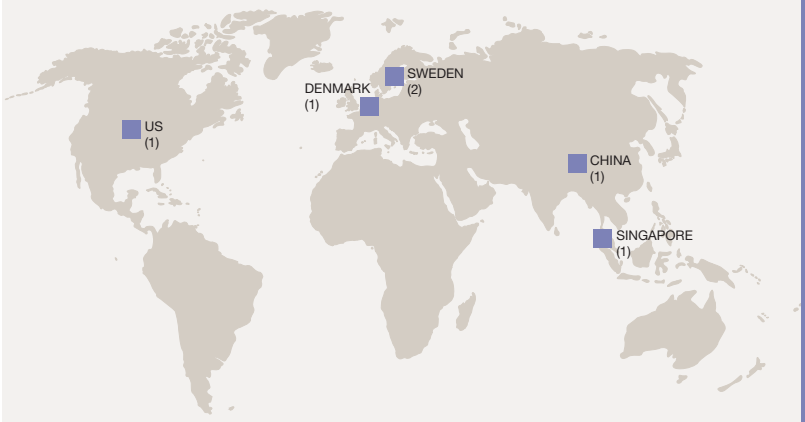
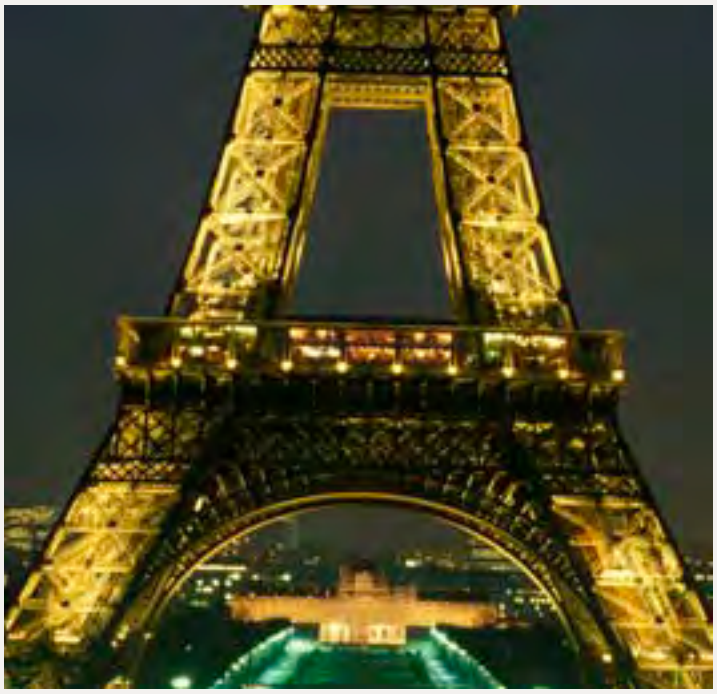
Distribution



Distribution offices

All information is excluding acquired units during 2005-2007. The acquisitions are integrated successively and most of the acquisitions in 2005-2007 will be included in 2008.

Energy-related industry generates opportunities in the aftermarket



Efficient revamping projects for France's energy giant

The EDF Group is the leader in the French electricity market covering all areas of the electricity value chain from generation to supply and trading of energy. The Group is the leading network operator in Europe and increasingly active in the natural gas area.

EDF has collaborated closely with Alfa Laval for more than 30 years. In 2002, the two companies completed a performance study of the plate heat exchangers installed in three of EDFs plants. The study resulted in a revamping project including replacement of 3,000 existing heat exchanger plates for titanium and stainless steel plates.

As a consequence of an unusually hot summer causing capacity problems a few years ago, EDF and Alfa Laval also studied possible capacity enhancements of all heat exchangers for cooling applications in numerous plants to avoid future problems of this kind. The result was another two revamping contracts comprising the supply of 18,000 Alfa Laval stainless steel plates.

ONE OF THE MOST important overall strategies for Alfa Laval is to continue to develop and expand the aftermarket, i.e. the sale of spare parts and service. It creates customer value, brings customers closer to Alfa Laval and offers good margins, while reducing sensitivity to economic fluctuations. Constantly generating customer contacts also creates new sales opportunities.

Joint organization

Alfa Laval's sales units have a joint organization to handle the aftermarket, which covers the company's entire product offering. The stable platform for Alfa Laval's Parts & Service operations is the large and growing installed product base. In addition, the products have a long service life – heat exchangers from five to more than 20 years, and separators from ten to more than 20 years.

The global service network, with some 75 service centers worldwide, ensures that spare parts and service are available close to the customers.

Regular maintenance

For the customer to get the best possible product function and at the same time maximize the product life, regular maintenance is necessary.

• *Plate heat exchangers*

A heat exchanger needs to be cleaned regularly to function and to ensure maximum performance. In certain cases, they are cleaned daily depending on hygiene standards and, in other cases, a few times a year.

• *High-speed separators*

Since this involves rotating equipment, minimum service is required after 1,000 hours of operation. The first major service normally takes place when the product has been in operation for twelve months.

• *Decanters*

The general recommendation is to conduct service after one year's operation. A major service is conducted after two years.

Critical tasks

Alfa Laval's products are frequently at the core of the customers' processes, where they perform key and, in many cases, critical tasks. In most cases, the customer's processes rely on the products functioning continuously. Rapid service of the products is consequently of the greatest importance.

Alfa Laval has a major competitive advantage in the dedicated and local aftermarket organization in all countries in which the company is represented. Each local organization has its own product expertise, field service,

repairs and maintenance as well as its own sales organization. In addition, Alfa Laval has a global and regional distribution organization to ensure the availability of critical spare parts.

Potential in emerging markets

The age of the installed base shifts depending on where in the world the product is installed. In general, the products are older in Western Europe and the US and younger in Central and Eastern Europe as well as Latin America and Asia. This means that the aftermarket potential in the emerging markets is rising in pace with the increase in new sales and the aging of the installed base. Customers in the West tend to be more receptive to outsourcing the maintenance of their equipment to professional service companies like Alfa Laval.

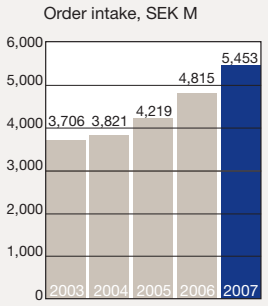
Many customers expect a key supplier like Alfa Laval to be able to help them reduce costs by continuously optimizing their processes.

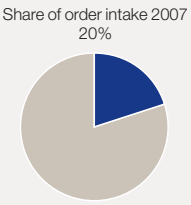
To meet these demands, Alfa Laval has a portfolio of products offered to the customers as a part of a service agreement or as individual service offerings. They may include:

- review and consultation
- repair and maintenance
- training
- replacement and leasing products
- products for upgrade and modernization
- maintenance tools
- product monitoring.

Development during 2007

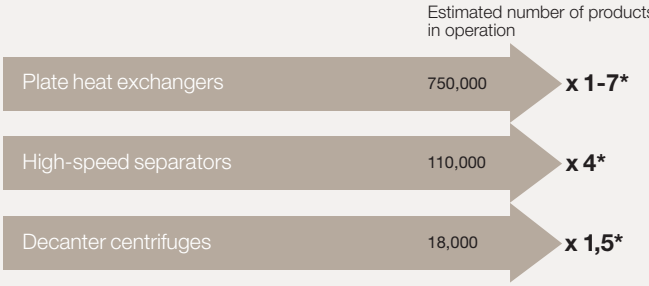
- The order intake from the aftermarket rose by 18 (14) percent, accounting for 20 (20) percent of the Group's total sales during the year.
- New sales for Alfa Laval continued to progress positively, especially in the segments Process Industry, Energy & Environment and Marine & Diesel. These generate a large share of aftermarket business and offer good conditions for future market potential.
- Geographically, the aftermarket increased in all regions. The strongest development was noted in priority countries in Asia (China and India), Russia and Latin America – countries in which the installed base is aging and beginning to require spare parts and service.





Long-term potential

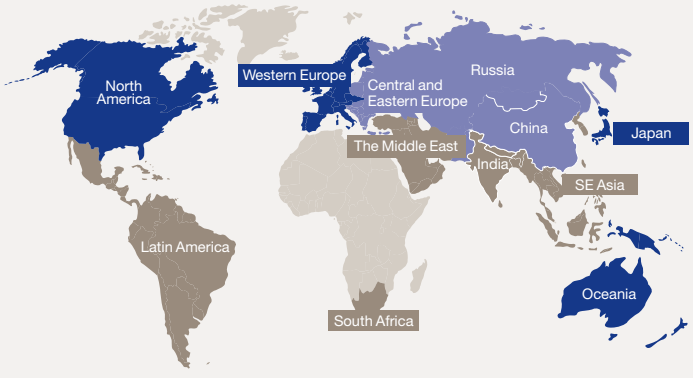
Different technologies have been installed in various degrees and have varying service lifetimes. But one characteristic is shared by Alfa Laval's technologies, namely, that the value offered by the aftermarket is several times larger than the basic investment.



* Value in the aftermarket in relation to new sales

Geographic potential

The installed products create growth potential for the aftermarket. Today, the aftermarket is largest in Western Europe and the U.S., where the installed base is older. At the same time, this means that the potential in emerging markets is rising in pace with the increase in new sales and the aging of the installed base.



Installed base

- Large installed base that needs service and renewal.
- A combination of rapidly growing markets and established niche applications.
- Small installed base that is growing.

Responsible process for customers and Alfa Laval

"The world is seeking a number of ways to reduce emissions, produce fresh, clean water and use less energy. Over the past 125 years, Alfa Laval has offered its customers solutions that help them to generate, reuse and protect natural resources – such as energy and water – in industrial processes."

Lars Renström, President and CEO, Alfa Laval

SINCE ALFA LAVAL commercialized its first innovation – the milk separator – as far back as 1883, the company has developed operations close to its markets. Operations have expanded continually in pace with global industrial development. The company's endeavors to create better conditions for people in their everyday life are the driving force for our business – and for all those employed at Alfa Laval.

In recent years, Alfa Laval has shown a special interest in sustainability by managing the company's operations in terms of its environmental impact, social responsibility and business ethics. Alfa Laval's Business Principles provide the basis for these efforts, and are in turn based on the UN's *Global Compact*.

Solutions for a better environment

Alfa Laval's technology provides excellent opportunities for industries worldwide to create clean solutions and energy savings.

Alfa Laval's technology cleans water

The rapid urbanization of the vast populations of China and India requires government decisions regarding the expansion of sanitary facilities and efficient wastewater management. Alfa Laval's wastewater management technology is already utilized in many major cities worldwide and is generally viewed as one of the most efficient approaches to treating water. Alfa Laval's presence in India and China permits the company to participate in solving the issue of providing effective domestic sanitary facilities and clean water.

Alfa Laval's technology reduces carbon dioxide by customers

Global climate change – the result of rising carbon-dioxide emissions – is one of the greatest challenges facing the world. Alfa Laval contributes to reducing this threat in two ways: Firstly, by reducing emissions from the company's

Cleaner water – and faster

ALDEC 32 – the latest decanter series – separates sludge from wastewater. Decanters of various sizes can treat small flows, as in industrial applications, as well as enormous flows in municipal treatment plants. The new series offers superior capacity and output, but in a much smaller space.

plants; and, secondly – by far a greater contribution – by reducing carbon-dioxide emissions using the company's energy saving products. Stricter legislation governing the emission of greenhouse gases, and goals for the reduction of carbon-dioxide emissions, are also driving energy intensive industry to move from outdated, less efficient technologies to the compact plate heat exchanger technology from Alfa Laval.

Alfa Laval's own carbon-dioxide emissions will be reduced

Even though emissions and the environmental impact of Alfa Laval's own processes represent a tiny portion of the environmental savings offered by the company's products, Alfa Laval also assumes responsibility for its own emissions. Programs in recent years to implement an environmental management system provided tangible results in 2007. For the first time ever, Alfa Laval has also been able to quantify its CO_2 emissions, which, for a comparable volume of output, are to be reduced 15 percent from 2007 through 2011.

Programs aimed at improving social conditions are continuing

A greater presence in rapidly growing economies offers Alfa Laval the opportunity and potential to assume its social responsibility and improve employment conditions for sub-supplier workforces. Alfa Laval has focused on the social conditions of employees at its suppliers over a number of years and is now beginning to see that the definite improvements of these efforts. As India and China continue to develop – both economically and socially – these programs will continue into the foreseeable future. The goal for efforts in these countries is to accelerate the rate of development of good work conditions for those employed in the supply chain.

Sustainability efforts in 2007

- Target set for reducing carbon-dioxide emissions: 15 percent from 2007 through 2011.
- The major environmental impact derives from transport; thus, Alfa Laval's transport suppliers are now subject to environmental criteria.
- Alfa Laval's analysis of greenhouse gases entails total emissions of 31,000 tons from production facilities.
- The development of supplier processes has shown considerable progress in term of employee conditions.
- The environmental management system has now been implemented in 43 plants (2006: 15).
- ISO 14001 certification at an additional 4 plants. Another two plants were certified in January 2008, In total, 11 plants, corresponding to 69 percent of the total delivery volume are approved. Including the two plants certified in January 2008, the figure is 77 percent.

Alfa Laval's four Business Principles in brief:

1. Environment
"Optimizing the use of natural resources in an efficient manner."

Alfa Laval and its products make a significant contribution in reducing the environmental impact of industrial processes.

2. Social
"Respect for human rights is fundamental."

Alfa Laval respects human rights and the very different social cultures in which the company operates and to which it supplies products and services.

3. Business integrity
"High ethical standards guide our conduct."

Alfa Laval conducts its business with honesty, integrity and respect for others.

4. Transparency
"Our commitment to open dialogue builds trust."

Alfa Laval believes in open communication, but is careful not to reveal commercially sensitive or valuable information.

The complete "Business Principles" are available at: www.alfalaval.com.

Processes and products that spare the environment

Optimizing the use of natural resources is Alfa Laval's business. Alfa Laval makes a significant contribution to reducing the environmental impact of industrial processes.

From Alfa Laval's Business Principles

THE ENVIRONMENTAL section of Alfa Laval's Business Principles is divided into two parts: *Green Operations* deals with how the company's own environmental impact is to be handled.

Green Processes – reducing emissions by customers

Alfa Laval's core expertise in heat transfer, separation and fluid handling assists to protect the environment. The products and know-how contribute to efficient utilization of energy, purification of water and other fluid flows, as well as the efficient manufacture of food and pharmaceuticals.

New product lifecycle analyses

To reduce the environmental impact of its products, Alfa Laval has decided to deploy a standard method to calculate the product's environmental impact throughout its entire life cycle when new products are developed. By this means, design and development engineers can better assess their conclusions with regard to the environmental impact. The pilot method chosen by Alfa Laval was tested on four products in 2007 and proved to be a practical tool that offers opportunities to influence design decisions. The method is now ready for introduction in all major product development centers.

Green Operations – clean processes throughout the Group

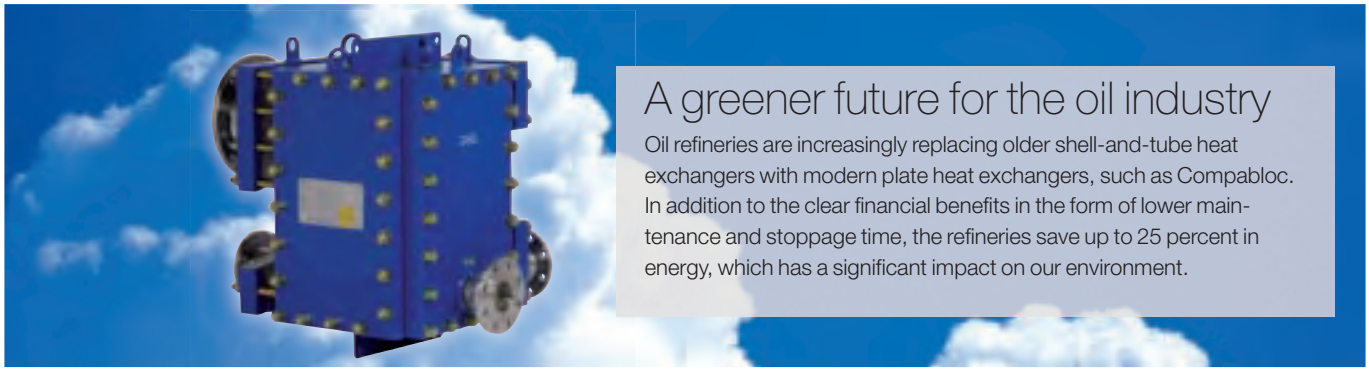
Alfa Laval seeks to ensure that its operations are as clean as possible and to include environmental aspects when products are developed, designed, produced, serviced and marketed. The "Greenhouse Gas Reporting Protocol" defines the scope of emissions of various greenhouse gases. A study undertaken in 2007 revealed that the company's emissions from goods transport and business travel – excluding transport to and from the workplace – are greater than emissions from the company's own production units. Based on this study, Alfa Laval has set a goal – in terms of comparable values – to reduce carbon-dioxide emissions by 15 percent from 2007 through 2011. Emissions during this period may vary depending on the business activity and organizational size, which means that individual goals are established for goods transport, company cars, business travel and internal production processes.

In addition, an environmental group, or Environmental Council, monitors in-house environmental goals. This consists of those in charge of production, distribution, aftermarket, materials laboratory, research and development and personnel, and is headed by the manager of the Operations division. It is supported by Alfa Laval's environmental management system (EMS), which is implemented at all plants to reduce environmental impact and environmental risk.

The environmental management system has two levels: *Gold* for production plants with a sizeable workforce (more than 100 employees) and *Bronze* for smaller production units and all service centers.

The plants within the Gold level must be certified in accordance with ISO 14001 and must be able to deal with all aspects of environmental risks. They report all relevant sustainability data to a central web-based reporting system. The outcome is gauged vis-à-vis the annual goals set up by the management for each plant in a star-like graph for each plant. At year-end 2007, 11 plants were at the Gold level, representing about 69 (47) percent of production value . Two plants were approved in January 2008, which raises the figure to 77 percent.

Plants within the Bronze level must have complete



A greener future for the oil industry

Oil refineries are increasingly replacing older shell-and-tube heat exchangers with modern plate heat exchangers, such as Compabloc. In addition to the clear financial benefits in the form of lower maintenance and stoppage time, the refineries save up to 25 percent in energy, which has a significant impact on our environment.

documentation and data showing how they have complied with environmental legislation. They must have a plan to reduce greenhouse gas emissions and use of chemicals with the greatest environmental impact and a plan for reacting to acute environmental emissions. At year-end 2007, 37 (less than 10) plants were at the Bronze level, representing about 85 percent of production value.

Plants at the Gold and Bronze levels must report emissions (GHG) that have an environmental impact and any other environmental effects s well as the use of black and grey chemicals.

Reduction of the environmental impact of transport

Alfa Laval's global operations mean that products must be transported among a number of destinations worldwide. Carbon-dioxide emissions from such transport operations account for almost 50 percent of Alfa Laval's total emissions of greenhouse gases. To reduce carbon-dioxide emissions and attain goals, Alfa Laval has categorized the transport companies that the company uses on the basis of three levels: At the *Gold* level are the companies that are leaders in developing transport solutions to reduce environmental impact. Companies at the *Silver* level have identified environmental issues and are working actively with them, but need to improve to move up to the Gold level. At the *Bronze* level are companies that do not have any policies or guidelines for environmental issues and thus not show any significant documented improvements.

Air transport

Air transport accounts for about 80 percent of total carbon-dioxide emissions from goods transportation. Analyses show that a few routes account for these emissions.

Projects have commenced to review the supply chain in an effort to reduce the need for airfreight.

Reduction in the environmental impact of business travel

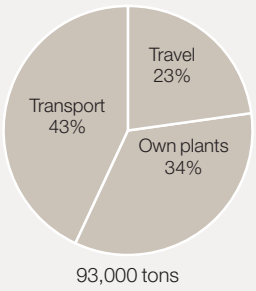
Alfa Laval is a global company and it is important to circulate information, knowledge and experience among the company's various units worldwide. Thus, international travel is a key factor and helps Alfa Laval to create higher customer value. Alfa Laval is working to reduce the environmental impact of business travel in a number of ways:

- Replacing personal meetings with video conferences or telephone meetings
- Continual reviews of travel modes.
- Selection of appropriate suppliers.

Alfa Laval uses company vehicles primarily for its sales personnel and technical service staff. To remain a competitive employer, company vehicles are available as a potential fringe benefit for certain personnel. Since 2003, all vehicles are leased in accordance with a policy entailing limits to carbon-dioxide emissions.

Alfa Laval's environmental management system includes the management of chemicals included in the list of *Black* chemicals, which are particularly negative for the environment or health and dangerous to health, and *Grey* chemicals. The use of *Black* chemicals must be replaced by an acceptable alternative within three years.

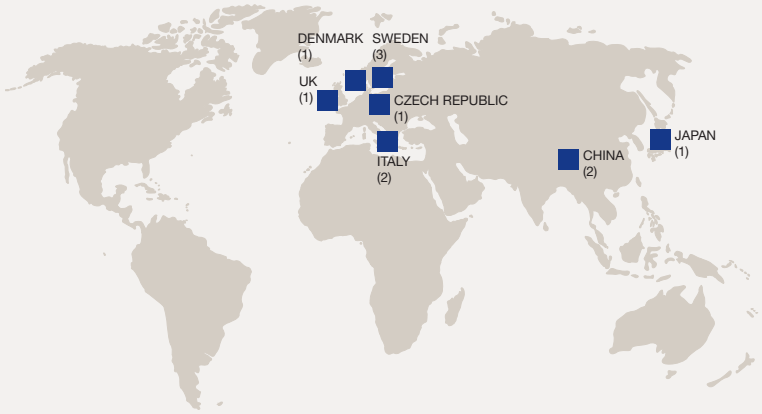
Alfa Laval's carbon-dioxide emissions by type of operation, estimate for 2007



93,000 tons

Alfa Laval's analysis of the company's carbon-dioxide emissions shows that greenhouse gas emissions from transport are greater than emissions from Alfa Laval's plants. Thus, this factor is the focus of continuing environmental programs. Product life cycle analyses have also become an integral part of R&D processes, giving the company's design engineers innovative and significant insights for future product development.

ISO-certified units 2007



All information is excluding acquired units during 2005-2007. The acquisitions are integrated successively and most of the acquisitions in 2005-2007 will be included in 2008.

Social responsibility improves conditions for humanity

Respect for human rights is fundamental. Alfa Laval respects the human rights of its employees, as well as the societies in which they live and work.

From Alfa Laval's Business Principles

ALFA LAVAL is a global business. In 2007, Asia accounted for 31 percent of the Group's total order intake. Central and Eastern Europe for 9 percent. This means that Alfa Laval locates its production in its own plants as well as among those of suppliers in these countries.

Alfa Laval gives customers competitive and sustainable solutions

Alfa Laval offers local customers products and service that create quality and economic value.

Neither the company nor its employees must ever be involved in any form of competition-curtailing activity such as illegal pricing or the splitting up of markets.

Alfa Laval includes the health of its workforce in its "star" goals for sustainable development

Alfa Laval's star goals for sustainable development focus on continual improvements in health and safety at local production plants. The goals for health and safety are discussed and approved by line managers in the same manner as other operating targets.

The goals are that injury frequency shall decline by 10 percent per hour, while absentees due to illness shall decline by 2 percent annually.

Employee development is the base for future success

Alfa Laval's successes are based on a culturally diversified, flexible, motivated and skilled workforce. Consequently, the company consistently trains and develops its employees, who are also offered safe and healthy working conditions. Alfa Laval does not discriminate against anybody on the basis of ethnicity, gender, religion, political viewpoint, disability, nationality or social position. Alfa Laval's employees worldwide are also entitled to organize in trade unions.

Alfa Laval's suppliers are expected to comply with the set standards

In pace with Alfa Laval relocating its supplier chain to low-cost countries, the company has developed processes to manage the social and ethical dilemmas that may ensue. All suppliers are expected to comply with local legislation in such areas as working conditions and safety as well as environmental protection. In many high growth countries, however, the economy, social conditions and infrastructure are not yet sufficiently developed. In these cases, it is not a realistic demand that local suppliers immediately meet all international standards. Alfa Laval actively tries to improve working conditions by means of repeated inspections, training and commercial pressure on suppliers. The guiding star for our efforts is that working conditions for sub-supplier employees must be improved at a faster pace than among other companies in the same social context.

Program for the approval of suppliers

Alfa Laval's suppliers are subjected to a detailed selection process before being approved as suppliers. Among other things this involves two questionnaires. The first is used to identify and assess if the suppliers have the potential to meet Alfa Laval's profile in terms of commercial and technical requirements.

The second, deployed before commercial agree-

Indian paper industry favors people and the environment

Indian farmers are gaining better conditions as a result of the local paper industry moving increasingly towards replacing logging with cultivated forest holdings, which favors the environment. The environment also benefits from the recycling of a full 95 percent of the paper industry's condensed water, which is turned into energy using condensers such as AlfaCond.

ments are signed, is used to ensure that suppliers comply with certain basic requirements in accordance with the Business Principles.

Improvements in India

In recent years, Alfa Laval has developed a point-based method for gauging the social standards of suppliers. Points are awarded for employment terms and conditions, working conditions and working environment as well as for health and safety. During 2007 this program resulted in major improvements. The results from the 97 suppliers selected for this program in India confirm that repeated inspections, training and encouragement assist suppliers in developing better working conditions for their employees. Suppliers, who following Alfa Laval's assistance, do not improve in line with the standards demanded will be replaced.

The goals for 2008 are to add at least 30 new suppliers to the audit program in India.

Alfa Laval plans to work with the challenge of improving conditions for sub-supplier workforces for many years ahead in pace with continued economic and social development in many countries.

Conference and improvements in China

Ethical risks in the supplier chain and their management formed the main theme for a conference for Alfa Laval's purchasing managers in China. Alfa Laval designed the conference in cooperation with other major Swedish companies.

The goal for 2008 in China is to continue to increase the number of inspections using the same methods as in India. Overall, Alfa Laval will inspect and coach 25 suppliers in a bid to attain the appropriate qualification levels.

A global company with global responsibility

*Including Middle East and Oceania

Respect for human rights

Alfa Laval respects the human rights of our employees and the communities in which we live and supply.

- **Human rights:** Alfa Laval supports and respects the protection of internationally proclaimed human rights within our sphere of influence.
- **Complicity:** Alfa Laval should make sure it is not complicit in human rights abuses in its course of operations.
- **Freedom of Association:** Alfa Laval should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- **Forced Labour:** Alfa Laval will not use any form of forced or compulsory labour.
- **Child labor:** Alfa Laval works towards the effective abolition of child labour in the community.
- **Discrimination:** Alfa Laval works to eliminate direct and indirect discrimination in respect of employment and occupation.

Strong growth imposes new demands on the company's employees

GROWTH ENTAILS that all executives must develop their own management skills as well as a broader understanding of the company's business.

Focus on "the vital few"

To reflect Alfa Laval's changing requirements, a new program for the company's core values was developed and launched in 2007. Entitled "Pure Performance," the program explains how the company must adjust its core values to cope with new requirements.

Although much of the content is similar to previous versions, focus is on the employees needing to concentrate on " the vital few" to avoid unnecessary time-consuming activities, which can be tempting when a company is growing successfully.

Career opportunities on equal terms – a key point

"Pure Performance" strengthens the company's believe in diversity. Career opportunies on equal terms contribute to releasing the inherent power in the organization and further strengthening the leadership role.

In line with this, Alfa Laval has introduced a new part of the company's intranet to publicize vacant positions. All vacant positions, including senior executive posts, are published and internal candidates are encouraged to seek the positions.

International career opportunities have been a key factor in moving Alfa Laval's core skills about the world to develop a shared corporate culture. In the past, vacant positions were filled through suitable candidates being identified by their superiors and human resources managers. Today, all positions are advertised openly on the intranet. Twenty-seven nationalities were identified in Alfa Laval's 96 international assignments at year-end 2007.

Alfa Laval's managers are ranked in terms of performance and behavior

As part of efforts to change organizational behavior, the management evaluation and development process has been changed to better reflect our core values. All executives worldwide are to evaluate their performance by using the same documentation. This means that all executives are gauged in terms of the business results they achieve and the degree to which they match the core values in their behavior. Action plans and plans for continual improvement have been drafted with both of these factors in mind.

Alfa Laval University continues to focus on the Vital Few

Alfa Laval focuses on developing the skills that are vital for ensuring success in the company's operations.

Alfa Laval University is one of the instruments used in achieving this. This is governed by a group consisting of three people drawn from the company management group and three external people from universities and other educational establishments. Their role is to ensure that training activities focus on issues that are significant in developing Alfa Laval's business.

During 2007 the focus has been on improving:

- Price management. Training programs have been completed in sales companies worldwide to offer executives and sales-related employees a superior and deeper understanding of Price Management and the implications of the process for better and deeper understanding of Alfa Laval's earnings.
- "Time-to-Market." Reducing "Time-to-Market," including commercial product development, involves executives and other employees throughout the value chain. The goal is to cut the time for a new product to reach the set volume target, while simultaneously retaining or raising quality.

Pure Performance – core values

Action!
Be alert, act now. You need to realize that speed is an essential business asset in achieving performance. Now is the best time for you to get things done. Both in-ternally and externally.

Courage!
Have the courage to change. You are part of a performance-driven organization that plays to win. You must dare to try, and dare to do things differently.

Teamwork!
Think flexibly. It is only by being adaptable and combining your resources and strengths with others that you can be truly effective and keep promises.

Profit!
Look at the bottom line. Controlling costs and managing prices is essential for the company's ongoing success. Alfa Laval shall take every opportunity to improve financial performance for both its customers and the company.

- Leadership skills. A number of programs for managers worldwide have been completed. These include:
  - *"Challenger"* for 20 potential executives. This program consists of one week in Sweden, one week in Shanghai and a more protracted challenging assignment.
  - *"Adept"* for all newly employed sales personnel. This training program consists of a week's general introduction of Alfa Laval plus a week with specific product know-how, depending on the particular segment in which the person is employed.
  - Management program with participants from the sales divisions, Operations Division and sales companies. The program is split into two modules and 200 managers in Sweden, Denmark, Norway, Finland, Germany, Switzerland and Austria took part in the program in 2007.
  - *"Alfa Laval Management Habits"* is a program focusing on the personal development of leadership characteristics. In 2007, the program was conducted with 40 participants in Russia and Argentina.
  - *"Booster"* is a specially tailored two-week program, for 100 top executives in the Group. The program was developed and is conducted by Ashbridge Business School in the UK.
  - *Lean SixSigma*. A quality program implemented in productions and distribution.
  - *ALTECH* is a training for managers with technical duties. Alfa Laval University is responsible for content in cooperation with Chalmers Advanced Management Programs (CHAMPS).

During 2007, 760 (700) employees, representing a total of 45 (43) countries, participated in international training program that were centrally arranged and support the normal training conducted locally.

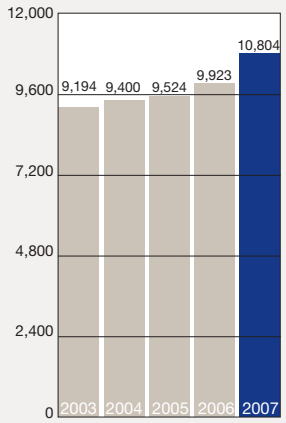
Controlled recruitment prioritizes growth markets

Vacant positions at Alfa Laval are monitored globally via an internal database. Each available position is registered and must be approved by the Group's management group ahead of any offer of employment. Statistics relating to employee turnover and recruitment are watched closely as part of efforts to monitor costs and ensure that resources are allocated to the segments and countries showing superior returns and the potential for structural growth.

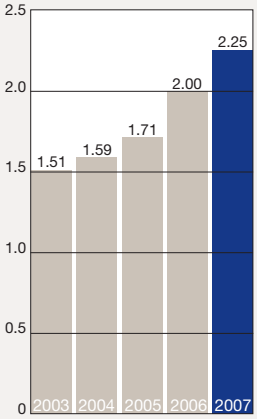
The culture of continually improving the search process rather than adding additional employees is well established in Alfa Laval and has been strengthened by the detailed manner in which the group monitors this at the central level.

For example, the number of employees since 2005 has increased by 40 percent in China while the Group-wide workforce has increased by 13 percent.

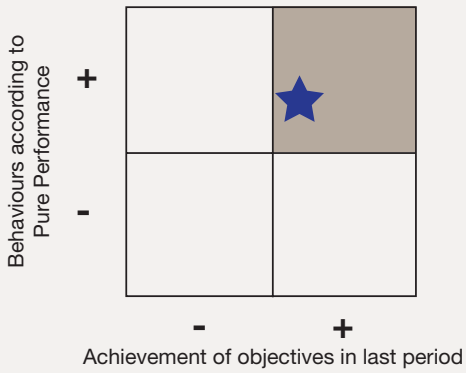
Average number of employees during the past five years



Sales per employee SEK M



Stars drive profitability



Alfa Laval's senior executives are evaluated based on how well they attain established goals-, how well they comply with the Group's core values, summarized in the Pure Performance concept. In this manner, an increasing number of the Group's senior executives will move into the optimal start square in which goals are surpassed and compliance with core values is exemplary, which ultimately will have appositive impact on the Group's results.

Sound ethics ensure long-term success

Alfa Laval will pursue its business in an honest manner with high integrity and respect for others.

From Alfa Laval's Business Principles

During 2007, Alfa Laval reviewed employment policies at sales companies in 48 countries. This review included the training of company presidents, who then presented the risks for their particular company. Based on this, the companies have revised their employment policies to ensure that they include distinct guidelines for ethical behavior, notably in respect of conflicts of interest, political contributions, bribes and corruption. The global, ethical purchasing code was also updated. Alfa Laval has developed a web-based reporting system to identify employees who breach "Business integrity", as outlined in the Business Principles.

Whistle blowing to reveal any breaches of the Business Principles

Alfa Laval investigates all suspected violations of the company's Business Principles. Employees are to report suspected violations to the Group's Human Resources Manager, who coordinates the investigation. Alfa Laval protects all whistle blowers, that is, employees who report suspected breaches of the Business Principles. The Chairman of the Board is contacted if anyone in group management is suspected of being involved in or participates in any violation of the Business Principles.

Open dialog creates confidence in the financial markets

Alfa Laval's financial accounting and supporting documentation describes and reflects the underlying transactions in correct manner. No unaccounted or concealed items, funds or other assets are permitted.

Alfa Laval's reporting and internal monitoring are conducted so that external, independent parties can verify operations. All share price-sensitive information is communicated in line with the company's policy, stock exchange contract and applicable legislation.

Transparency

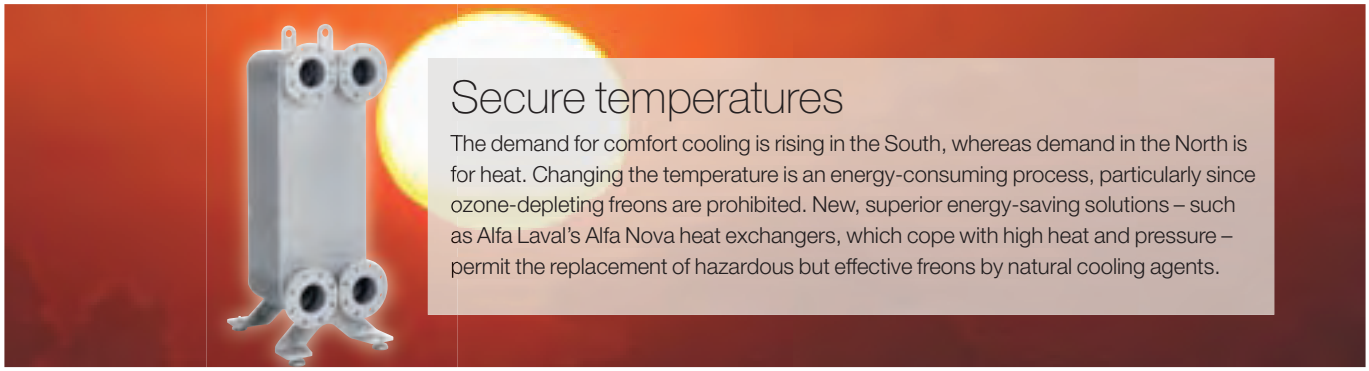
The company's pledge of an open dialog creates confidence. Alfa Laval believes in open communication but is careful not to disclose commercial valuable information. More information on Alfa Laval's sustainability processes and data is available at

www.alfalaval.com

Principles underlying measurement and governance ensure sustainable development

Alfa Laval has defined a couple of operational principles to secure its Business Principles and sustainable development:

- The goal for sustainable development must be integrated into and be a natural component in day-to-day operations.
- Reliable and consistent measuring methods are essential. Internal comparisons and learning from best practices, internally and externally, are the most powerful way of driving improvement.



Secure temperatures

The demand for comfort cooling is rising in the South, whereas demand in the North is for heat. Changing the temperature is an energy-consuming process, particularly since ozone-depleting freons are prohibited. New, superior energy-saving solutions – such as Alfa Laval's Alfa Nova heat exchangers, which cope with high heat and pressure – permit the replacement of hazardous but effective freons by natural cooling agents.

Application and Compliance

It is the responsibility of the Alfa Laval Group Management to ensure that the Business Principles are communicated to, understood and observed by all employees. The managing director of each Alfa Laval company is responsible for implementing these principles through appropriate rules and policies in addition to those necessary for compliance with local legislation

No manager or employee will be criticised for any loss of business resulting from adherence to these principles. Equally the Alfa Laval Board and Group Management undertake that no employee will suffer as a consequence of bringing to their attention or that of senior management, a breach or suspected breach of these principles.

Alfa Laval's Business Principles – Business Integrity

High ethical requirements comprise the basis for Alfa Laval's performance. Alfa Laval pursues its operations in an honest manner with integrity and respect for others.

- **Legal compliance.** Alfa Laval shall not only meet regulations and requirements in countries in which the company is active but also shall continually stay abreast of developments in international legislation, social conditions and voluntary initiatives and accept these when it is relevant to the company's operations.
- **Conflicts of interest.** Alfa Laval's employees shall not get into situations in which their personnel or financial interests conflict with those of the company.
- **Political contributions.** Contributions are not to be made to political parties or committees, or to individual politicians.
- **Bribes and corruption.** Alfa Laval and its employees shall not offer, promise, accept or demand a bribe or other inappropriate benefit to win or retain business; also, suppliers or other business partners shall not demand or expect a bribe or other inappropriate benefit.

Local service starts on the drawing board

Huntsman Holland BV, a chemicals company, focuses keenly on production safety and efficiency. Service and maintenance play a crucial role in maximizing capacity at the company's plant.

Huntsman Holland's Rozenburg Works, which is strategically located in the port of Rotterdam, produces various chemical substances, with a considerable demand for the production of polyurethane – a polymer with a wide range of applications.

Alfa Laval is a key supplier to Huntsman Holland and has installed some 50 plate heat exchangers at the plant in Rozenburg for various heating and cooling applications.

Overall production efficiency and minimizing costs are decisive issues for Huntsman. Thus, the company monitors service and maintenance from the very beginning of each project. Alfa Laval conducts these services on the basis of its AllBrands agreement, which covers all plate heat exchangers, including those of other manufactures.

Uwe Clockzin, mechanical supervisor, comments: "Our maintenance costs have fallen by some 10 percent since we introduced the AllBrands concept. It has raised safety and cut production losses, while increasing the total production time."

Board of Directors' Report

Contents

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2007 to December 31, 2007.

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 published by sending the printed annual report to the shareholders in week 13, 2008 starting at March 26, 2008 and by publishing the annual report on Alfa Laval's website on March 26, 2008 at 8.30 CET.

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

Financial statements

The following parts of the annual report are financial statements: the Board of Directors Report, the ten-year overview, the cash-flow statement, income statement, balance sheet, changes in equity capital for both the consolidated Group and the parent company and the notes. All of these have been audited. The rest of the annual report has been reviewed by the auditors.

Ownership and legal structure

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

The company had 16,090 (12,178) shareholders on December 31, 2007. The largest owner is Tetra Laval B.V., the Netherlands who owns 17.7 (17.7) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 7.0 to 1.6 percent. These ten largest owners own 48.2 (51.2) 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 primary segments are the two divisions "Equipment" and "Process Technology", where the sales and marketing activities are performed. The divisions are based on ten customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. The Group also has a common function "Operations" for procurement, production and logistics. The Group's secondary segments are geographical markets.

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 and when the business cycle driven downturn in the demand for the company's products comes and how deep the downturn will be. 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.

Purchase of businesses

On December 1, 2007 Alfa Laval finalized the acquisition of the Finnish company Fincoil. The acquisition of Fincoil is in line with Alfa Laval's strategy to expand the presence in the European air heat exchanger market. Fincoil has 150 employees. The company has a well-established position in the Nordic countries, the Baltic countries and Russia. Approximately 80 percent of the sales are exported. Fincoil has one manufacturing site outside Helsinki in Finland. The intention is to fully integrate Fincoil into Alfa Laval. The purchase price is SEK 474 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 5 million. After deducting acquired cash and bank the impact on the cash flow was SEK -470 million. Out of the difference between the purchase price paid and the net assets acquired SEK 233 million was allocated to patents and un-patented know-how, while the residual SEK 228 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Fincoil's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step up value for patents and un-patented know-how is depreciated over 10 years. Fincoil's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 26 million and SEK 2 million respectively. If Fincoil had been acquired at January 1, 2007 the corresponding figures would have been SEK 348 million and SEK 43 million respectively.

On July 2, 2007 Alfa Laval acquired the American company AGC Engineering through an asset deal. The company provides sanitary plate heat exchanger service and equipment to the dairy and food processing industries. AGC has 65 employees. The acquisition adds a complementary channel for sanitary plate heat exchangers to the dairy and food processing industries mainly in the USA. This applies to new units as well as parts and service. AGC will not be integrated into Alfa Laval. The two organizations will go to market independently of each other according to a multi-brand strategy. The purchase price is SEK 42 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -42 million. Out of the difference between the purchase price paid and the net assets acquired SEK 12 million was allocated to the AGC trademark, while the residual SEK 9 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and AGC'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 depreciated over 10 years. AGC's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 39 million and SEK 4 million respectively. If AGC had been acquired at January 1, 2007 the corresponding figures would have been SEK 78 million and SEK 8 million respectively.

Through a public offer that closed on May 26, 2007 Alfa Laval increased the ownership in the Indian subsidiary Alfa Laval (India) Ltd with 12.6 percent to 76.7 percent. The total cost for the acquisition was SEK 486 million. The costs directly linked to the acquisition of the shares (fees to bankers, lawyers and assisting counsel) come in addition to this and have amounted to SEK 11 million. The impact on the cash flow was SEK -497

million. Out of the difference between the purchase price paid and the net assets acquired of SEK 441 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The acquisition only has an impact on the minority's part of the consolidated net income and equity.

On April 4, 2007 Alfa Laval acquired the Dutch company Helpman. Helpman is a leading company in the European market for air heat exchangers used in the sensitive logistical chain for food, i.e. refrigeration and temperature control to secure the final quality of the products. Helpman has 130 employees within R&D, sales and at two manufacturing units, in Groningen, the Netherlands and in Sofia, Bulgaria. The intention is to fully integrate Helpman into Alfa Laval. The purchase price is SEK 136 million, out of which SEK 113 million has been paid in cash and the rest is retained for a period of 1-2 years. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 4 million. After deducting acquired cash and bank the impact on the cash flow was SEK -111 million. Out of the difference between the purchase price paid and the net assets acquired SEK 5 million was allocated to properties and SEK 36 million was allocated to patents and un-patented know-how, while the residual SEK 11 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Helpman'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 33 years and the step up value for patents and un-patented know-how is depreciated over 10 years. Helpman's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 136 million and SEK 5 million respectively. If Helpman had been acquired at January 1, 2007 the corresponding figures would have been SEK 178 million and SEK 6 million respectively.

On March 16, 2007 Alfa Laval acquired the American company DSO Fluid Handling. The acquisition strengthens Alfa Laval's position within sanitary processing industries in the US. DSO is a supplier of predominantly parts for pumps and valves and adds a complementary channel for replacement parts. In line with Alfa Laval's multi-brand strategy, DSO will continue to sell its products under its own brand. DSO has 20 employees and is based in Irvington (Newark), New Jersey USA. The purchase price is SEK 74 million, out of which 62 million has been paid in cash and the rest is retained for a period of 1-2 years. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 1 million. After deducting acquired cash and bank the impact on the cash flow was SEK -62 million. Out of the difference between the purchase price paid and the net assets acquired SEK 39 million was allocated to the DSO trademark, while the residual SEK 29 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and DSO'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 depreciated over 10 years. DSO's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 39 million and SEK 12 million respectively. If DSO had been acquired at January 1, 2007 the corresponding figures would have been SEK 51 million and SEK 16 million respectively.

During the beginning of 2007 a transaction was made as a consequence of the acquisition of Tranter where SEK 17 million was paid to buy out the agent in Taiwan and thereby achieve full control over Tranter's company in China. This transaction is seen as a part of the acquisition of Tranter and has influenced the final purchase price allocation according to the below description.

In a press release on September 23, 2005, Alfa Laval announced that the company had signed an agreement to acquire 100 percent of Tranter PHE from the U.S. company, Dover Corporation. In a press release on March 6, 2006 Alfa Laval communicated that the acquisition of Tranter PHE had been approved by the regulatory authorities and thereby been finalised. The purchase price was SEK 1,199 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 25 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,217 million. Out of the difference between the purchase price paid and the net assets acquired SEK 17 million was allocated to properties, SEK 180 million was allocated to patents and un-patented know-how, SEK 265 million to the Tranter trademark and SEK 6 million to accrued gross margin in work in progress, while the residual SEK 530 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill has been finalised in 2007, which meant a decrease from SEK 551 million to SEK 530 million. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2006. Tranter is a major competitor in the United States and the acquisition opens for a double branding strategy versus mainly the American market.

The acquisition was financed through a bilateral bank loan of EUR 25 million and a US private placement of USD 110 million. The company had 2005 approximately 450 employees globally in R&D, manufacturing and sales.

Tranter is part of the Alfa Laval Group as of March 1, 2006. The impact of the acquisition on the income statement and the cash flow statement for 2006 was thus only for ten months of operation. Tranter is reported as an integrated part of the Equipment and Process Technology divisions, but is acting as an independent sales channel. Tranter's net sales and adjusted EBITA for the first ten months were SEK 981 million and SEK 148 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141 million and SEK 171 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10 million. The operation had less than 10 employees and a turnover of about SEK 45 million per annum.

On February 15, 2005 Alfa Laval acquired 100 percent of Packinox S.A. in France for SEK 542 million. The costs directly linked to the acquisition of Packinox (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 9 million. After deducting acquired cash and bank the impact on the cash flow was SEK -505 million. Out of the difference between the purchase price paid and the net assets acquired SEK 104 million was allocated to patents and un-patented know-how, SEK 192 million to the Packinox trademark and SEK 7 million to accrued gross margin in work in progress, while the residual SEK 265 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads. The step up value for patents and un-patented know-

how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2005. Packinox is a world leader in large welded plate heat exchangers for oil & gas and refinery applications. The Packinox business is characterized by a limited number of large projects and in 2005 the company had net sales of SEK 495 million, an adjusted EBITA of SEK 114 million and 152 employees within R&D, manufacturing and sales.

For all of these acquisitions the acquired assets and liabilities are presented in Note 25 and the step up allocation and resulting goodwill is presented in Note 15.

Sale of businesses

In a press release on December 13, 2006, Alfa Laval announced that the company had taken the strategic decision to divest its engineering activity for the biopharm industry. The activity was sold to its local Management. The primary reason for divesting the engineering activity for the biopharm industry, which comprises the offering of engineering and validation services, was the limited connection to Alfa Laval's core business of process solutions and heat transfer, separation and fluid handling products. The divestment was not anticipated to have any negative impact on Alfa Laval's Life Science activity. The turnover of the divested activity was slightly more than SEK 100 million and it employed approximately 110 people. The transaction was finalized at December 29, 2006. The divestment caused a non-recurring charge to the profit and loss statement in the fourth quarter 2006 of SEK -126 million.

This disposal is reported as a comparison distortion item in Note 6 to the income statement.

Closure of business

During 2005, costs for the closure of the separator factory in Madrid and the bioKinetics plant in Toronto of SEK -125 million were charged to the income statement, as comparison distortion items.

Sale of real estate

During 2007 the property in Tuusula in Finland has been sold for SEK 26 million with a realised gain of SEK 25 million. The property in Argentina has been sold for SEK 14 million with a realised gain of SEK 11 million. A property in Brussels in Belgium has been sold for SEK 27 million with a realised gain of SEK 15 million. Minor sales of land and buildings have been made in India for SEK 3 million with a realised gain of SEK 2 million and in France for SEK 2 million with a realised gain of SEK 1 million. Other properties in Brazil and France are also planned for sale. Alfa Laval is using the property in Brazil for its operations. The French property is empty, but it has been for sale for several years and is not expected to be sold within the next year. This means that no one of these properties has been re-classified as a current asset held for sale. The fair value of these properties exceeds the book value by approximately SEK 109 (126) million.

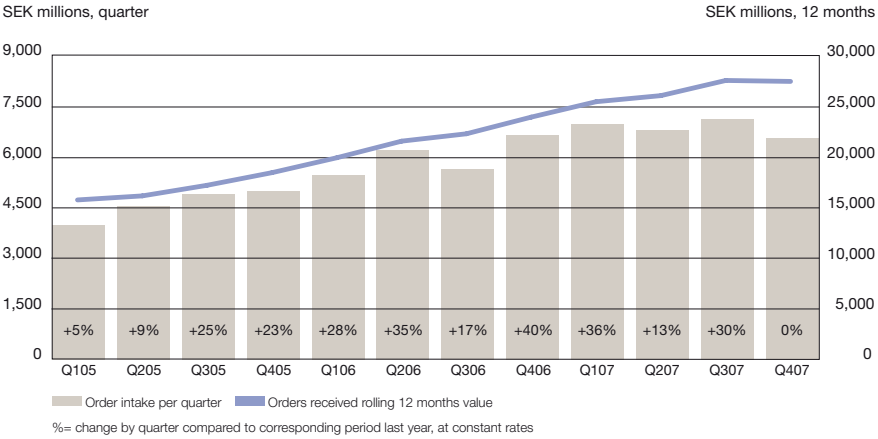
Last year properties in Belgium, Brazil, Finland and France were planned for sale. Out of these, only the property in Tuusula in Finland was re-classified as a current asset held for sale since Alfa Laval was using all of the other properties for its operations. The Finnish property that now has been sold was situated in Tuusula in an industrial area for small companies close to the Helsinki airport and covered slightly more than 20,000 m² land and the buildings comprised offices (746 m²), workshop (4,328 m²) and warehouse (600 m²). The buildings were basically empty. An active sales work was being performed concerning the Finnish property and it was expected to be sold within the next year.

During 2006 a piece of land in India was sold for SEK 2 million with a realised gain of SEK 1 million, two minor properties in France were sold for SEK 3 million with a realised gain of SEK 1 million, one flat in Denmark was sold for SEK 4 million with a realised gain of SEK 3 million and a property in Germany was sold for SEK 4 million with a realised gain of SEK 1 million.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58 million with a realised gain of SEK 48 million. In December 2005 the property in Richmond in the US was divested for SEK 96 million with a realised gain of SEK 3 million and some minor properties in India were divested for SEK 1 million with a realised gain of SEK 1 million.

These disposals are reported as comparison distortion items in Note 6 to the income statement.

Orders received



Orders received amounted to SEK 6,576 (6,672) (5,020) million for the fourth quarter. Excluding exchange rate variations, the order intake for the Group was 0.3 percent higher than the fourth quarter last year. Adjusted for acquisitions and divestments [1] the corresponding figure is a decrease by 0.3 percent.

Order analysis	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006	Jan 1-Dec 31 2005
Last year (SEK millions)	24,018	18,516	15,740
Structural change	1%	8%	3%
Currency effects	-3%	0%	3%
Organic development	17%	22%	12%
Total	15%	30%	18%
Current year (SEK millions)	27,553	24,018	18,516

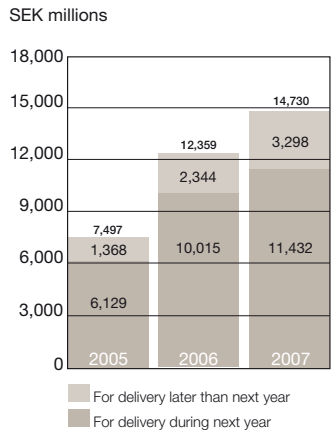
Orders received amounted to SEK 27,553 (24,018) (18,516) million during 2007. Excluding exchange rate variations, the order intake for the Group was 18.3 percent higher than last year. Adjusted for acquisitions and divestments of businesses [1] the corresponding figure is 16.9 percent.

Orders received from the after market "Parts & Service" has continued to develop positively during 2007 and increased by 16.9 percent compared to last year excluding exchange rate variations. Its relative share of the Group's total orders received was 19.8 (20.1) percent.

[1] Acquired businesses are: Tranter at March 1, 2006
DSO at March 16, 2007
Helpman at April 4, 2007
AGC Engineering at July 2, 2007
Fincoil, at December 1, 2007

Divested business is: The biopharm engineering activity at December 29, 2006

Order backlog December 31



The order backlog at December 31, 2007 was SEK 14,730 (12,359) million. Excluding exchange rate variations and adjusted for acquisitions and divestments the order backlog was 21.2 percent higher than the order backlog at the end of 2006.

Net sales

Net sales of the Alfa Laval Group amounted to SEK 7,220 (6,040) (4,684) million for the fourth quarter of this year. Excluding exchange rate variations, the invoicing was 21.3 percent higher than the fourth quarter last year. Adjusted for acquisitions and divestments of businesses the corresponding figure is 20.6 percent.

Net sales amounted to SEK 24,849 (19,802) (16,330) million during 2007. Excluding exchange rate variations, the invoicing was 29.1 percent higher than last year. Adjusted for acquisitions and divestments of businesses, the corresponding figure is 25.8 percent.

Segment reporting

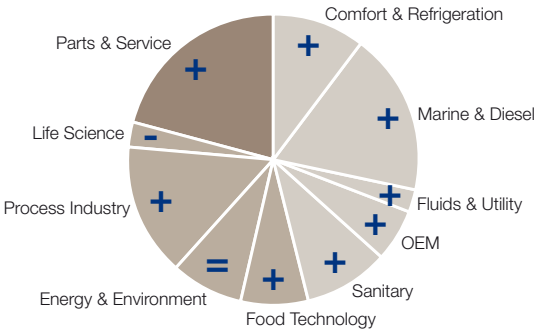
Alfa Laval's primary segments are the two divisions Equipment and Process Technology. The divisions are based on a split into a number of customer segments. The customers to the Equipment division purchase products whereas the customers to the Process Technology division purchase solutions for processing applications. In addition, the Group has a common function "Operations" for procurement, manufacturing and logistics.

EQUIPMENT DIVISION

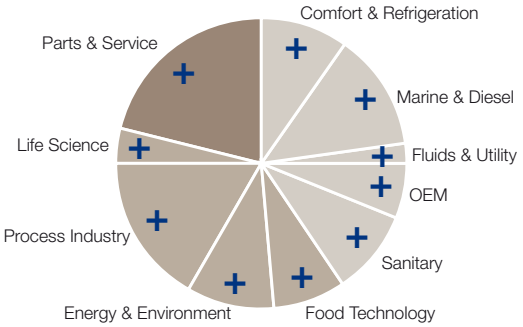
The Equipment division consists of six customer segments: Comfort & Refrigeration, Fluids & Utility Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service.

Divisional reporting

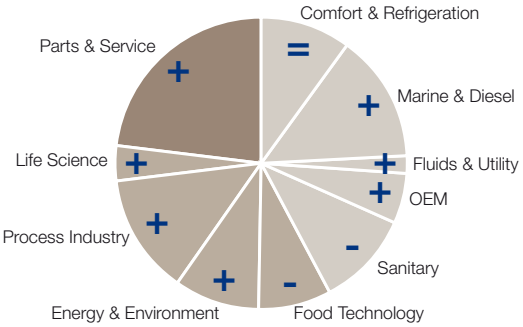
Orders received by segment 2007

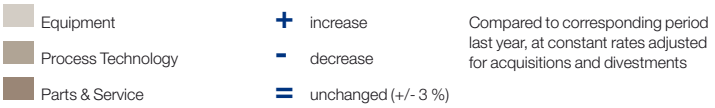


Orders received by segment 2006



Orders received by segment 2005





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

Orders received increased by 30.1 percent and net sales increased by 27.8 percent during 2007 compared to last year. Adjusted for acquisitions and divestments of businesses, the corresponding figures are 26.7 percent and 20.5 percent.

Taking a quarterly view the development for Equipment division during 2007 has been as follows:

In the first quarter all segments had a very good order intake and the business climate remained strong. Marine had a very positive development. Also OEM was very strong, benefiting mainly from a continued good market for heat pumps. Sanitary remained on a high level.

Due to a continued good business climate all market segments had a better order intake in the second quarter compared to the corresponding period 2006. The Sanitary market segment showed a particularly good development with record high levels. The high investments in the dairy applications as well as in food and cosmetics were the main drivers. In the refrigeration market increased levels of investments particularly in Germany and Eastern Europe resulted in a high order intake. Investments in the Marine & Diesel market segment continued to be high as well as for heat pumps in the OEM segment. During the quarter the Parts & Service business continued to strengthen.

All market segments had a better order intake in the third quarter compared to the corresponding period 2006 due to a continued good business climate. The Marine & Diesel segment showed a particularly good development with record high levels as a result of high order intake to the world's shipyards. The food and refrigeration market continued to develop favourably in the quarter. The OEM segment was slightly above last year. Order intake from the heating market was somewhat lower, but the cooling market on the other hand continued to be very positive, particularly in the Middle East. The Parts & Service business continued to strengthen

2007 ended with an all time high order intake for the Equipment division. All segments, except OEM, continued to grow compared with the fourth quarter 2006. The order intake within Marine & Diesel continued to increase in line with the global ship contracting volumes and a continued good development for land based diesel installations. The food and beverage business, covered by the Sanitary segment, showed a continued positive investment environment and consequently a good order development. The Comfort & Refrigeration segment developed in line with expectations. Industrial and commercial cooling and refrigeration showed continued growth driven by market investments and Alfa Laval's new products. Parts & Service continued to develop positively.

Operating income
(excluding comparison distortion items)

Operating income was SEK 2,805 (2,072) (1,162) million in 2007. The increase in operating income during 2007 compared to last year is mainly explained by a higher gross profit due to the volume increase, marginally offset by increased R&D and sales and administration costs and adverse foreign exchange effects.

PROCESS TECHNOLOGY DIVISION

The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

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

Orders received increased by 4.9 percent and net sales increased by 31.2 percent during 2007 compared to last year. Adjusted for acquisitions and divestments of businesses, the corresponding figures are 6.1 percent and 32.4 percent.

Taking a quarterly view the development for Process Technology division during 2007 has been as follows:

In the first quarter the growth was strong in Energy & Environment, especially in North America that has been boosted by large environmental orders for Toronto, Atlanta and Houston. The market for bio fuels continued to be strong, now also outside the US. The segment Process Industry had its best quarter ever in base sales. The positive development in Life Science was mainly a result of increased activity in the biotech market, particularly in the USA. The food markets were still strong. The Food segment was below last year, mainly due to very strong numbers in the first quarter 2006.

The second quarter showed a continued excellent growth in the market segment Process Industry, especially in Refinery and Petrochemical. The bio-ethanol activity in the USA had levelled out while the activity level in bio-diesel still increased in all geographical regions. The aftermarket, Part & Service, continued to benefit from a very strong demand driven by the high capacity needs from the customers resulting in retrofit and general trimming of performance.

The order intake in the division remained on a high level in the third quarter. The most significant growth was in Food Technology with high investment level in fish proteins for Omega 3 extraction. Also the brewery industry showed a high investment level. The conventional energy investments continued on a high level while new energy sources like bio-fuel showed a more cautious pattern. Bio ethanol in the US even reported a downturn. Parts & Service repeated the last quarter's performance with a very high order intake.

Despite a weak start the Process Technology Division had an order intake during the fourth quarter in line with the rest of the year, i.e. a stable high level. The base business was strong in all segments, particularly in Parts & Service. Energy & Environment showed a recovery with some larger projects within Oil & Gas, Power and Environment. Within the Process Industry segment the inorganic business continued to be strong, where technology substitution within heat transfer was increasing in importance. Brewery has shown growth during 2007 and that development was confirmed during the fourth quarter. The market for bio fuels showed large geographical fluctuations.

Operating income (excluding comparison distortion items)

Operating income increased to SEK 2,265 (1,060) (699) million in 2007. The increase in operating income during 2007 compared to last year is foremost explained by a higher gross profit due to the improved product mix and the volume increase, marginally offset by increased R&D and sales and administration costs and adverse foreign exchange effects.

OPERATIONS DIVISION AND OTHER

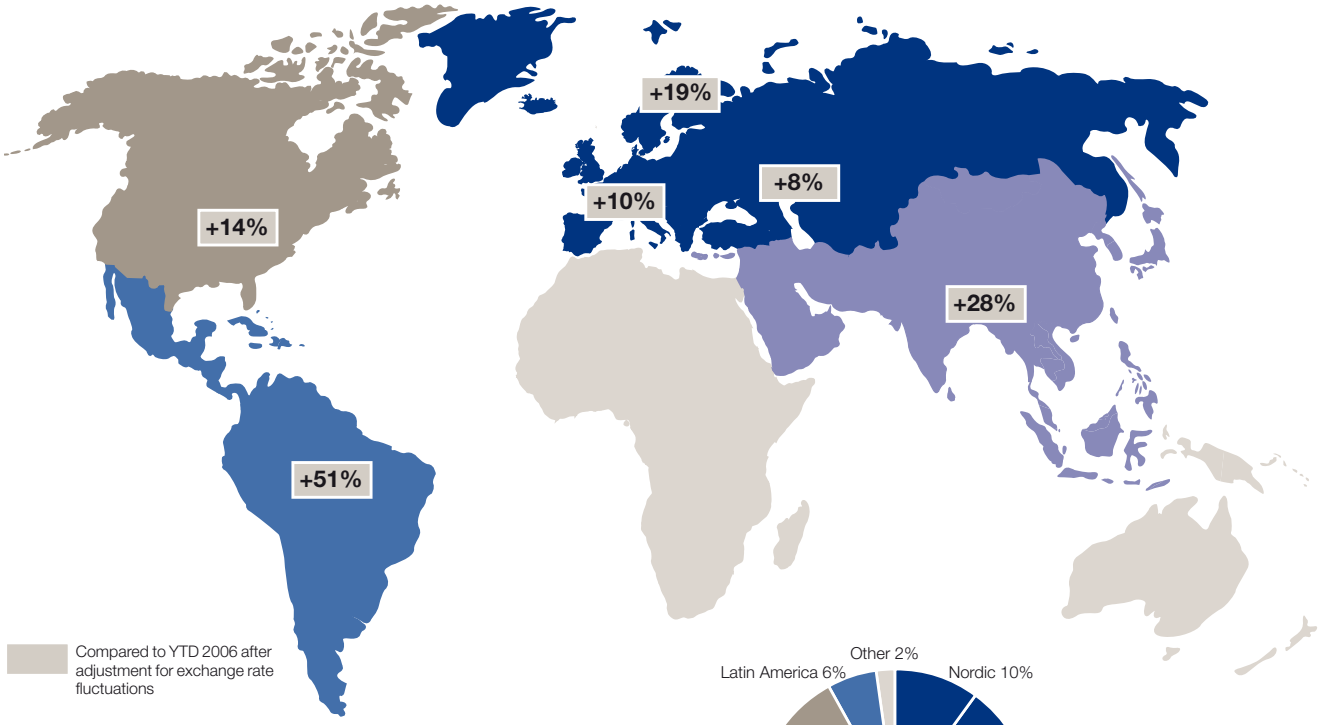
Operations are responsible for procurement, production and logistics. Other is referring to corporate overhead and non-core businesses.

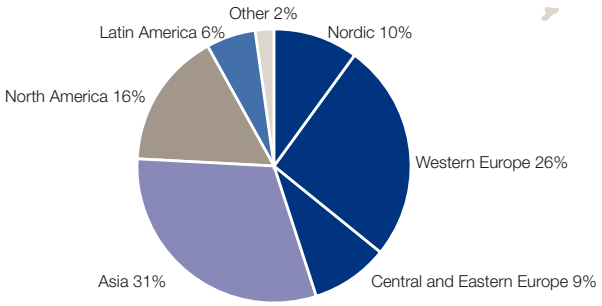
Operating income was SEK -433 (-460) (-411) million in 2007.

Reporting by geographical markets

The Group's secondary segments are geographical markets.

Orders received YTD





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

Western Europe including Nordic

The first quarter showed strong development in capital base sales and the aftermarket. In the Equipment division the best development was in Refrigeration, OEM and Fluids & Utilities. In Process Technology Division the best segment was Energy and Environment.

In the second quarter capital sales in the Equipment Division and sales in the aftermarket showed a continued strong development. In the Equipment Division the best development was in the market segments Refrigeration, Sanitary and Fluids & Utilities. In the Process Technology Division the base business for capital sales was flat compared to the second quarter 2006 at the same time as a large order in France last year was not repeated. The strongest development was seen in the market segment Process Industry.

The growth in base sales during the third quarter was very strong. There was a particularly strong development in Parts & Service. The strongest development was seen in the market segments Food Technology, Process Industry and Marine & Diesel. The best growth was reported in Benelux and the Adriatic.

The order intake was somewhat lower in the fourth quarter than the corresponding period 2006. The shortfall was concentrated to the Process Technology division. The order intake in the Equipment division was in line with last year, despite a downturn in the heat pump market. The best countries were the Nordic and the Iberian regions.

Central and Eastern Europe

The first quarter showed a good growth in base sales, including the aftermarket. Russia was below last year as large project orders were not repeated.

Overall the second quarter was strong with excellent growth in the market segments Sanitary, Process Industry, Energy & Environment as well as the aftermarket, Parts & Service. The level of base orders developed strongly, which shows that investments in presence and focus on Parts & Service are paying off. The strongest order development came from Russia and Poland.

The third quarter showed a stable growth across the region. The segments in the Process Technology division showed the best growth and Food Technology, Energy & Environment and Parts & Service were leading the way. Alfa Laval received a number of orders for brewery plants in for instance Ukraine. Country-wise Ukraine and Poland had the best overall growth during the quarter. Within the Equipment-division Comfort & Refrigeration showed good growth, particularly in Russia. There is a great potential for Parts & Service in the region and this business is growing nicely.

There was a stable growth for both divisions in the fourth quarter. The best development was experienced in Comfort & Refrigeration, Energy & Environment, Process Industry and Parts & Service. Turkey and Russia had the highest growth. Turkey had a broad based growth while Russia had the high-

est growth in Process Industry, energy and district heating.

North America

The first quarter showed a strong development in energy-related industries and in particular capital sales in the Process Technology division. The development for Tranter continued to be good.

Base sales during the second quarter were above last year and the aftermarket Parts & Service showed a continued strong development. The best segment with a very strong development was Process Industry that received a number of large orders.

Base sales during the third quarter were very strong even though the growth rate of total orders was slightly lower than earlier. The order intake in the Equipment division was strong whereas the order intake in the Process Technology division during the quarter was below last year after a very good start during the first half of 2007.

For the fourth quarter the total order intake was clearly below last year and the shortfall was concentrated to capital sales due to lower order intake for the bio ethanol application. The order intake within the Equipment division and Parts & Service was clearly above the fourth quarter 2006.

Latin America

Increased focus on the Equipment division business gave good results and resulted in a strong development for base business in the first quarter. Many countries showed a very good growth in the aftermarket.

There was a continued very good development across the region in the second quarter and especially in Brazil. The market segments Process Industry, Sanitary and Energy & Environment as well as the aftermarket, Parts & Service, showed excellent growth. Most of the growth came from the base business, which shows that investment in training of sales force and focus on Parts & Service is paying off.

The markets in Latin America continue to be strong in the third quarter. Argentina, Brazil and Colombia were leading the way but there was growth in all countries. The market segments with the strongest development continued to be Energy & Environment and Process Industry. Orders were very much related to the energy sector with investments in refineries, power plants, chemical plants and renewable fuels, particularly bio ethanol. The focus on the service business was paying off with exceptional results from Parts & Service.

In the fourth quarter the development was very strong within both divisions. All segments showed good growth with the best development in Comfort & Refrigeration and Energy & Environment. The strongest development was experienced in Mexico, Chile and Colombia.

Asia

The first quarter showed very strong growth. The best growth was in China, Korea and Middle East. Marine showed a very strong development based on continued expansion of shipyard business in China and Korea. The aftermarket showed double digit growth benefiting from market investments in presence during 2006.

Orders received during the second quarter were on the same level as the same period last year, which was a very strong quarter. Base sales showed a positive development reflecting a continuing strong business climate. The best performing market segments were Sanitary, Refrigeration & Cooling and Fluids & Utilities. The best growth was in South East Asia, Oceania, Korea and India. The marine market continued to show a positive trend in the main shipbuilding countries Japan, Korea and China. Similarly, the energy market continued to show a strong demand, although orders received were below the level of the second quarter 2006 when some large orders were received that were not repeated in 2007

The third quarter was very strong and especially strong in marine and particularly in China. The growth during the quarter was well spread across the region. Particularly strong were China, Oceania, Middle-East and India. The best performance was reported in the segments Marine & Diesel, Comfort & Refrigeration and the Process Industry. Energy driven markets such as refinery and petrochemical continued to show a stable demand. Parts & Service also showed a strong development during the quarter, which is a result of Alfa Laval's strategy of increased presence and service offering.

The best performing market segments in the fourth quarter were Food, Energy & Environment and Marine & Diesel. The energy strategy that Alfa Laval has established continued to deliver good results during the quarter. Parts & Service continued to show a good development. Best growth was reported for India, South East Asia and China.

Personnel

The parent company does not have any employees.

The Group has on average had 10,804 (9,923) (9,524) employees. At the end of December 2007 the Group had 11,395 (10,115) employees. The employee turnover rate for 2007 is 8.1 (10.2) (13.2) percent and mainly relates to employees within the sales organisation, administrative functions and manufacturing units.

Alfa Laval has several internal training programmes for employees on different levels and in different functions within the Alfa Laval University framework, for instance the Booster programme for the 100 top managers reporting to Group Management, the Challenger programme for 50 potential future managers and Adept for employees involved in the sales process.

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.

The distribution of employees per country and per municipality in Sweden and between males and females can be found in Note 2 in the notes to the financial statements. The specification of salaries, wages, remunerations, social costs and pension costs are provided in Note 3 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 3. The Board of Directors will propose the Annual General Meeting to introduce a cash based long term incentive programme for approximately 70 senior managers in the Group. This programme will also cover the persons defined as executive officers. Any other changes of these principles until the Annual General Meeting 2009 are not proposed by the Board of Directors.

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 643 (526) (448) million, corresponding to 2.6 (2.7) (2.7) percent of net sales. Adjusted for exchange rate variations and acquisitions and divestments, the costs for research and development have increased by 21.5 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 the human rights of its employees 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 as opposed to what is to be regarded as bribes and corruption.

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. At the end of 2007 11 (6) production sites with ISO 14001 certification accounted for 69 (43) percent of the delivery value. The current goal is that ISO 14001 approved sites should account for 80 percent of the delivery value and that all production units with more than 100 employees should be certified according to ISO 14001. Inherent in this goal are also goals covering the impact by the facilities on the external environment.

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 and 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, 2007, named as a co-defendant in a total of 253 asbestos-related lawsuits with a total of approximately 302 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.

Result for the parent company

The parent company's result after financial items was SEK 1,237 (1,993) (-16) million, out of which net interests were SEK 40 (7) (-5) million, realised and unrealised exchange rate gains and losses SEK 1 (-2) (0) million, dividends from subsidiaries SEK 1,208 (2,000) (-) million, costs related to the listing SEK -2 (-1) (-2) million, fees to the Board SEK -4 (-4) (-3) million, cost for annual report and annual general meeting SEK -3 (-3) (-4) million and other administration costs the remaining SEK -3 (-4) (-2) million. Appropriation to tax allocation reserve has been made with SEK -378 (-254) (-25) million. Income taxes amount to SEK -318 (-214) (-21) million. Tax on received Group contribution was SEK 413 (286) (32) million. Net income for the year was SEK 954 (1,811) (-30) million.

Unrestricted equity capital for the parent company

The unrestricted equity capital of Alfa Laval AB (publ) was SEK 3,628 (3,806) (1,828) million. The figure for 2007 has been affected by the repurchase of shares by SEK -1,497 million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 9.00 (6.25) (5.10) per share corresponding to SEK 973 (698) (570) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 2,655 (3,109) (1,259) million be carried forward, see page 106.

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 and the risks associated with it put on the equity capital and also the capital need, liquidity and financial position of 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 capital" and in Note 3.

Repurchase of shares

The Annual General Meeting 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 mandate referred to repurchase of up to 10 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through transactions on OMX Stockholm Stock Exchange. Until December 31, 2007 Alfa Laval has made the following repurchases:

Specification of repurchase of shares

	April 1-June 30	July 1-Sept 30	Oct 1-Dec 31	Total 2007
Number of repurchased shares	1,011,969	2,246,920	343,650	3,602,539
Percentage of outstanding shares	0.9%	2.0%	0.3%	3.2%
Decrease of equity capital in parent company and consolidated Group (SEK millions)	426	939	132	1,497

Proposal to cancel repurchased shares and make a bonus issue

The Board will propose to the Annual General Meeting to cancel the repurchased shares. Cancellation of 3,602,539 shares means that the share capital will decrease with SEK 36 million. At the same time the Board will propose that the share capital is increased by a bonus issue of 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.

Proposal on repurchase of additional shares

Alfa Laval's financial position is still very strong. In order to adjust the Group's balance sheet to a more efficient structure while maintaining financial flexibility, the Board of Directors will propose the Annual General Meeting to again mandate the Board to decide on repurchases 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.

Proposal to make a share split 4:1

The Alfa Laval share has shown a strong development during the last two years. In order to facilitate trading by shareholders with small holdings, the Board of Directors will propose the Annual General Meeting to make a share split 4:1 meaning that each old share will be split into 4 new shares. If the proposal is accepted the split is expected to be completed during the month of June 2008

Events after the balance sheet date

The balance sheets and the income statements will be adopted at the Annual General Meeting of shareholders on April 22, 2008.

Outlook for the near future

In the fourth quarter and full year 2007 report issued on February 6, 2008, the President and Chief Executive Officer Lars Renström stated:

"We expect the demand to remain on the current high level."

Earlier published outlook (October 23, 2007): "In many of the markets, geographical as well as customer segments that Alfa Laval serves, a continued very strong demand is expected."

Date for the next financial reports during 2008

Alfa Laval will publish interim reports during 2008 at the following dates:

Interim report for the first quarter	April 22
Interim report for the second quarter	July 16
Interim report for the third quarter	October 21

Consolidated cash-flow statements

Amounts in SEK millions	Note	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006	Jan 1-Dec 31 2005
Cash flow from operating activities				
Operating income		4,691	2,552	1,377
Adjustment for depreciation		608	601	580
Adjustment for other non-cash items		-73	207	-45
		5,226	3,360	1,912
Taxes paid		-1,130	-549	-429
		4,096	2,811	1,483
Changes in working capital:				
(Increase)/decrease of current receivables		-1,163	-1,308	49
(Increase)/decrease of inventories		-1,110	-725	-282
Increase/(decrease) of liabilities		896	1,418	482
Increase/(decrease) of provisions		545	423	-116
(Increase)/decrease in working capital		**-832**	**-192**	**133**
		3,264	2,619	1,616
Cash flow from investing activities				
Investments in fixed assets (Capex)		-556	-373	-324
Divestment of fixed assets		79	19	164
Acquisition of businesses	*25*	-1,199	-1,227	-505
Divestment of businesses	*25*	-	4	-
		-1,676	-1,577	-665
Cash flow from financing activities				
Financial net, paid		-244	-115	-351
Repurchase of shares		-1,497	-	-
Dividends to owners of parent company		-698	-570	-530
Dividends to minority owners in subsidiary		-27	-29	-26
(Increase)/decrease of other financial assets		-13	80	-31
Capitalised financing costs, acquisition loans		-	-4	-4
Increase/(decrease) of liabilities to credit institutions	*28*	1,188	-298	-30
		-1,291	-936	-972
Net increase (decrease) in cash and bank		**297**	**106**	**-21**
Cash and bank at the beginning of the year		546	479	415
Translation difference in cash and bank		13	-39	85
Cash and bank at the end of the period	*24*	**856**	**546**	**479**
Free cash flow per share (SEK) *		14.42	9.32	8.52
Capex in relation to sales		2.2%	1.9%	2.0%
Average number of shares **		110,152,876	111,671,993	111,671,993

* 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.

Comments to the consolidated cash-flow statements

For further comments on certain individual lines in the cash-flow statements, reference is made to Notes 24, 25 and 28.

Cash flow
Cash flow from operating and investing activities amounted to SEK 1,588 (1,041) (952) million during 2007. Out of this, acquisitions of businesses were SEK -1,199 (-1,227) (-505) million whereas divestments generated cash of SEK 79 (23) (164) million. Cash flow from operations has primarily been influenced by the higher operating income in comparison with last year. As a result of increased volumes and profit the cash flow has been burdened by increased tax payments and build up of working capital.

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. The other non-cash items are in addition to the non-cash impact of depreciations on the line above.

Working capital
Working capital increased by SEK 832 during 2007 and by 192 million during 2006, whereas the corresponding figure for 2005 was a decrease by SEK 133 million.

Investments
Investments in property, plant and equipment amounted to SEK 556 (373) (324) million during 2007. The investments made for the individual product groups are as follows:

Heat exchangers
Investments have been made in the production facility for large plate heat exchangers in Lund in Sweden in order to increase capacity. During the same period further capacity and productivity enhancing investments have been made in Ronneby in Sweden and in Alonte in Italy for brazed heat exchangers. Investments have also been made in China in equipment and factory space to increase capacity for both plate heat exchangers and brazed heat exchangers. Major investments in production capacity for welded heat exchangers have been made in both Fontanil and Chalon in France.

Decanters
Large investments have been made for capacity build up for medium sized decanters in Poona in India and large decanters in Söborg in Denmark. The investments have increased the product range flexibility between the two factories.

High speed separators
Large investments in turn/mill capacity for component manufacturing have been made both in Poona, India and in Eskilstuna, Sweden.

Depreciations
Depreciation, excluding allocated step-up values, amounted to SEK 265 (263) (264) million during the year.

Acquisitions and disposals
For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 25.

Free cash flow per share
The free cash flow per share is SEK 14.42 (9.32) (8.52).

Consolidated income statement

Amounts in SEK millions	Note	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006	Jan 1-Dec 31 2005
Net sales	*1*	24,849	19,802	16,330
Cost of goods sold	*7*	-15,340	-12,598	-10,800
Gross profit	1	9,509	7,204	5,530
Sales costs	*2, 3, 5*	-2,751	-2,607	-2,365
Administration costs	*2, 3, 4, 7*	-1,159	-948	-994
Research and development costs		-643	-526	-448
Other operating income *	*6*	362	281	324
Other operating costs *	*6, 7*	-627	-852	-670
Operating income		**4,691**	**2,552**	**1,377**
Dividends	*9*	2	2	5
Interest income	*10*	271	174	174
Interest expense *	*6, 10*	-407	-353	-457
Result after financial items		**4,557**	**2,375**	**1,099**
Taxes on this year's result	*14*	-1,350	-613	-160
Other taxes	*14*	-27	-37	-11
Net income for the year		**3,180**	**1,725**	**928**
Attributable to:				
Equity holders of the parent		3,137	1,687	885
Minority interests		43	38	43
Earnings per share (SEK)		28.48	15.10	7.92
Average number of shares **		110,152,876	111,671,993	111,671,993

* The line has been affected by comparison distortion items, see specification in Note 6.
** Average number of shares has been affected by the repurchase of shares.

Comments to the consolidated income statement

For comments on the individual lines in the income statement, reference is made to Notes 1 to 11 and Note 13, 14 and 28. For comments on the segments, see Note 1.

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

Income statement analysis

SEK millions	Oct 1 - Dec 31 2007	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	Jan 1 - Dec 31 2007	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
Net sales	7,220	6,040	4,684	24,849	19,802	16,330
Adjusted gross profit *	2,954	2,349	1,641	9,852	7,542	5,845
- in % of net sales	40.9	38.9	35.0	39.6	38.1	35.8
Expenses **	-1,205	-1,254	-1,028	-4,607	-4,269	-3,815
- in % of net sales	16.7	20.8	21.9	18.5	21.6	23.4
Adjusted EBITDA	**1,749**	**1,095**	**613**	**5,245**	**3,273**	**2,030**
- in % of net sales	**24.2**	**18.1**	**13.1**	**21.1**	**16.5**	**12.4**
Depreciation	-74	-77	-79	-265	-263	-265
Adjusted EBITA	**1,675**	**1,018**	**534**	**4,980**	**3,010**	**1,765**
- in % of net sales	**23.2**	**16.9**	**11.4**	**20.0**	**15.2**	**10.8**
Amortisation of step up values	-88	-86	-95	-343	-338	-315
Comparison distortion items	37	-125	5	54	-120	-73
EBIT	1,624	807	444	4,691	2,552	1,377

* Excluding comparison distortion items.

Sales and administration expenses amounted to SEK 3,910 (3,555) (3,359) million. Adjusted for exchange rate variations and acquisitions and divestments of businesses, sales and administration expenses were 10.8 percent higher than last year.

The costs for research and development have amounted to SEK 643 (526) (448) million, corresponding to 2.6 (2.7) (2.7) percent of net sales. Adjusted for exchange rate variations and acquisitions and divestments, the costs for research and development have increased by 21.5 percent compared to last year.

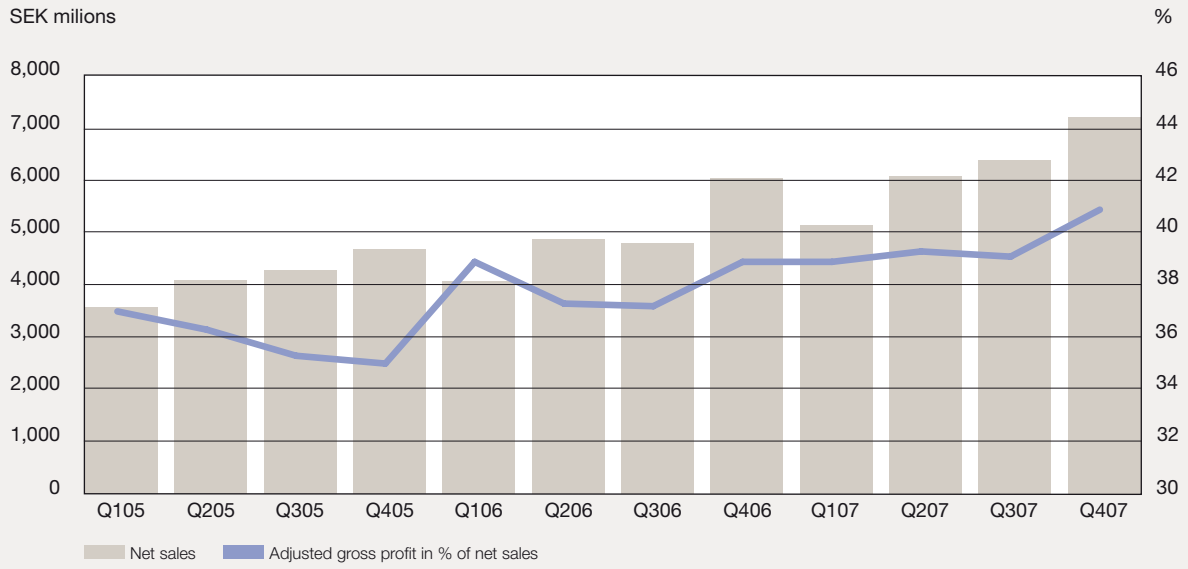
The adjusted result after tax and the minority's share of the result, excluding depreciation of step-up values and the corresponding tax, is SEK 30.55 (17.23) (9.83) per share.

Compared with last year Alfa Laval has been affected during 2007 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 -254 (61) (-133) million for the full year 2007 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.

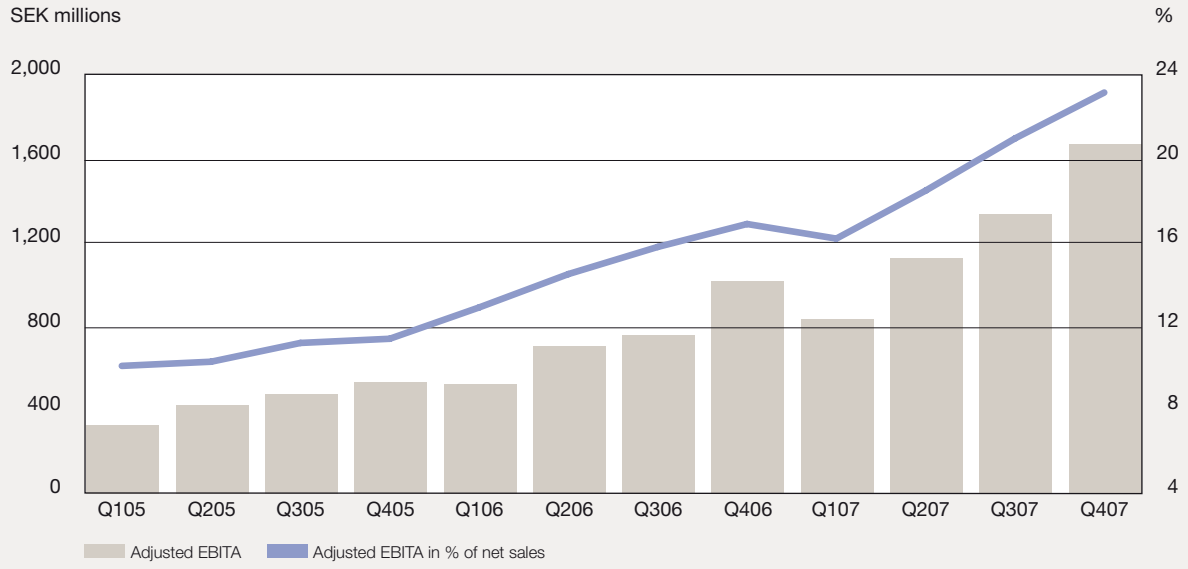
Net commercial exchange differences have amounted to SEK 533 (353) (269) million. These arise in connection with delivery of goods and other operational activities and have thereby affected the operating result.

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

Net sales and adjusted gross profit margin



Adjusted EBITA



The operating income has been affected by comparison distortion items of SEK 54 (-120) (-73) million, which are specified below. In the income statement these are reported gross as a part of other operating income and other operating costs, see summary in Note 6.

During 2007 the property in Tuusula in Finland has been sold for SEK 26 million with a realised gain of SEK 25 million. The property in Argentina has been sold for SEK 14 million with a realised gain of SEK 11 million. A property in Brussels in Belgium has been sold for SEK 27 million with a realised gain of SEK 15 million. Minor sales of land and buildings have been made in India for SEK 3 million with a realised gain of SEK 2 million and in France for SEK 2 million with a realised gain of SEK 1 million.

In December 2006 the biopharm engineering activity was sold for SEK 4 million with a realised loss of SEK -126 million. Out of this SEK 85 million was related to write off of goodwill. This was entirely referring to the goodwill from the acquisition of bioKinetics. During 2006 a piece of land in India was sold for SEK 2 million with a realised gain of SEK 1 million, two minor properties in France were sold for SEK 3 million with a realised gain of SEK 1 million, one flat in Denmark was sold for SEK 4 million with a realised gain of SEK 3 million and a property in Germany was sold for SEK 4 million with a realised gain of SEK 1 million.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58 million with a realised gain of SEK 48 million. In December 2005 the property in Richmond in the US was divested for SEK 96 million with a realised gain of SEK 3 million and some minor properties in India were divested for SEK 1 million with a realised gain of SEK 1 million. During 2005, costs for the closure of the separator factory in Madrid and the bioKinetics plant in Toronto of SEK 125 million were charged to the income statement.

The financial net has amounted to SEK -179 (-180) (-319) 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 -65 (-78) (-59) million, interest on the private placement and the bridge loan of SEK -40 (-33) (-) million, interest on the senior notes of SEK - (-) (-116) million and a net of dividends and other interest income and interest costs of SEK -74 (-69) (-55) million. The increase in interests to the banking syndicate between 2006 and 2005 is due to the redemption of the senior notes in November 2005, which was financed via a designated tranche of the syndicated loan. The bridge loan was raised in anticipation of the private placement that finances the acquisition of Tranter.

The redemption of the outstanding senior notes on November 15, 2005 incurred an additional interest cost during 2005 of SEK -68 million for the premium and SEK -21 million for the outstanding capitalised transaction costs, totalling SEK -89 million. These costs were reported as comparison distortion items, see Note 6.

The net of realised and unrealised exchange rate differences amounts to SEK 45 (3) (41) million, out of which SEK 2 (-3) (-19) million in the fourth quarter.

The increase in income taxes over the period 2005 to 2007 is primarily due to the increased result before tax.

Consolidated balance sheet

ASSETS

Amounts in SEK millions	Note	2007	2006
Non-current assets			
Intangible assets	*15, 16*		
Concessions, patents, licenses, trademarks and similar rights		1,271	1,189
Renting and similar rights		4	2
Goodwill		4,459	3,706
		5,734	4,897
Property, plant and equipment	*15, 17*		
Real estate		1,046	952
Machinery and other technical installations		906	876
Equipment, tools and installations		559	530
Construction in progress and advances to suppliers concerning property, plant and equipment		313	157
		2,824	2,515
Other non-current assets			
Other long-term securities	*12, 13, 18*	10	4
Pension assets	*26*	106	55
Capitalised financing costs, acquisition loans		5	14
Deferred tax asset	*14*	1,012	711
		1,133	784
Total non-current assets		**9,691**	**8,196**
Current assets			
Inventories	*19*	5,086	3,792
Assets held for sale			
Real estate		-	1
Current receivables			
Accounts receivable	*12, 20*	5,049	3,973
Other receivables	*12, 21*	1,973	1,661
Prepaid costs and accrued income	*12, 22*	101	74
Derivative assets	*12, 13*	297	270
Capitalised financing costs, acquisition loans		8	8
		7,428	5,986
Current deposits			
Other current deposits	*12, 23*	190	229
Cash and bank	*12, 24*	856	546
Total current assets		**13,560**	**10,554**
TOTAL ASSETS		**23,251**	**18,750**

EQUITY CAPITAL AND LIABILITIES

Amounts in SEK millions	Note	2007	2006
Equity capital			
Attributable to the equity holders of the parent			
Share capital, 111,671,993 shares		1,117	1,117
Other contributed capital		2,770	2,770
Other reserves		-94	-229
Retained earnings		4,053	3,055
		7,846	6,713
Attributable to minority interest	*11*	91	118
Total equity		**7,937**	**6,831**
Non-current liabilities			
Liabilities to credit institutions	*28*	2,378	1,251
Private placement	*28*	703	755
Provisions for pensions and similar commitments	*26*	877	941
Provision for deferred tax	*14*	1,090	949
Other provisions	*27*	409	318
Total non-current liabilities		**5,457**	**4,214**
Current liabilities			
Liabilities to credit institutions	*28*	339	220
Advances from customers		1,895	1,751
Accounts payable		2,283	1,968
Notes payable		239	176
Tax liabilities		1,412	951
Other liabilities	*29*	982	668
Other provisions	*27*	1,401	963
Accrued costs and prepaid income	*30*	1,084	869
Derivative liabilities	*12, 13*	222	139
Total current liabilities		**9,857**	**7,705**
Total liabilities		**15,314**	**11,919**
TOTAL EQUITY CAPITAL AND LIABILITIES		**23,251**	**18,750**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*31*	8	27
Contingent liabilities	*31*	3,161	2,487

Comments on the consolidated balance sheet

For comments on the individual lines in the balance sheet, reference is made to Notes 11 to 34. For comments on the segments, see Note 1.

Capital employed
The capital employed including goodwill and step-up values amounted to SEK 9,289 (8,062) million at the end of the year.

Return on capital employed
The return on capital employed including goodwill and step-up values amounted to 54.2 (35.9) percent during 2007.

Capital turnover rate
The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 2.7 (2.5) times for the year.

Return on equity capital
The net income for the year in relation to equity capital was 44.1 (25.3) percent.

Solidity
The solidity, that is the equity capital in relation to total assets, was 34.1 (36.4) percent at the end of the year.

Net debt
The net debt was SEK 2,410 (1,478) million at the end of the year.

Net debt to EBITDA
Net debt in relation to EBITDA was 0.5 (0.5) times at the end of December.

Debt ratio
The debt ratio, that is the net debt in relation to equity capital, was 0.30 (0.22) times at the end of December.

Changes in consolidated equity capital

Attributable to:	Equity holders of the parent					Minority	Total
Amounts in SEK millions	Share capital	Other contributed capital	Other reserves	Retained earnings	Subtotal		
As of December 31, 2004	**1,117**	**2,770**	**-320**	**1,583**	**5,150**	**119**	**5,269**
Adjustment: changed accounting principles	-	-	159	-	159	-	159
Deferred tax on adjustment	-	-	-52	-	-52	-	-52
Adjusted opening balance	**1,117**	**2,770**	**-213**	**1,583**	**5,257**	**119**	**5,376**
2005							
Result items booked directly to equity							
Cash flow hedges	-	-	-291	-	-291	-	-291
Translation difference	-	-	268	-	268	-4	264
Deferred tax	-	-	90	-	90	-	90
Net of items booked directly against equity	-	-	67	-	67	-4	63
Net income							
Net income for 2005	-	-	-	885	885	43	928
Sum of income and costs	-	-	67	885	952	39	991
Transactions with shareholders							
Dividends to owners of parent company	-	-	-	-530	-530	-	-530
Dividends to minority owner in subsidiary	-	-	-	-	-	-26	-26
As of December 31, 2005	**1,117**	**2,770**	**-146**	**1,938**	**5,679**	**132**	**5,811**
2006							
Result items booked directly to equity							
Cash flow hedges	-	-	228	-	228	-	228
Translation difference	-	-	-246	-	-246	-23	-269
Deferred tax	-	-	-65	-	-65	-	-65
Net of items booked directly against equity	-	-	-83	-	-83	-23	-106
Net income							
Net income for 2006	-	-	-	1,687	1,687	38	1,725
Sum of income and costs	-	-	-83	1,687	1,604	15	1,619
Transactions with shareholders							
Dividends to owners of parent company	-	-	-	-570	-570	-	-570
Dividends to minority owner in subsidiary	-	-	-	-	-	-29	-29
As of December 31, 2006	**1,117**	**2,770**	**-229**	**3,055**	**6,713**	**118**	**6,831**
2007							
Result items booked directly to equity							
Cash flow hedges	-	-	-26	-	-26	-	-26
Translation difference	-	-	155	-	155	13	168
Deferred tax	-	-	6	-	6	-	6
Net of items booked directly against equity	-	-	135	-	135	13	148
Net income							
Net income for 2007	-	-	-	3,137	3,137	43	3,180
Sum of income and costs	-	-	135	3,137	3,272	56	3,328
Transactions with shareholders							
Repurchase of shares	-	-	-	-1,497	-1,497	-	-1,497
Increase of ownership in Alfa Laval (India) Ltd	-	-	-	56	56	-56	-
Dividends to owners of parent company	-	-	-	-698	-698	-	-698
Dividends to minority owner in subsidiary	-	-	-	-	-	-27	-27
As of December 31, 2007	**1,117**	**2,770**	**-94**	**4,053**	**7,846**	**91**	**7,937**

Specification of changes in number of shares and share capital

Year	Event	Date	Change in number of shares	Total number of shares	Change in equity capital	Total equity
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

Movement schedule for cash flow hedges booked against equity

Consolidated SEK in millions	Fair value adjustment of derivatives
Opening balance 2007	96
Booked into equity 2007	68
Reversed from equity:	
booked against cost of goods sold	-93
booked against interest income	-1
Closing balance 2007	70
Change booked in equity 2007	-26

Specification of accumulated translation differences reported against equity capital

Year	Change	Accumulated	Main explanation to change	The change has been affected by hedging measures of
Formation of the Group				
2000	-94	-94	The EUR was appreciated by 6 %, which affected the EUR based acquisition loans	-312
2001	97	3	The USD was appreciated by 10.7 %	-105
2002	-190	-187	The USD was depreciated by 16.7 %	165
2003	-38	-225	The USD was depreciated by 17.5 %	140
2004	-103	-328	The USD was depreciated by 9.0 %	-14
2005	264	-64	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	-47
2006	-269	-333	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	40
2007	168	-165	The USD was depreciated by 5.7 % whereas the EUR was appreciated by 4.7 %	9

Comments on changes in consolidated equity capital

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 74,500,000 and 298,000,000.

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 111,671,993 (111,671,993) shares. The Annual General Meeting 2007 gave the Board a mandate to repurchase up to 10 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. At December 31, 2007 Alfa Laval had repurchased 3,602,539 shares. The Board will propose to the Annual General Meeting 2008 to cancel the repurchased shares. Cancellation of 3,602,539 shares means that the share capital will decrease with SEK 36,025,390. At the same time the Board will propose that the share capital is increased by a bonus issue of the same amount decided by the Annual General Meeting. In this way the size of the share capital is restored and the company avoids to have to obtain permission from Bolagsverket or if disputed the court to cancel the repurchased shares. If the Annual General Meeting decides to cancel the repurchased shares and thereby reduce the share capital and make the bonus issue the share capital will remain at SEK 1,116,719,930 but divided on 108,069,454 shares. If the Annual General Meeting also decides to make the 4:1 share split, the number of shares will increase to 432,277,816. This means that the upper limit of the number of shares in the articles of association will have to be increased.

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 17.7 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 Code of Corporate Governance. According to the Companies Act changes in the articles of association are decided at general meetings of shareholders.

The Annual General Meeting 2007 decided to give the Board a mandate to repurchase up to 10 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital.

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-flow statement and income statement

PARENT COMPANY CASH-FLOW STATEMENT

Amounts in SEK millions	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006	Jan 1- Dec 31 2005
Cash flow from operating activities			
Operating income	-12	-12	-11
Taxes paid	-229	-69	-67
	-241	-81	-78
Changes in working capital:			
(Increase)/decrease of current receivables	150	-1,014	117
Increase/(decrease) of liabilities	16	-248	157
(Increase)/decrease in working capital	**166**	**-1,262**	**274**
	-75	**-1,343**	**196**
Cash flow from investing activities			
Shares in subsidiaries	-	-208	-
	-	**-208**	**-**
Cash flow from financing activities			
Financial net, paid	39	7	-6
Repurchase of shares	-1,497	-	-
Received dividends from subsidiaries	1,208	2,000	-
Paid dividends	-698	-570	-530
Received group contribution	1,023	114	340
	75	**1,551**	**-196**
Net increase (decrease) in cash and bank	**-**	**-**	**-**
Cash and bank at the beginning of the year	-	-	-
Cash and bank at the end of the period	**-**	**-**	**-**

PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	*Note*	Jan 1-Dec 31 2007	Jan 1-Dec 31 2006	Jan 1-Dec 31 2005
Administration costs		-10	-11	-9
Other operating costs		-2	-1	-2
Operating income/loss		-12	-12	-11
Dividends		1,208	2,000	-
Interest income and similar result items	*10*	44	15	2
Interest costs and similar result items	*10*	-3	-10	-7
Result after financial items		1,237	1,993	-16
Appropriation to tax allocation reserve		-378	-254	-25
Income tax		-318	-214	-21
Tax on received Group contribution		413	286	32
Net result for the year		**954**	**1,811**	**-30**

Parent company balance sheet

Amounts in SEK millions	*Note*	2007	2006
ASSETS			
Long-term assets			
Financial long-term assets			
Shares in group companies	*18*	4,669	4,669
Current assets			
Current receivables			
Receivables on group companies		2,385	2,081
Other receivables		1	2
Accrued income and prepaid costs		-	0
		2,386	2,083
Cash and bank		**-**	**-**
Total current assets		**2,386**	**2,083**
TOTAL ASSETS		**7,055**	**6,752**
EQUITY CAPITAL AND LIABILITIES			
Equity capital			
Restricted equity capital			
Share capital, 111,671,993 shares		1,117	1,117
Statutory reserve		1,270	1,270
		2,387	2,387
Unrestricted equity capital			
Profit brought forward		2,674	1,995
Net income for the year		954	1,811
		3,628	3,806
Total equity capital		**6,015**	**6,193**
Untaxed reserves			
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	-
		738	360
Current liabilities			
Liabilities to group companies		47	33
Accounts payable		1	1
Tax liabilities		254	165
		302	199
TOTAL EQUITY CAPITAL AND LIABILITIES		**7,055**	**6,752**
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries)			
Performance guarantees		14	12
Other contingent liabilities		33	None

Changes in Parent Company's equity capital

Parent company Alfa Laval AB (publ)	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total
As of December 31, 2004	**1,117**	**2,770**	**-**	**807**	**4,694**
2005					
Reduction of share premium reserve	-	-1,500	-	1,500	-
Transfer to statutory reserve	-	-1,270	1,270	-	-
Dividends	-	-	-	-530	-530
Group contribution	-	-	-	114	114
Tax on received Group contribution	-	-	-	-33	-33
Net result 2005	-	-	-	-30	-30
As of December 31, 2005	**1,117**	**-**	**1,270**	**1,828**	**4,215**
2006					
Dividends	-	-	-	-570	-570
Group contribution	-	-	-	1,023	1,023
Tax on received Group contribution	-	-	-	-286	-286
Net result 2006	-	-	-	1,811	1,811
As of December 31, 2006	**1,117**	**-**	**1,270**	**3,806**	**6,193**
2007					
Repurchase of shares	-	-	-	-1,497	-1,497
Dividends	-	-	-	-698	-698
Group contribution	-	-	-	1,476	1,476
Tax on received Group contribution	-	-	-	-413	-413
Net result 2007	-	-	-	954	954
As of December 31, 2007	**1,117**	**-**	**1,270**	**3,628**	**6,015**

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 111,671,993 (111,671,993) shares. The Annual General Meeting 2007 gave the Board a mandate to repurchase up to 10 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. At December 31, 2007 Alfa Laval had repurchased 3,602,539 shares. The Board will propose to the Annual General Meeting 2008 to cancel the repurchased shares. Cancellation of 3,602,539 shares means that the share capital will decrease with SEK 36,025,390. At the same time the Board will propose that the share capital is increased by a bonus issue of the same amount decided by the Annual General Meeting. In this way the size of the share capital is restored and the company avoids to have to obtain permission from Bolagsverket or if disputed the court to cancel the repurchased shares. If the Annual General Meeting decides to cancel the repurchased shares and thereby reduce the share capital and make the bonus issue the share capital will remain at SEK 1,116,719,930 but divided on 108,069,454 shares. If the Annual General Meeting also decides to make the 4:1 share split, the number of shares will increase to 432,277,816. This means that the upper limit of the number of shares in the articles of association will have to be increased.

The new Companies Act that became effective on January 1, 2006 meant that funds that have been provided to the share premium reserve prior to January 1, 2006 shall be transferred to the statutory reserve. The Annual General Meeting 2005 decided to reduce the then existing share premium reserve within the restricted equity capital of Alfa Laval AB (publ) by SEK 1,500 million and that the amount would be transferred to an unrestricted fund. The reduction has been approved by the court.

Notes to the financial statements

ACCOUNTING PRINCIPLES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments including derivatives that are valued at fair value. The statements are presented in SEK millions, unless otherwise stated.

Statement of compliance

As from January 1, 2005 Alfa Laval applies International Financial Reporting Standards (IFRS). Furthermore the Financial Accounting Standards Council's in Sweden recommendation RR 30:06 "Supplementary accounting principles for consolidated groups" is applied.

The accounting and valuation principles of the parent company comply with the Swedish Annual Accounts Act and the recommendation RR 32:06 "Accounting for legal entities" issued by the Financial Accounting Standards Council in Sweden.

Changed/implemented accounting principles

During 2007 Alfa Laval has implemented paragraph 2a in chapter 6 of the Swedish Annual Accounts Act, IAS 1 paragraphs 124 A-C and IFRS 7.

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.

IAS 1 Presentation of Financial Statements has been expanded with paragraphs 124 A-C. These relate to new disclosure requirements on the company's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures replaces large parts of IAS 32 Financial Instruments: Disclosure and Presentation. IAS 32 will in the future only contain rules concerning the presentation of financial instruments. 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.

During 2006 the changes in the Swedish Annual Accounts Act 1995:1554 were implemented. These meant that the Board of Directors' Report was expanded with comments on amounts mentioned elsewhere in the annual report and where a comment is needed in order to understand the meaning of the figures, a description of material factors of risk and uncertainty and disclosures of non-financial nature such as environment and personnel, ethical guidelines and social matters.

During 2005 the following standards were implemented: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and IAS 39 Financial Instruments: Recognition and Measurement.

The comparison figures for 2004 have been restated according to IFRS.

Due to IFRS 1 all the previously implemented statements issued by Financial Accounting Standards Council in Sweden have now technically been replaced by the corresponding IFRS or IAS statements. Since there were only some minor differences between the Swedish recommendations and IAS, this has not by itself triggered any changes in accounting policies, equity or comparison periods.

IAS 39 means that financial derivatives, bonds and non-listed external shares are adjusted to fair value. IAS 39 represented a change in accounting policies that was reflected in the consolidated equity at January 1, 2005.

The application of the new accounting standards has otherwise in effect not resulted in any change of accounting principles and therefore not resulted in any effect on income or equity capital.

Critical accounting principles

With the implementation of IFRS 3 Business Combinations as of January 1, 2005 goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortised, but 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 the net income and thereby the financial position of the Group. The reported goodwill is SEK 4,459 (3,706) million at the end of the year. No intangible assets with indefinite useful lives 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 market 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 1,810 (1,281) million is reported as other provisions. This constitutes 7.8 (6.8) 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 equity and may have a substantial effect on the income statement 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.

Advertising costs

Advertising costs are expensed as incurred.

Associates

The Group has only one company that fulfils the definition of an associate in IAS 28 Investments in Associates. That is that the ownership is between 20 and 50 percent, which is the case for Dalian Haven Automation Co Ltd. This company is totally dormant. Since its net assets are not material, it is not consolidated.

Borrowing costs

Borrowing costs are accounted for according to the main principle in IAS 23 Borrowing Costs, which means that the borrowing costs are charged to the profit and loss in the period to which they relate. This means, among other things, that transaction costs that arise in connection with raising a loan are capitalised and amortised over the maturity of the 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.

For the period after August 24, 2000, 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. For the period up to August 24, 2000, the consolidated financial statements include the parent company Alfa Laval Holding AB and the subsidiaries in which it holds more than 50 percent during the period.

The consolidated balance sheet 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 capital 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, with deduction for restructuring provisions, is allocated to the step-up values related to each type of asset, with any remainder accounted for as goodwill.

At acquisitions where there is a goodwill it should be stated what the goodwill is relating to. Since goodwill by definition is a residual this is not always that easy. Generally speaking the goodwill is usually relating to estimated synergies in procurement, logistics and corporate overheads. It can also be claimed that the goodwill is relating to the acquired entity's ability to over time recreate its intangible assets. Since the value of the intangible assets at the time of acquisition only can be calculated on the assets that exist then no value can be attached to the patents etc. that the activity manages to create in the future partially as a replacement for the current ones and these are therefore referred to goodwill.

Goodwill and intangible assets with indefinite useful lives 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 income statement these are reported gross as a part of the most concerned lines in the income statement, but are specified separately in Note 6. A reporting together with other items in the 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.

Employee benefits

Employee benefits are reported according to IAS 19 Employee Benefits. The main difference compared with previous reporting (1999 and earlier) has been the reporting for defined benefit pension plans. 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 market value. The net plan asset or liability is arrived at in the following way.

+ The present value of the defined benefit obligation at December 31
+ any actuarial gains not recognised
- any actuarial losses not recognised
- any past service costs not yet recognised
- The fair value of the plan assets at December 31

= a net liability if positive / a net asset if negative

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

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

The costs for defined contribution plans are reported in Note 3.

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 3. Alecta reported a collective consolidation level at December 31, 2007 of 152 (143) 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 balance sheet date

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

Financial instruments

During 2005 IAS 39 Financial Instruments: Recognition and Measurement was implemented. IAS 39 means that financial derivatives, bonds and non-listed external shares are adjusted to fair value. During 2007 IFRS 7 Financial Instruments: Disclosures has been implemented. IAS 39 and IFRS 7 formally contain a considerable amount of information that should be presented. According to IFRS 7.B3 the company however should decide how much detail it provides in order not to overburden the financial statements with excessive details.

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

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

During 2007 prepaid costs, prepaid income and advances from customers ceased to be defined as financial instruments since they will not result in future cash flows.

The fair values of bonds and non-listed external shares are arrived at using available market prices or best estimates. The fair value adjustment is equal to the difference between the booked value and the fair value. The effect of the fair market valuation is reported over the income statement for bonds and non-listed external shares. The market valuation of these instruments is reflected directly on the balance sheet items bonds and non-listed external shares.

The fair values of the Group's currency forward contracts, currency options, interest-rate swaps, metal forward contracts and electricity futures are estimated based on dealer quotes, quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences, or if there are no relevant comparable contracts, on pricing models or formulas using current assumptions. The fair value adjustment is 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.

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 market valuation of derivatives is reported over equity for the derivatives where hedge accounting is made (according to the cash flow hedging method) and over the income statement 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 market adjustment is reported directly in the income statement. For the derivatives where hedge accounting is not made the fair market valuation is reported directly into the income statement. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the balance sheet.

Hedges of net investments in foreign operations

In order to finance acquisitions of foreign operations, loans are raised in the same currency as the net investment. These loans thereby constitute a hedge of the net investment in each currency.

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 balance sheet 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 and certain other items.

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 balance sheet 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 by increasing the valuation allowance 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. Out of the total inventory for spare parts, the valuation at net realisable value constitutes a considerable part.

Joint ventures

Alfa Laval owns 50 percent in four different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Hynetics Inc with Hyclone Inc as partner, Alfdex AB with Haldex as partner and AlfaWall with Wallenius as partner. These companies 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 balance sheet. 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 balance sheet. 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 balance sheet 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 the income statement 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 balance sheet date. It has nothing to do with the recognised costs in the 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 estimated economic lives of the assets.

The following depreciation and amortisation periods 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:

The Successor: Alfa Laval AB publ), from August 24, 2000

Patents 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

The Predecessor: Alfa Laval Holding AB, until August 23, 2000

Intangible assets	10 years
Goodwill, harmonisation	5 years
Goodwill, other	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 economic 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 net realisable value, 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 net realisable value is received that can trigger a write down.

Goodwill and intangible assets with indefinite useful lives 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.

For the impairment testing of goodwill, Alfa Laval's primary segments, i.e. 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 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 balance sheet.

Other operating income and other operating costs

Other operating income in the income statement relates to for instance commission, royalty and license income. Other operating costs refer mainly to restructuring costs and to royalty 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 balance sheet 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 income statement, however, the income related to the reimbursement is netted against the cost for the provision.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a cost 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.

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 balance sheet date unless the company has, before the balance sheet 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 income statement in the year in which they are incurred. Development costs are charged to the income statement in the year in which they are incurred provided that they do not fulfil the conditions for instead being capitalised according to IAS 38 Intangible Assets.

Revenue recognition

Revenue recognition is made according to IAS 18 Revenue. 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. Long-term construction projects are accounted for through the percentage of completion method.

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

- the stage of completion at the balance sheet date can be measured reliably.

Sick leave in Sweden

The Swedish Annual Accounts Act requires the sick leave among Swedish employees to be reported split on different specifically defined categories. This is a way to get focus on the contemporary problem of high sick leave rates and if certain employers are having a high or a low sick rate within the company. The specification is found in Note 2.

Transactions in foreign currencies

Receivables and liabilities denominated in foreign currencies have been valued at year-end rates of exchange. Within the parent company there were no unrealised exchange gains on long-term receivables and liabilities that have not been possible to offset against unrealised exchange losses within the same currency. Unrealised exchange gains on short-term receivables and liabilities are, however, included in the result.

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

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 domestic 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 2007 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 charged against equity capital.

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, 2008.

IFRS 8 Operating segments contains disclosure requirements concerning the operating segments of the Group and replaces the requirement to define primary and secondary segments for the Group based on operating divisions and geographical areas. IFRS 8 becomes effective for financial years beginning on or after January 1, 2009.

IAS 1 Presentation of Financial Statements has been revised to increase the value of the information in the financial statements. This includes that transactions with shareholders in equity must be presented in a separate statement while other transactions against equity are presented either as a continuation of the profit and loss statement or in a separate statement. The revised version of IAS 1 becomes effective for financial years beginning on or after January 1, 2009.

IAS 23 Borrowing costs has been revised to require capitalisation of borrowing costs when such costs relate to assets that necessarily take a substantial period of time to get ready for its intended use or sale. The revised version of IAS 1 becomes effective for financial years beginning on or after January 1, 2009.

IFRIC 13 Customer Loyalty Programmes requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. IFRIC 13 becomes effective for financial years beginning on or after July 1, 2008.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction covers the issue of how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset and minimum funding requirements under IAS 19 Employee Benefits. IFRIC 14 becomes effective for financial years beginning on or after January 1, 2008.

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 minority interests. At the end of 2007 the managed capital was SEK 10,347 (8,309) 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:

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.

During 2007 the Board has reviewed the Group's financial goals and decided to change the goal for the operating margin (EBITA) to 15 percent over a business cycle, from 12-15 percent. The target for return on capital employed (ROCE) has been changed to minimum 25 percent from minimum 20 percent.

In the longer term the debt ratio should be less than 1. As a result of major acquisitions the ratio may temporarily exceed 1, but the ratio is then expected to soon decrease beneath 1 due to positive cash flows and results from the acquired activity.

In order to maintain a good capital structure the Group may for instance raise new loans or amortise on existing loans, adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase own shares, issue new shares or sell assets.

In order to secure access to external financing at a reasonable cost having a competitive credit rating is important. Alfa Laval's rating has been issued by Standard & Poors. A sound and efficient capital structure and a good earnings potential give a good credit rating. An efficient capital structure is characterised by a competitive weighted cost of capital, which makes it possible to fulfil the operating or strategic needs at a reasonable cost.

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

- the senior credit facility with a banking syndicate from 2005 and the private placement in the US and the bilateral term loan with SHB that both happened in 2006.
- the repurchases of shares made during 2007

The repurchases of shares should be viewed in light of that the consolidated cash flows from operations are large enough to finance the build up of working capital and the acquisitions of businesses that have been made as well as the dividend to the shareholders.

Measure	Goal	Target standard	Target not set	Outcome 2007
Invoicing growth per year *	>= 5%			25.5%
Adjusted EBITA margin *	15%			20.0%
Return on capital employed	>= 25%			54.2%
Debt ratio		< 1		0.30
Cash flow from operations **		14%		13.1%
Investments **		2.5%		2.2%
Return on equity capital			X	44.1%
Solidity			X	34.1%
Net debt to EBITDA			X	0.5
Interest coverage ratio			X	23.7
Credit rating			X	BBB

* average over a business cycle ** in % of sales

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.

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 AB, 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

Transaction exposure

During 2007 Alfa Laval's sales to countries outside Sweden amounted to 96.0 (95.7) (94.8) percent of total sales.

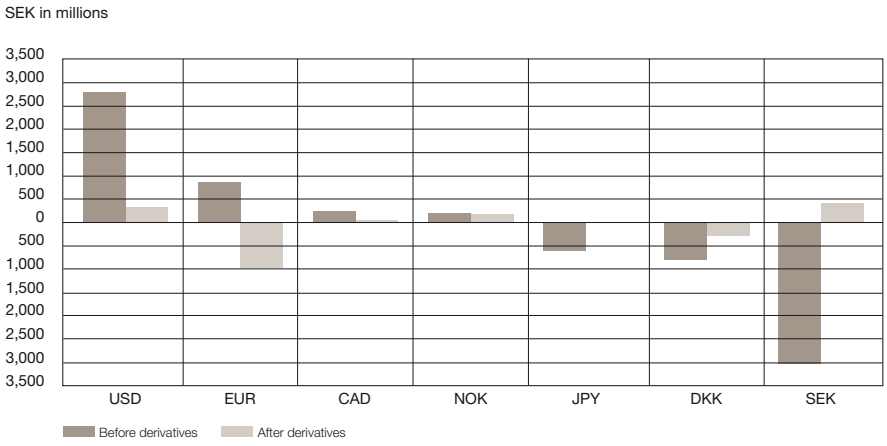
Alfa Laval's local sales companies normally sell in domestic currency to local end customers and have their local cost base in local currency. Exports from production and logistical centres to other Group companies are invoiced in the exporting companies' domestic currencies, except for Sweden, Denmark 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 the sale 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 exposure in different currencies before and after derivatives during 2007 has amounted to:

Net exposure per currency during 2007



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.

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:

Exchange rate change against SEK

	2007		2006		2005	
In SEK millions	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
Effect on operating income without hedging measure						
USD	274	-274	161	-161	132	-132
EUR	87	-87	125	-125	105	-105
CAD	24	-24	27	-27	23	-23
NOK	20	-20	15	-15	15	-15
DKK	-79	79	-136	136	-124	124
JPY	-60	60	20	-20	22	-22
Other	42	-42	39	-39	48	-48
Total	**308**	**-308**	**251**	**-251**	**221**	**-221**

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

In millions	2007		2006		2005	
Outflows	Original currency	SEK	Original currency	SEK	Original currency	SEK
EUR	-242	-2,294	-118	-1 065	-281	-2,647
USD	-656	-4,250	-593	-4 073	-282	-2,235
DKK	-398	-505	-685	-830	-609	-769
CAD	-29	-194	-7	-41	-29	-195
NOK	-12	-14	-40	-43	-43	-50
GBP	-3	-41	-	-	-	-
Other		-82		-70		-105
Total		**-7,380**		**-6,122**		**-6,001**

In millions	2007		2006		2005	
Inflows	Original currency	SEK	Original currency	SEK	Original currency	SEK
SEK	5,937	5,937	5,444	5,444	5,485	5,485
JPY	18,415	1,056	14,311	827	4,109	278
SGD	18	80	18	80	11	52
GBP	-	-	2	25	-	-
Other		106		3		7
Total		**7,179**		**6,379**		**5,822**

Translation exposure

When the subsidiaries' balance sheets 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 balance sheet is translated at the closing rate at December 31. The translation differences are reported in the equity capital. The translation exposure consists of the risk that the translation difference represents in relation to changes in the equity capital. 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 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 transferred to equity as foreign currency translation adjustments if the loans act as a hedge to the acquired net assets. In equity they offset the translation adjustments resulting from the consolidation of the foreign subsidiaries. In the Group, net exchange differences of SEK 13 (55) (-65) million relating to debts in foreign currencies have been charged to equity 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 balance sheet. Since the Group uses part of its cash flows to amortise the loans in order to improve the financial net, the extent of this hedge tends to decrease over time.

Interest risk

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

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

The senior credit facility and the bilateral term loan accrue interest at floating rate. The Group has chosen to hedge 39 (57) percent of the loans to fixed interest rate, with a duration of 20 months. This means that the Group has a comparably low interest risk.

Calculated on an overall increase of market rates by 100 basis points (1 percentage unit), the interest costs of the Group would increase by about SEK 12 (7) (12) million.

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 45 (57) 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.

Alfa Laval has made a private placement in the US. The offer was over-subscribed and was closed at USD 110 million with a maturity of 10 years and an interest based on US Treasury bills plus a mark-up of 95 basis points. The loan was raised on April 27, 2006. In anticipation of this a bridge loan of USD 100 million was raised from HSBC on March 1, 2006 in connection with the payment of the purchase price for Tranter.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 236 million. The loan matures in December 2013.

Alfa Laval has a senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 4,742 million. At December 31, 2007, SEK 2,098 million of the facility were utilised. The facility matures in April 2011 with another year's option until April 2012.

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.

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. The Group's net costs for bad debts are SEK 86 (60) (38) million. Accounts receivable constitutes the single largest financial asset according to Note 12. 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. See specification in Note 20.

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 have amounted to SEK 657 (492) (199) million.

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

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

- organized the operations into divisions based on customer segments in order to get a customer focused market penetration,
- a strategy for acquisition of businesses in order to for instance reinforce the presence on certain markets or widen the Group's product offering,
- worked with creating a competitive cost level based on its international presence and
- worked with securing the availability of strategic metals and components in order to maintain the ability to deliver.

Business climate
In an overall economic downturn the Group tends to be affected with a delay of 6 to 12 months depending on customer segment. The same applies with an economic upturn. The fact that the Group is operating on a large number of geographical markets and within a wide range of customer segments means a diversification that limits the effects of fluctuations in the business climate. Historically, fluctuations in the business climate have not generated decreases in orders received by more than 10 percent.

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 is 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 both 2007 and 2006 the Group has experienced higher prices for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium. The Group has at a limited scale started to use metal futures to secure the price on strategic metals.

Environmental risks
This risk relates to the costs that the Group may incur to reduce emissions according to new or stricter environmental legislation, to restore land at previously or currently owned industrial sites, to arrange more effective waist disposal, to obtain prolonged or new concessions etc. The Group has an ambition to be well within the boundaries that local legislation sets, which should reduce the risks. The operations of the Group are not considered to have a significant environmental impact.

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, 2007, named as a co-defendant in a total of 253 asbestos-related lawsuits with a total of approximately 302 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.

Desert Storm-lawsuits

Some of the subsidiaries of the Alfa Laval Group, along with approximately 70 other defendants, were sued in two lawsuits in the District Court for Brazoria County in Texas, U.S. in 1994. The claims were related to injuries allegedly suffered in the Gulf War 1991, also known as "Desert Storm".

Alfa Laval filed motions to get dismissed and has been awaiting a ruling from the trial court since November 1995.

In August 2006 the District Court for Brazoria County announced its decision to dismiss all Alfa Laval's subsidiaries as defendants in lawsuits regarding the Gulf War. The dismissal enabled Alfa Laval to release SEK 40 million in provisions for expected costs related to the lawsuits, which improved the result 2006 correspondingly.

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.

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. 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 new banking syndicate does not contain any such restrictions.

Notes

Note 1. Segment reporting

Alfa Laval's primary segments are the two divisions "Equipment" and "Process Technology". The divisions are based on a 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 six customer segments: Comfort & Refrigeration, Fluids & Utility Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service. The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

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

Divisional reporting

Orders received

Consolidated, SEK in millions	2007	2006	2005
Equipment	15,896	12,617	9,902
Process Technology	11,594	11,391	8,573
Operations and other	63	10	41
Total	**27,553**	**24,018**	**18,516**

Order backlog

Consolidated, SEK in millions	2007	2006	2005
Equipment	7,915	5,721	3,382
Process Technology	6,766	6,630	4,073
Operations and other	49	8	42
Total	**14,730**	**12,359**	**7,497**

Net sales

Consolidated, SEK in millions	2007	2006	2005
Equipment	13,586	10,934	8,631
Process Technology	11,242	8,829	7,673
Operations and other	21	39	26
Total	**24,849**	**19,802**	**16,330**

Operating income

Consolidated, SEK in millions	2007	2006	2005
Equipment	2,805	2,072	1,162
Process Technology	2,265	1,060	699
Operations and other	-433	-460	-411
Subtotal	4,637	2,672	1,450
Comparison distortion items	54	-120	-73
Total	**4,691**	**2,552**	**1,377**

	Assets		Liabilities	
Consolidated, SEK in millions	2007	2006	2007	2006
Equipment	7,252	5,671	1,676	1,089
Process Technology	7,369	5,887	4,085	3,321
Operations and other	5,511	4,762	2,479	3,018
Subtotal	20,132	16,320	8,240	7,428
Corporate	3,119	2,430	7,074	4,491
Total	**23,251**	**18,750**	**15,314**	**11,919**

Corporate refers to balance sheet items that are interest bearing or are related to taxes.

	Investments			Depreciation		
Consolidated, SEK in millions	2007	2006	2005	2007	2006	2005
Equipment	52	34	24	168	157	131
Process Technology	75	74	48	151	156	151
Operations and other	429	265	252	289	288	298
Total	**556**	**373**	**324**	**608**	**601**	**580**

Reporting by geographical markets

Alfa Laval's secondary segments are geographical markets. Countries with more than 10 percent of net sales, assets or investments are reported separately.

Net sales to customers in:

Consolidated	2007 SEK in millions	%	2006 SEK in millions	%	2005 SEK in millions	%
Sweden	987	4.0%	855	4.3%	842	5.2%
Other EU	9,112	36.7%	6,896	34.7%	5,763	35.1%
Other Europe	2,223	8.9%	1,854	9.4%	1,329	8.1%
USA	3,680	14.8%	3,053	15.4%	2,328	14.3%
Other North America	420	1.7%	610	3.1%	437	2.7%
Latin America	1,258	5.1%	844	4.3%	798	4.9%
Africa	177	0.7%	213	1.1%	224	1.4%
Asia	6,662	26.8%	5,181	26.2%	4,337	26.6%
Oceania	330	1.3%	296	1.5%	272	1.7%
Total	**24,849**	**100.0%**	**19,802**	**100.0%**	**16,330**	**100.0%**

Assets

Consolidated	2007 SEK in millions	%	2006 SEK in millions	%	2005 SEK in millions	%
Sweden	4,342	18.7%	4,043	21.6%	2,642	16.3%
Other EU	8,453	36.4%	6,596	35.2%	6,211	38.3%
Other Europe	430	1.8%	328	1.7%	343	2.1%
USA	2,451	10.5%	2,211	11.8%	1,888	11.7%
Other North America	228	1.0%	224	1.2%	291	1.8%
Latin America	600	2.6%	411	2.2%	291	1.8%
Africa	29	0.1%	17	0.1%	24	0.1%
Asia	3,435	14.8%	2,346	12.5%	2,285	14.1%
Oceania	164	0.7%	144	0.8%	175	1.1%
Subtotal	20,132	86.6%	16,320	87.1%	14,150	87.3%
Corporate	3,119	13.4%	2,430	12.9%	2,056	12.7%
Total	**23,251**	**100.0%**	**18,750**	**100.0%**	**16,206**	**100.0%**

Investments

Consolidated	2007 SEK in millions	%	2006 SEK in millions	%	2005 SEK in millions	%
Sweden	198	35.7%	136	36.4%	147	45.4%
Denmark	73	13.1%	50	13.3%	14	4.4%
France	45	8.0%	48	12.9%	18	5.4%
Other EU	86	15.5%	53	14.1%	38	11.7%
Other Europe	17	3.1%	4	1.2%	18	5.6%
North America	35	6.3%	29	7.9%	16	4.9%
Latin America	6	1.0%	5	1.4%	4	1.2%
Africa	0	0.0%	0	0.1%	0	0.1%
India	52	9.4%	23	6.2%	36	11.1%
Other Asia	43	7.8%	24	6.3%	32	10.0%
Oceania	1	0.1%	1	0.2%	1	0.2%
Total	**556**	**100.0%**	**373**	**100.0%**	**324**	**100.0%**

The values for the "Other EU" and "Other Europe" regions have been adjusted for all periods in order to reflect the extension of the European Union on January 1, 2007 with 2 new membership countries: Bulgaria and Romania.

Note 2. Average number of employees

Average number of employees - total

	Number of female employees			Total number of employees		
Consolidated	2007	2006	2005	2007	2006	2005
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (7)	473	440	396	2,273	2,091	1,938
Total in Sweden (7)	473	440	396	2,273	2,091	1,938
Total abroad (85)	1,719	1,616	1,544	8,531	7,832	7,586
Total for the group (92)	**2,192**	**2,056**	**1,940**	**10,804**	**9,923**	**9,524**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2007.

Average number of employees - in Sweden by municipality

Employees in Sweden	2007	2006	2005
Botkyrka	448	433	445
Eskilstuna	218	196	193
Göteborg	-	-	2
Lund	1,084	1,001	994
Ronneby	324	287	254
Stockholm	15	11	-
Vänersborg	138	104	-
Other municipalities with < 10 employees *	46	59	50
Total	**2,273**	**2,091**	**1,938**

* "Other municipalities < 10 employees" includes also employees at branch offices abroad.

Sick leave among Swedish employees

Sick leave in percent of total normal working hours for each category

Consolidated	2007	2006	2005
Sick leave for:			
all employees	3.9	3.9	3.7
all employees during 60 consecutive days or more	1.6	1.8	2.0
female employees	5.2	4.3	3.7
male employees	3.6	3.7	3.7
employees at the age of 29 or younger	2.7	2.1	2.9
employees between 30 and 49 years of age	3.3	3.5	3.2
employees at the age of 50 or more	4.9	5.3	4.9

Average number of employees - by country

	Number of female employees			Total number of employees		
Consolidated	2007	2006	2005	2007	2006	2005
Argentina	12	14	12	45	42	43
Australia	13	14	15	65	61	61
Belgium	10	11	25	68	74	102
Brazil	28	28	24	130	116	107
Bulgaria	3	3	4	11	12	12
Canada	21	20	21	73	73	73
Chile	5	7	6	28	27	25
Colombia	3	2	3	11	10	11
Denmark	311	279	285	1,162	1,076	1,113
Estonia	1	1	1	3	2	2
Philippines	2	3	3	13	17	20
Finland	46	22	28	90	64	99
France	162	153	144	847	749	717
United Arab Emirates	14	9	10	75	63	58
Greece	-	-	-	0	1	1
Hong Kong	6	7	7	27	25	19
India	41	38	32	1,265	1,154	1,063
Indonesia	10	12	15	62	66	72
Iran	2	3	3	15	12	11
Ireland	-	-	-	-	1	-
Italy	102	102	85	598	570	529
Japan	37	36	35	198	194	186
China	193	138	121	801	623	573
Korea	23	25	24	91	86	84
Latvia	4	3	4	8	8	9
Lithuania	2	2	2	4	4	4
Malaysia	22	22	24	61	60	66
Mexico	8	5	4	36	33	30
Netherlands	26	32	19	177	120	111
Norway	10	11	14	45	46	50
New Zeeland	4	3	3	24	22	24
Peru	8	7	7	28	26	25
Poland	27	28	24	173	147	124
Portugal	4	4	4	13	13	13
Romania	7	4	4	14	14	12
Russia	108	115	110	285	265	256
Switzerland	3	3	3	17	16	16
Singapore	20	19	20	49	48	46
Slovakia	2	2	2	10	9	9
Spain	25	26	38	93	125	200
UK	54	50	56	314	312	312
Sweden	473	440	396	2,273	2,091	1,938
South Africa	11	10	9	39	37	34
Taiwan	13	12	12	33	30	31
Thailand	20	18	18	55	49	44
Czech Republic	15	13	13	75	68	66
Turkey	8	8	8	37	33	33
Germany	67	68	64	234	231	231
Ukraine	5	-	-	8	-	-
Hungary	7	7	7	19	19	22
USA	185	208	162	952	934	799
Venezuela	4	4	4	18	16	16
Austria	5	5	6	32	29	22
Total for the group	**2,192**	**2,056**	**1,940**	**10,804**	**9,923**	**9,524**

Note 2. Average number of employees, continued

Distribution of men/women among managers

	2007			2006			2005		
Consolidated	Number	Male%	Female%	Number	Male%	Female%	Number	Male%	Female%
Board members (excluding deputies)	11	72.7	27.3	12	75.0	25.0	12	75.0	25.0
President and other executive officers	11	100.0	0.0	11	100.0	0.0	11	100.0	0.0
Managers in Sweden	275	81.5	18.5	255	83.1	16.9	242	82.6	17.4
Managers outside Sweden	912	85.3	14.7	873	86.5	13.5	775	86.7	13.3
Managers total	1,187	84.4	15.6	1,128	85.7	14.3	1,017	85.7	14.3
Employees in Sweden	2,273	79.2	20.8	2,091	79.0	21.0	1,938	79.6	20.4
Employees outside Sweden	8,531	79.8	20.2	7,832	79.4	20.6	7,586	79.6	20.4
Employees total	**10,804**	**79.7**	**20.3**	**9,923**	**79.3**	**20.7**	**9,524**	**79.6**	**20.4**

Note 3. Salaries and remunerations - total

Consolidated, SEK in millions	2007	2006	2005
Board of Directors, Presidents and Vice Presidents	140	134	131
of which, bonus	31	26	31
Other	3,621	3,362	3,095
Total salaries and remunerations	3,761	3,496	3,226
Social security costs	699	631	578
Pension costs, defined benefit plans	166	145	147
Pension costs, defined contribution plans	263	242	230
Total costs of personnel	**4,889**	**4,514**	**4,181**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 46 (40) (32) million and SEK 289 (289) (282) million respectively. SEK 170 (174) (179) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2005 to 2007 no equity related benefits existed within Alfa Laval.

Chief Executive Officer/Managing Director

The Chief Executive Officer and Managing Director Lars Renström receives a remuneration of SEK 9,497,445 (6,670,445) (4,979,514), of which bonus was 3,000,000 (1,456,000) (403,851). The bonus refers to bonus paid during the year. The remuneration contains the value of company car, taxable daily allowances, holiday pay and payment for vacation taken in cash.

Lars Renström currently has a base salary of SEK 6,000,000 (5,000,000) (4,400,000) per annum. He has a bonus opportunity with an un-guaranteed target bonus of 30 (30) (25) percent of the base salary and with a maximum opportunity of 60 (60) (50) percent. He does not have an agreement on early retirement. The ordinary ITP up to a salary of 30 base amounts is funded in order to achieve full ITP benefits at the age of 60. If Lars Renström continues his work in Alfa Laval after the age of 60 he will not receive any pension during the time he receives salary. On top of the ordinary ITP he has a defined contribution benefit comprising 50 percent of the base salary. If Alfa Laval terminates his employment before the age of 59 he will receive two years' remuneration, between 59 and 60 he will receive one year's remuneration and from 60 he will receive 6 months' remuneration. During the year, Alfa Laval has recorded costs for pension premiums of SEK 5 (4) (4) million.

Board of Directors

For 2007, the Board of Directors receive a total fixed remuneration of SEK 3,050,000 (2,825,000) (2,625,000), which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

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

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

Other executive officers

Other executive officers are the ten members of Group Management in addition to the Chief Executive Officer. Their remunerations were SEK 27 (22) (21) million, of which bonuses were SEK 5 (3) (2) million. The bonus refers to bonus paid during the year.

For these executive officers, early retirement has in a few cases been committed from the age of 60 or 62. From 2006 a defined contribution solution for early retirement is offered with a premium of 15 percent of the pensionable salary. Early retirement is offered selectively and only after a specific decision in the remunerations' committee. For salaries above 30 base amounts a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts is offered since 2006. The executive officers also have a special family pension that represents a supplement between the old age pension and the family pension according to ITP. In addition, they may exchange salary and bonus for a temporary old age and family pension.

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

Remunerations for Board members elected at Annual General Meeting and not employed by the company

Consolidated, SEK	2007	2006	2005
Fees to:			
Chairman of the Board	800,000	725,000	675,000
Other members of the Board	325,000	300,000	275,000
Supplement to:			
Chairman of the Audit Committee	100,000	100,000	100,000
Other members of the Audit Committee	50,000	50,000	50,000
Chairman of the remuneration committee	50,000	50,000	50,000
Other member of the remuneration committee	50,000	50,000	50,000

Consolidated, SEK		2007	2006	2005
Name:	Function:			
Anders Narvinger	Chairman	900,000	825,000	775,000
Gunilla Berg	Member	375,000	350,000	325,000
Björn Hägglund	Member	325,000	300,000	275,000
Ulla Litzén	Member	325,000	300,000	275,000
Finn Rausing	Member	425,000	400,000	375,000
Jörn Rausing	Member	375,000	350,000	325,000
Waldemar Schmidt	Member	325,000	300,000	275,000
Total		**3,050,000**	**2,825,000**	**2,625,000**

Guidelines for remunerations to executive officers

The remunerations to the Chief Executive Officer/Managing Director and other members of Group Management are decided by the Board's remunerations' committee according to the guidelines established by the Annual General Meeting. The principle used when deciding the remunerations to executive officers is that the remuneration is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a floating remuneration in the form of a yearly bonus up to 40 percent of the salary (managing director up to 60 percent of the salary). The size of the resulting bonus depends on the outcome of a number of financial measurements and the result of special projects, all compared with the objectives that have been established for the year. The Board of Directors will propose the Annual General Meeting to introduce a cash based long term incentive programme for approximately 70 senior managers in the Group. This programme will also cover the persons defined as executive officers. Any other changes of these principles until the Annual General Meeting 2009 are not proposed by the Board of Directors.

Note 3. Salaries and remunerations, continued

Salaries and remunerations - by country

	Board of Directors, Presidents and Vice Presidents			Other employees		
SEK in millions	2007	2006	2005	2007	2006	2005
Argentina	1	1	1	5	5	3
Australia	4	3	3	25	24	22
Belgium	5	5	4	42	39	52
Brazil	4	3	2	31	24	17
Bulgaria	0	0	0	1	1	1
Canada	2	2	1	33	36	39
Chile	0	0	0	6	6	5
Colombia	0	1	1	2	2	2
Denmark	9	10	10	629	612	578
Estonia	0	0	0	0	0	0
Philippines	0	0	0	1	1	2
Finland	1	1	2	35	29	42
France	0	0	2	270	241	182
United Arab Emirates	6	5	1	12	12	14
Greece	0	0	0	0	1	1
Hong Kong	2	1	1	18	19	19
India	4	4	2	87	67	48
Indonesia	1	1	1	6	6	5
Iran	0	0	0	2	1	1
Ireland	-	0	-	-	1	-
Italy	1	1	3	198	181	159
Japan	8	10	12	81	81	87
China	1	1	1	68	51	42
Korea	0	1	1	30	27	23
Latvia	1	0	0	1	1	1
Lithuania	0	0	0	0	0	1
Malaysia	1	1	1	10	9	10
Mexico	1	2	2	9	8	7
Netherlands	1	1	5	100	58	48
Norway	2	1	1	32	30	31
New Zeeland	1	1	1	6	5	7
Peru	0	0	0	5	4	4
Poland	2	2	2	23	20	16
Portugal	0	0	0	4	4	4
Romania	2	2	1	1	1	1
Russia	0	0	0	58	47	37
Switzerland	0	2	2	13	12	12
Singapore	1	1	1	13	14	11
Slovakia	0	0	0	2	2	2
Spain	3	2	2	39	55	81
UK	1	1	0	141	139	129
Sweden	33	27	24	995	846	758
South Africa	0	0	2	7	7	10
Taiwan	1	1	1	7	7	7
Thailand	1	1	1	8	6	4
Czech Republic	2	2	2	13	11	9
Turkey	2	2	2	10	8	9
Germany	9	9	5	99	99	108
Ukraine	0	-	-	2	-	-
Hungary	1	1	1	5	4	4
USA	23	23	26	419	483	428
Venezuela	0	0	0	2	2	2
Austria	3	2	1	15	13	10
Total for the group	**140**	**134**	**131**	**3,621**	**3,362**	**3,095**

Note 4. 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 Nomination Committee decided to propose the Annual General Meeting in 2008 to re-elect Ernst & Young as the Group's auditors for the coming four years.

Fees and expense compensation

Consolidated, SEK in millions	2007	2006	2005
Audit			
Ernst & Young	21	17	15
Other audit firms	1	1	1
Total	**22**	**18**	**16**
Other projects			
Ernst & Young	9	5	4
Other audit firms	9	7	4
Total	**18**	**12**	**8**

An audit 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. All other assignments are defined as other projects.

Note 5. Advertising costs

Advertising costs have amounted to SEK 86 (59) (45) million. These refer to costs for advertisements in newspapers and technical press, participation in trade fairs and brochures. Out of the difference between 2006 and 2005 Tranter accounted for SEK 7 million.

Note 6. Comparison distortion items

Consolidated, SEK in millions	2007	2006	2005
Operational			
Other operating income	308	275	272
Comparison distortion income	54	6	52
Total other operating income	362	281	324
Other operating costs	-627	-726	-545
Comparison distortion costs	-	-126	-125
Total other operating costs	-627	-852	-670
Financial			
Interest expense	-407	-353	-368
Comparison distortion costs	-	-	-89
Total interest expense	-407	-353	-457

Specification of operational gains and losses

Consolidated, SEK in millions	2007	2006	2005
Gain on:			
Sale of real estate	54	6	52
Subtotal gains	54	6	52
Loss on:			
Closure of factories and plants	-	-	-125
Sale of biopharm engineering activity	-	-126	-
Subtotal losses	-	-126	-125
Net total	**54**	**-120**	**-73**

During 2007 the property in Tuusula in Finland has been sold for SEK 26 million with a realised gain of SEK 25 million. The property in Argentina has been sold for SEK 14 million with a realised gain of SEK 11 million. A property in Brussels in Belgium has been sold for SEK 27 million with a realised gain of SEK 15 million. Minor sales of land and buildings have been made in India for SEK 3 million with a realised gain of SEK 2 million and in France for SEK 2 million with a realised gain of SEK 1 million.

In December 2006 the biopharm engineering activity was sold for SEK 4 million with a realised loss of SEK -126 million. Out of this SEK 85 million was related to write off of goodwill. This was entirely referring to the goodwill from the acquisition of bioKinetics. During 2006 a piece of land in India was sold for SEK 2 million with a realised gain of SEK 1 million, two minor properties in France were sold for SEK 3 million with a realised gain of SEK 1 million, one flat in Denmark was sold for SEK 4 million with a realised gain of SEK 3 million and a property in Germany was sold for SEK 4 million with a realised gain of SEK 1 million.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58 million with a realised gain of SEK 48 million. In December 2005 the property in Richmond in the US was divested for SEK 96 million with a realised gain of SEK 3 million and some minor properties in India were divested for SEK 1 million with a realised gain of SEK 1 million. During 2005, costs for the closure of the separator factory in Madrid and the bioKinetics plant in Toronto of SEK -125 million were charged to the income statement.

Consolidated, SEK in millions	2007	2006	2005
Costs for redemption of senior notes:			
Premium	-	-	-68
Capitalised transaction costs	-	-	-21
Total	**-**	**-**	**-89**

Alfa Laval redeemed the outstanding senior notes on November 15, 2005. This incurred an additional interest cost during 2005 of SEK 68 million for the premium and SEK 21 million for the outstanding capitalised transaction costs.

Note 7. Depreciation by function

Consolidated, SEK in millions	2007	2006	2005
Cost of goods sold	-479	-464	-457
Sales	-11	-62	-46
Administration	-45	-61	-61
Research and development	-53	-6	-10
Other income and costs	-20	-8	-6
Total	**-608**	**-601**	**-580**

Note 8. Depreciation by type of assets

Consolidated, SEK in millions	2007	2006	2005
Patents, trademarks, etc.	-249	-243	-221
Machinery and equipment	-297	-293	-289
Financial leasing machinery and equipment	-3	-3	-2
Buildings and ground installations	-58	-61	-68
Financial leasing buildings	-1	-1	0
Total	**-608**	**-601**	**-580**

Note 9. Result from other securities and receivables accounted for as non-current assets

Consolidated, SEK in millions	2007	2006	2005
Dividends from other	2	3	3
Fair value adjustment of securities	0	-1	2
Total	**2**	**2**	**5**

Note 10. Interest income/costs and exchange rate differences

Consolidated, SEK in millions	2007	2006	2005
Interest income			
Financial leasing	1	1	1
Other interest	46	39	49
Exchange gains			
Unrealised	190	85	107
Realised	34	49	17
Total	**271**	**174**	**174**
Interest costs			
Financial leasing	-2	0	0
Other interest	-226	-222	-285
Comparison distortion items	-	-	-89
Exchange losses			
Unrealised	-58	-113	-55
Realised	-121	-18	-28
Total	**-407**	**-353**	**-457**

In the Group, reported net exchange differences of SEK 13 (55) (-65) million relating to debts in foreign currencies have been charged to equity. 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 equity impact of SEK 9 (40) (-47) million.

Parent company, SEK in millions	2007	2006	2005
Interest income			
External companies	0	0	-
Subsidiaries	40	14	1
Exchange gains			
Unrealised	4	1	1
Total	**44**	**15**	**2**
Interest costs			
External companies	-	0	0
Subsidiaries	0	-7	-6
Exchange losses			
Unrealised	-2	-3	-1
Realised	-1	0	0
Total	**-3**	**-10**	**-7**

Note 11. Minority interest

The minority share in subsidiaries' result and equity relates to four subsidiaries in Bulgaria, France, India and Russia where minority owners exist.

Note 12. Classification of financial assets and liabilities

Financial assets

	Financial assets at fair value through profit or loss:						Loans and receivables	
	Designated upon initial recognition		Held for trading		Derivatives used for hedging			
Consolidated, SEK in millions	2007	2006	2007	2006	2007	2006	2007	2006
Non-current assets								
Other non-current assets								
Other long-term securities	10	4	-	-	-	-	-	-
Current assets								
Current receivables								
Accounts receivable	-	-	-	-	-	-	5,049	3,973
Notes receivable	-	-	-	-	-	-	387	254
Other receivables	-	-	-	-	-	-	907	809
Accrued income	-	-	-	-	-	-	8	5
Derivative assets	-	-	139	115	158	155	-	-
Current deposits								
Deposits with banks	-	-	-	-	-	-	149	170
Bonds and other securities	35	53	-	-	-	-	-	-
Other deposits	-	-	-	-	-	-	6	6
Cash and bank	**-**	**-**	**-**	**-**	**-**	**-**	**856**	**546**
Total financial assets	**45**	**57**	**139**	**115**	**158**	**155**	**7,362**	**5,763**

The Group does not have any financial assets that represent held to maturity investments or that are available for sale.

Financial liabilities

	Financial liabilities at fair value through profit or loss:				Loans	
	Held for trading		Derivatives used for hedging			
Consolidated, SEK in millions	2007	2006	2007	2006	2007	2006
Non-current liabilities						
Liabilities to credit institutions	-	-	-	-	2,378	1,251
Private placement	-	-	-	-	703	755
Current liabilities						
Liabilities to credit institutions	-	-	-	-	339	220
Accounts payable	-	-	-	-	2,283	1,968
Notes payable	-	-	-	-	239	176
Other liabilities	-	-	-	-	948	643
Accrued costs	-	-	-	-	1,073	861
Derivative liabilities	134	80	88	59	-	-
Total financial liabilities	**134**	**80**	**88**	**59**	**7,963**	**5,874**

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 balance sheet or to the item specified in the notes referred to in the balance sheet. The risks linked to these financial instruments including any concentrations of risk are presented in the sections on risks on pages 78-82.

Result of financial instruments

The result of the financial assets designated upon recognition is found in Note 9 as dividends from other.

The result of the financial assets held for trading of SEK 24 million is part of unrealised exchange gains in Note 10.

The result of the assets under loans and receivables is presented in Note 10 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 financial liabilities held for trading of SEK -54 million has affected cost of goods sold with SEK -5 million and unrealised exchange losses in Note 10 with the remaining SEK -49 million.

The result of the liabilities under loans is presented in Note 10 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 booked against equity and is found in the “Changes in consolidated equity capital”.

Note 13. Fair value adjustments of financial instruments

Fair value adjustment of securities

Consolidated, SEK in millions	Acquisition value 2007	Acquisition value 2006	Market value 2007	Market value 2006	Adjustment 2007	Adjustment 2006
Other long-term securities						
Shares in external companies	9	3	10	4	1	1
Bonds and other securities						
Marketable securities	34	52	35	53	1	1
Total	**43**	**55**	**45**	**57**	**2**	**2**

The fair value adjustments of securities are made over the income statement and on each concerned line in the balance sheet.

Fair value adjustment of derivatives

Consolidated, SEK in millions	Currency pairs		Difference between contracted rate and current rate 2007	2006
Derivative assets/liabilities				
Foreign exchange forward contracts:	EUR	USD	94	28
	EUR	SEK	-51	50
	EUR	AUD	1	0
	EUR	CAD	0	3
	EUR	JPY	0	-10
	USD	CAD	-9	1
	USD	DKK	17	4
	USD	GBP	0	2
	USD	SEK	50	67
	USD	JPY	2	-31
	DKK	SEK	-17	21
	Other	Other	-2	-16
Subtotal			85	119
Currency options			0	2
Interest Rate Swaps			-5	10
Metal forward contacts			-4	-
Electricity futures			-1	-
Total, corresponding to a net derivative asset (+) or liability (-)			**75**	**131**

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 over equity if hedge accounting can be applied and the derivatives are effective. In all other cases the fair value adjustment is made over the income statement. The corresponding entries are made on derivative assets and liabilities and not on the underlying financial instruments in the balance sheet.

Note 14. Taxes on this year's result and other taxes for the Group

Consolidated, SEK in millions	2007	2006	2005
The major components of the Group's tax costs			
Current tax cost	-1,559	-911	-371
Adjustment for current taxes on prior periods	29	3	76
Deferred tax costs/income on changes in temporary differences	148	279	47
Deferred tax costs/income on changes in tax rates or new taxes	16	7	-5
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	-5	40	8
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	20	-	90
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	1	-31	-5
Other taxes	-27	-37	-11
Total tax cost	**-1,377**	**-650**	**-171**

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

Consolidated, SEK in millions	2007	2006	2005
Result before minority interests and tax	4,557	2,375	1,099
Tax according to applicable tax rates	-1,460	-750	-299
Tax effect of:			
Non-deductible costs	-108	-140	-229
Non-taxable income	111	48	169
Differences between reported official depreciation and depreciation according to tax rules	-7	22	1
Differences between reported other official appropriations and other appropriations according to tax rules	6	-2	-20
Tax losses and tax credits	79	206	142
Other	-27	-37	-11
Adjustment for current tax on prior periods	29	3	76
Total tax costs	**-1,377**	**-650**	**-171**

Not 14. Taxes on this year's result and other taxes for the Group, continued

Tax losses and tax credits for 2006 and 2005 are mainly referring to used tax losses in the United States.

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:

	2007		2006	
	Deferred tax		Deferred tax	
Consolidated, SEK in millions	asset	liability	asset	liability
Intangible assets	27	368	41	338
Tangible assets	44	273	8	305
Inventory	128	21	98	17
Other current assets	33	22	1	4
Financial assets	0	21	0	39
Short term liabilities	826	129	596	105
Tax losses and tax credits *	24	0	8	-
Other	1	327	4	186
Subtotal	1,083	1,161	756	994
Total deferred taxes	-71	-71	-45	-45
Total	**1,012**	**1,090**	**711**	**949**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 61 (18) 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 773 (749) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used.

The nominal tax rate has changed in the following countries during 2005 to 2007.

	Tax rates in percentage		
Consolidated	2007	2006	2005
Belgium	33	34	34
Colombia	35	38	38
Denmark	25	28	28
Philippines	35	35	32
Greece	25	29	35
Hong Kong	17	17	18
Iran	35	35	25
Japan	41	40	43
Mexico	28	29	39
Netherlands	26	30	32
Pakistan	39	37	39
Romania	16	16	25
Singapore	18	20	20
Spain	33	35	35
Turkey	20	20	30
Czech Republic	24	24	26
Hungary	20	16	16

The Group's normal effective tax rate is approximately 32 (32) (32) 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 15. Goodwill and step-up values

The allocation of step up values to tangible and intangible assets and the residual goodwill in effect means that all acquisitions are valued at market. In order to separate out this valuation effect Alfa Laval focuses on EBITA, where any amortisation of step up values is excluded. The development of these step up values and any goodwill is shown in the table below. It shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations, realisations and amortisation are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2007 is shown as a translation difference. 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 in the first column. The corresponding presentation by asset type is found in Notes 16 and 17.

Consolidated, SEK in millions	Opening balance 2007	Acquired	Realised	Planned amortisation	Translation difference	Closing balance 2007
Buildings	398	5	-6	-21	7	383
Land and land improvements	-74	-	-	-	3	-71
Machinery	201	-	-	-55	3	149
Equipment	224	-	-	-29	3	198
Patent and trademarks	920	320	-	-78	6	1,168
Technology	188	-	-	-160	2	30
Subtotal step-up values	1,857	325	-6	-343	24	1,857
Goodwill	3,706	697	-	-	56	4,459
Total	**5,563**	**1,022**	**-6**	**-343**	**80**	**6,316**

Note 15. Goodwill and step-up values, continued

Consolidated, SEK in millions	2000 Alfa Laval Holding	2002 Danish Separation Systems	2003 Toftejorg	2003 bioKinetics	2005 Packinox	2006 Tranter	2007 AGC Engineering	2007 Helpman	2007 Public offer Alfa Laval (India)	2007 DSO Fluid Handling	2007 Fincoil	Accumulated during the period: Realised	Planned amortisation	Translation difference	2007 Closing balance
Buildings	1,058	-	1	-	-	17	-	5	-	-	-	-500	-187	-11	383
Land and land improvements	-228	-	-	-	-	-	-	-	-	-	-	94	-	63	-71
Machinery	548	-	-	-	-	-	-	-	-	-	-	13	-416	4	149
Equipment	452	-	-	-	-	-	-	-	-	-	-	-24	-220	-10	198
Construction in progress	16	-	-	-	-	-	-	-	-	-	-	-16	-	-	-
Inventory	340	-	-	-	7	6	-	-	-	-	-	-353	-	-	-
Patent and trademarks	461	-	-	28	296	445	12	36	-	39	233	-23	-286	-73	1,168
Technology	1,280	-	-	-	-	-	-	-	-	-	-	-	-1,242	-8	30
Research and development	54	-	-	-	-	-	-	-	-	-	-	-54	-	-	-
Capital gain (Industrial Flow)	42	-	-	-	-	-	-	-	-	-	-	-42	-	-	-
Total step-up values	4,023	-	1	28	303	468	12	41	-	39	233	-905	-2 351	-35	1,857
Goodwill	3,683	118	35	84	265	530	9	11	441	29	228	-85	-612	-277	4,459
Total	**7,706**	**118**	**36**	**112**	**568**	**998**	**21**	**52**	**441**	**68**	**461**	**-990**	**-2,963**	**-312**	**6,316**

For assets sold, net gains or losses are recognised on the costs basis including any related step-up value. Construction in process was transferred to machinery in 2001.

In December 2006 the biopharm engineering activity was sold for SEK 4 million with a realised loss of SEK -126 million. Out of this SEK 85 million was related to write off of goodwill. This was entirely referring to the goodwill from the acquisition of bioKinetics. Also the step up values for patents and trademark were realised at the sale. The sale is reported in the column “Realised”.

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2007 or prior years.

On December 1, 2007 Alfa Laval finalized the acquisition of the Finnish company Fincoil. The acquisition of Fincoil is in line with Alfa Laval's strategy to expand the presence in the European air heat exchanger market. Fincoil has 150 employees. The company has a well-established position in the Nordic countries, the Baltic countries and Russia. Approximately 80 percent of the sales are exported. Fincoil has one manufacturing site outside Helsinki in Finland. The intention is to fully integrate Fincoil into Alfa Laval. The purchase price is SEK 474 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 5 million. After deducting acquired cash and bank the impact on the cash flow was SEK -470 million. Out of the difference between the purchase price paid and the net assets acquired SEK 233 million was allocated to patents and un-patented know-how, while the residual SEK 228 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Fincoil's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step up value for patents and un-patented know-how is depreciated over 10 years. Fincoil's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 26 million and SEK 2 million respectively. If Fincoil had been acquired at January 1, 2007 the corresponding figures would have been SEK 348 million and SEK 43 million respectively.

On July 2, 2007 Alfa Laval acquired the American company AGC Engineering through an asset deal. The company provides sanitary plate heat exchanger service and equipment to the dairy and food processing industries. AGC has 65 employees. The acquisition adds a complementary channel for sanitary plate heat exchangers to the dairy and food processing industries mainly in the USA. This applies to new units as well as parts and service. AGC will not be integrated into Alfa Laval. The two organizations will go to market independently of each other according to a multi-brand strategy. The purchase price is SEK 42 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -42 million. Out of the difference between the purchase price paid and the net assets acquired SEK 12 million was allocated to the AGC trademark, while the residual SEK 9 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and AGC'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 depreciated over 10 years. AGC's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 39 million and SEK 4 million respectively. If AGC had been acquired at January 1, 2007 the corresponding figures would have been SEK 78 million and SEK 8 million respectively.

Through a public offer that closed on May 26, 2007 Alfa Laval increased the ownership in the Indian subsidiary Alfa Laval (India) Ltd with 12.6 percent to 76.7 percent. The total cost for the acquisition was SEK 486 million. The costs directly linked to the acquisition of the shares (fees to bankers, lawyers and assisting counsel) come in addition to this and have amounted to SEK 11 million. The impact on the cash flow was SEK -497 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 441 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The acquisition only has an impact on the minority's part of the consolidated net income and equity.

On April 4, 2007 Alfa Laval acquired the Dutch company Helpman. Helpman is a leading company in the European market for air heat exchangers used in the sensitive logistical chain for food, i.e. refrigeration and temperature control to secure the final quality of the products. Helpman has 130 employees within R&D, sales and at two manufacturing units, in Groningen, the Netherlands and in Sofia, Bulgaria. The intention is to fully integrate Helpman into Alfa Laval. The purchase price is SEK 136 million, out of which SEK 113 million has been paid in cash and the rest is retained for a period of 1-2 years. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 4 million. After deducting acquired cash and bank the impact on the cash flow was SEK -111 million. Out of the difference between the purchase price paid and the net assets acquired SEK 5 million was allocated to properties and SEK 36 million was allocated to patents and un-patented know-how, while the residual SEK 11 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Helpman'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 33 years and the step up value for patents and un-patented know-how is depreciated over 10 years. Helpman's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 136 million and SEK 5 million respectively. If Helpman had been acquired at January 1, 2007 the corresponding figures would have been SEK 178 million and SEK 6 million respectively.

On March 16, 2007 Alfa Laval acquired the American company DSO Fluid Handling. The acquisition strengthens Alfa Laval's position within sanitary processing industries in the US. DSO is a supplier of predominantly parts for pumps and valves and adds a complementary channel for replacement parts. In line with Alfa Laval's multi-brand strategy, DSO will continue to sell its products under its own brand. DSO has 20 employees and is based in Irvington (Newark), New Jersey USA. The purchase price is SEK 74 million, out of which 62 million has been paid in cash and the rest is retained for a period of 1-2 years. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 1 million. After deducting acquired cash and bank the impact on the cash flow was SEK -62 million. Out of the difference between the purchase price paid and the net assets acquired SEK 39 million was allocated to the DSO trademark, while the residual SEK 29 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and DSO'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 depreciated over 10 years. DSO's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 39 million and SEK 12 million respectively. If DSO had been acquired at January 1, 2007 the corresponding figures would have been SEK 51 million and SEK 16 million respectively.

During the beginning of 2007 a transaction was made as a consequence of the acquisition of Tranter where SEK 17 million was paid to buy out the agent in Taiwan and thereby achieve full control over Tranter's company in China. This transaction is seen as a part of the acquisition of Tranter and has influenced the final purchase price allocation according to the below description.

In a press release on September 23, 2005, Alfa Laval announced that the company had signed an agreement to acquire 100 percent of Tranter PHE from the U.S. company, Dover Corporation. In a press release on March 6, 2006 Alfa Laval communicated that the acquisition of Tranter PHE had been approved by the regulatory authorities and thereby been finalised. The purchase price was SEK 1,199 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 25 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,217 million. Out of the difference between the purchase price paid and the net assets acquired SEK 17 million was allocated to properties, SEK 180 million was allocated to patents and un-patented know-how, SEK 265 million to the Tranter trademark and SEK 6 million to accrued gross margin in work in progress, while the residual SEK 530 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill has been finalised in 2007, which meant a decrease from SEK 551 million to SEK 530 million. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2006. Tranter is a major competitor in the United States and the acquisition opens for a double branding strategy versus mainly the American market.

The acquisition was financed through a bilateral bank loan of EUR 25 million and a US private placement of USD 110 million. The company had 2005 approximately 450 employees globally in R&D, manufacturing and sales.

Tranter is part of the Alfa Laval Group as of March 1, 2006. The impact of the acquisition on the income statement and the cash flow statement for 2006 was thus only for ten months of operation. Tranter is reported as an integrated part of the Equipment and Process Technology divisions, but is acting as an independent sales channel. Tranter's net sales and adjusted EBITA for the first ten months were SEK 981 million and SEK 148 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141 million and SEK 171 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10 million. The operation has less than 10 employees and a turnover of about SEK 45 million per annum.

On February 15, 2005 Alfa Laval acquired 100 percent of Packinox S.A. in France for SEK 542 million. The costs directly linked to the acquisition of Packinox (fees to lawyers, due diligence and assisting counsel) came in addition to this and amounted to SEK 9 million. After deducting acquired cash and bank the impact on the cash flow was SEK -505 million. Out of the difference between the purchase price paid and the net assets acquired SEK 104 million was allocated to patents and un-patented know-how, SEK 192 million to the Packinox trademark and SEK 7 million to accrued gross margin in work in progress, while the residual SEK 265 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2005. Packinox is a world leader in large welded plate heat exchangers for oil & gas and refinery applications. The Packinox

business is characterized by a limited number of large projects and in 2005 the company had net sales of SEK 495 million, an adjusted EBITA of SEK 114 million and 152 employees within R&D, manufacturing and sales.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 419 (522) million.

Impairment testing

An impairment test has been performed at the end of 2007 indicating that there is not any need to write down the goodwill.

Alfa Laval's primary segments, i.e. the two divisions "Equipment" and "Process Technology" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses are normally integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. Although Tranter is operating as a separate sales channel it is subject to a considerable co-ordination related to purchasing and some support functions.

The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. This projection for the coming 20 years is based on the following components:

- The projection for 2008 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 2009 and 2010 is based on Management's long term planning. This is based on a number of 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 2011 to 2027 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 going concern thinking can be justified. 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.

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 10.74 (10.59) (9.09) 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 in millions	2007	2006	2005
Equipment	2,426	2,000	1,686
Process Technology	2,033	1,706	1,845
Total	**4,459**	**3,706**	**3,531**

Note 16. Intangible non-current assets

Consolidated, SEK in millions	2007	2006
Concessions, patents, licenses, trademarks and similar rights		
Opening balance, accumulated acquisition values	2,786	2,492
Purchases	2	1
Sales/disposals	0	-27
Reclassifications	6	7
Step-up values, patents and trademarks	320	445
Translation difference for the year	11	-132
Closing balance, accumulated acquisition values	**3,125**	**2,786**
Opening balance, accumulated depreciation	-1,592	-1,427
Acquisition of businesses	0	-
Sales/disposals	0	5
Reclassifications	-1	2
Depreciation of step-up value, patent & trademarks	-78	-66
Depreciation of step-up value, technology	-160	-166
Depreciation for the year	-11	-11
Translation difference for the year	-12	71
Closing balance, accumulated depreciation	**-1,854**	**-1,592**

Note 16. Intangible non-current assets, continued

Opening balance, accumulated revaluations, net	-5	-
Reclassifications	5	-
Revaluation for the year	-	-5
Closing balance, accumulated revaluations, net	**0**	**-5**
Closing balance, net book value	**1,271**	**1,189**
Goodwill		
Opening balance, accumulated acquisition values	4,246	4,117
Goodwill in connection with acquisition of businesses	697	551
Realisation of goodwill due to sale	-	-88
Translation difference for the year	65	-334
Closing balance, accumulated acquisition values	**5,008**	**4,246**
Opening balance, accumulated depreciation	-540	-587
Realisation of goodwill due to sale	-	3
Translation difference for the year	-9	44
Closing balance, accumulated depreciation	**-549**	**-540**
Closing balance, net book value	**4,459**	**3,706**
Renting rights and similar rights		
Opening balance, accumulated acquisition values	3	3
Purchases	2	0
Translation difference for the year	1	0
Closing balance, accumulated acquisition values	**6**	**3**
Opening balance, accumulated depreciation	-1	-1
Depreciation for the year	0	0
Translation difference for the year	-1	0
Closing balance, accumulated depreciation	**-2**	**-1**
Closing balance, net book value	**4**	**2**

Note 17. Property, plant and equipment

Consolidated, SEK in millions	2007	2006
Real estate		
Opening balance, accumulated acquisition values	1,674	1,648
Purchases	69	12
Acquisition of businesses	29	32
Sold businesses	-	-1
Sales/disposal	-49	-9
Write-down	-	-1
Reclassifications	-27	59
Reclassification to assets for sale	-	-1
Step-up values, real estate	5	17
Realisation of step-up values due to sale	-9	-
Translation difference for the year	41	-82
Closing balance, accumulated acquisition values	**1,733**	**1,674**
Opening balance, accumulated depreciation	-752	-723
Sales/disposals	40	3
Acquisition of businesses	0	-12
Sold businesses	-	1
Reclassifications	61	3
Realisation of step-up values due to sale	3	-
Depreciation of step-up value	-21	-21
Depreciation for the year	-37	-40
Translation difference for the year	-17	37
Closing balance, accumulated depreciation	**-723**	**-752**
Opening balance, accumulated revaluations, net	9	58
Reclassifications	0	-53
Revaluation for the year	0	4
Sales/disposals	-3	-
Depreciation for the year on revaluations	0	0
Translation difference for the year	-1	0
Closing balance, accumulated revaluations, net	**5**	**9**
Closing balance, net book value	**1,015**	**931**

The tax assessment value of the Swedish real estate at December 31, 2007 amounted to SEK 183 (144) million, out of which SEK 46 (50) million referred to land and land improvements and SEK 137 (94) million to buildings. The book values of the Swedish real estate amounted to SEK 156 (136) million,

out of which land and land improvements were SEK 31 (26) million and buildings SEK 125 (110) million.

Non-current assets held for sale

Within Alfa Laval these assets are relating to real estate. Alfa Laval has decided to sell properties in Brazil and France. Alfa Laval is using the property in Brazil for its operations. The French property is empty, but it has been for sale for several years and is not expected to be sold within the next year. This means that no one of these properties has been re-classified as a current asset held for sale.

Last year properties in Belgium, Brazil, Finland and France were planned for sale. Out of these, only the property in Tuusula in Finland was re-classified as a current asset held for sale since Alfa Laval was using all of the other properties for its operations. The Finnish property that now has been sold was situated in Tuusula in an industrial area for small companies close to the Helsinki airport and covered slightly more than 20,000 m² land and the buildings comprised offices (746 m²), workshop (4,328 m²) and warehouse (600 m²). The buildings were basically empty. An active sales work was being performed concerning the Finnish property and it was expected to be sold within the next year.

Note 17. Property, plant and equipment, continued

Consolidated, SEK in millions	2007	2006
Machinery and other technical installations		
Opening balance, accumulated acquisition values	2,800	2,680
Purchases	165	213
Acquisition of businesses	82	123
Sales/disposal	-94	-117
Write-down	-	-1
Reclassifications	31	35
Translation difference for the year	51	-133
Closing balance, accumulated acquisition values	**3,035**	**2,800**
Opening balance, accumulated depreciation	-1,925	-1,883
Sales/disposals	80	112
Acquisition of businesses	-68	-92
Reclassifications	-1	9
Depreciation of step-up value	-55	-56
Depreciation for the year	-128	-116
Translation difference for the year	-32	101
Closing balance, accumulated depreciation	**-2,129**	**-1,925**
Closing balance, net book value	**906**	**875**
Equipment, tools and installations		
Opening balance, accumulated acquisition values	1,929	2,023
Purchases	133	81
Acquisition of businesses	15	95
Sold businesses	-	-1
Sales/disposal	-118	-173
Reclassifications	0	13
Translation difference for the year	10	-109
Closing balance, accumulated acquisition values	**1,969**	**1,929**
Opening balance, accumulated depreciation	-1,407	-1,419
Sales/disposals	114	152
Acquisition of businesses	-4	-84
Sold businesses	-	0
Reclassifications	-1	-12
Depreciation of step-up value	-29	-29
Depreciation for the year	-85	-92
Translation difference for the year	-4	77
Closing balance, accumulated depreciation	**-1,416**	**-1,407**
Opening balance, accumulated revaluations, net	3	15
Reclassifications	-3	-12
Revaluation for the year	0	0
Closing balance, accumulated revaluations, net	**0**	**3**
Closing balance, net book value	**553**	**525**

Note 17. Property, plant and equipment, continued

Consolidated, SEK in millions	2007	2006
Construction in progress and advances to suppliers concerning property, plant and equipment		
Opening balance, accumulated acquisition values	157	124
Purchases	185	66
Acquisition of businesses	-	3
Sold businesses	-	0
Reclassifications	-32	-30
Translation difference for the year	3	-6
Closing balance, accumulated acquisition values	**313**	**157**
Closing balance, net book value	**313**	**157**
Leased real estate		
Opening balance, accumulated acquisition values	22	23
Purchases	10	-
Translation difference for the year	1	-1
Closing balance, accumulated acquisition values	**33**	**22**
Opening balance, accumulated depreciation	-1	0
Depreciation for the year	-1	-1
Translation difference for the year	0	0
Closing balance, accumulated depreciation	**-2**	**-1**
Closing balance, net book value	**31**	**21**
Leased machinery		
Opening balance, accumulated acquisition values	9	9
Translation difference for the year	-1	0
Closing balance, accumulated acquisition values	**8**	**9**
Opening balance, accumulated depreciation	-8	-7
Depreciation for the year	-1	-1
Translation difference for the year	1	0
Closing balance, accumulated depreciation	**-8**	**-8**
Closing balance, net book value	**0**	**1**
Leased equipment, tools and installations		
Opening balance, accumulated acquisition values	11	15
Purchases	4	0
Acquisition of businesses	-	1
Sales/disposal	-4	-5
Translation difference for the year	0	0
Closing balance, accumulated acquisition values	**11**	**11**
Opening balance, accumulated depreciation	-6	-9
Sales/disposals	3	5
Reclassifications	0	0
Depreciation for the year	-2	-2
Translation difference for the year	0	0
Closing balance, accumulated depreciation	**-5**	**-6**
Closing balance, net book value	**6**	**5**

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 balance sheet.

Note 18. Other non-current assets

SEK in millions	Consolidated 2007	Consolidated 2006	Parent company 2007	Parent company 2006
Shares in subsidiaries	-	-	4,669	4,669
Shares in other companies	10	4	-	-
Total	**10**	**4**	**4,669**	**4,669**

Specification of shares in subsidiaries

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK in millions
Alfa Laval Holding AB	556587-8062	Lund	8,191,000	100	4,461
Alfa Laval NV		Maarssen	227,754	100	-
Alfa Laval Inc		Newmarket	1,000,000	67	-
Alfa Laval S.A. DE C.V.		Tlalnepantla	45,057,057	100	-
Alfa Laval S.A.		San Isidro	699	100	-
Alfa Laval Ltda		Sao Paulo		100	-
Roston do Brasil Ltda		Sao Paulo	5,249	100	-
Alfa Laval S.A.C.I.		Santiago	2,735	100	-
Alfa Laval S.A.		Bogota	12,195	100	-
Alfa Laval S.A.		Lima	4,346,832	100	-
Alfa Laval Venezolana S.A.		Caracas	10,000	100	-
Alfa Laval Oilfield C.A.		Caracas	203	81	-
Alfa Laval Taiwan Ltd		Taipei	1,499,994	100	-
Alfa Laval (China) Ltd		Hong Kong	79,999	100	-
Alfa Laval (Jiangyin) Manufacturing Co Ltd		Jiang Yin		100	-
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		75	-
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		25	-
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai		100	-
Wuxi MCD Gasket Co Ltd		Jiang Yin		100	-
Tranter Heat Exchangers (Beijing) Co Ltd		Beijing		100	-
Alfa Laval Iran Ltd		Teheran	2,199	100	-
Alfa Laval Industry (PVT) Ltd		Lahore	119,110	100	-
Alfa Laval Philippines Inc		Makati	72,000	100	-
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	-
Alfa Laval (Thailand) Ltd		Bangkok	792,000	100	-
Alfa Laval Middle East Ltd		Nicosia	40,000	100	-
Alfa Laval Benelux NV/SA		Brussels	98,284	100	-
Alfa Laval Ltd		Sofia	100	100	-
Alfa Laval Slovakia S.R.O.		Bratislava		1	-
Alfa Laval Spol S.R.O.		Hradec Kralove		20	-
Cetetherm S.R.O.		Prague		5	-
Alfa Laval Nordic OY		Espoo	20,000	100	-
Fincoil - teollisuus OY		Vantaa	7,000	100	-
Alfa Laval Nederland B.V.		Maarssen	10,000	100	-
Alfa Laval Benelux B.V.		Maarssen	20,000	100	-
Alfa Laval Merco B.V.		Hoofddorp	1,750	100	-
Helpman Capital BV		Breda	35,578	100	-
Helpman Holding BV		Naarden	80	100	-
Alfa Laval Sofia OOD		Sofia	450	90	-
Alfa Laval Groningen B.V.		Groningen	15,885	100	-
Alfa Laval Holding A/S		Oslo	520,000	100	-
PHE Holding AB	556306-2404	Lund	2,500	100	-
Tranter Heat Exchangers Canada Inc		Edmonton	100	100	-
Tranter Indùstria de Máquinas e Equipamentos Ltda		Sao Paulo		100	-
Alfa Laval Korea Ltd		Seoul	364,000	100	-
Tranter Heat Exchangers Middle East (Cyprus) Ltd		Nicosia	20,000	100	-
Tranter International AB	556559-1764	Vänersborg		100	-
Alfa Laval Nordic AB	556243-2061	Tumba	1,000	100	-
Alfa Laval Corporate AB	556007-7785	Lund	13,920,000	100	-
Alfa Laval (India) Ltd		Poona	13,934,014	77	-
Tranter India Pvt Ltd		Poona		100	-
PT Alfa Laval Indonesia		Jakarta	1,000	100	-
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam	10,000	100	-
Alfa Laval S.E.E. D.O.O.		Ljubljana		100	-
Alfa Laval Kolding A/S		Kolding	100,000	100	-
Alfa Laval Nordic A/S		Rödovre	1	100	-
Alfa Laval Copenhagen A/S		Söborg	1	100	-
Alfa Laval Nakskov A/S		Nakskov	242,713	100	-
Alfa Laval Tank Equipment A/S		Ishoej	61	100	-
Alfa Laval Nordic A/S		Oslo	10,000	100	-
Cetetherm AB	556058-3162	Ronneby	20,000	100	-
AlfaWall AB	556723-6715	Botkyrka	500	50	-
Alfa Laval Oilfield C.A.		Caracas	47	19	-
Alfa Laval Treasury International AB	556432-2484	Lund	50,000	100	-
Alfa Laval Europe AB	556128-7847	Lund	500	100	-
Alfa Laval Lund AB	556016-8642	Lund	100	100	-
Alfa Laval International Engineering AB	556039-8934	Lund	4,500	100	-
Alfa Laval Tumba AB	556021-3893	Tumba	1,000	100	-

Specification of shares in subsidiaries, continued

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK in millions
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	27,001,755	99	-
Alfa Laval SIA		Riga	125	100	-
SIA Cetetherm		Riga	200	100	-
Alfa Laval UAB Ltd		Vilnius	2,009	100	-
Alfa Laval Australia Pty Ltd		Homebush	2,088,076	100	-
Tranter Heat Exchanger Pty Ltd		Sydney		100	-
Alfa Laval New Zealand Pty Ltd		Hamilton	1,000	100	-
Alfa Laval Holding BV		Maarssen	70,000,000	100	-
Alfa Laval (Pty) Ltd		Isando	2,000	100	-
Alfa Laval Slovakia S.R.O.		Bratislava		99	-
Alfa Laval Spol S.R.O.		Hradec Kralove		80	-
Cetetherm S.R.O.		Prague		95	-
Alfa Laval France SAS		Les Clayes	2,000,000	100	-
Alfa Laval SAS		Les Clayes	560,000	92	-
Alfa Laval Moatti SAS		Les Clayes	24,000	100	-
Alfa Laval Spiral SNC		Nevers	79,999	100	-
MCD SAS		Guny	71,300	100	-
Alfa Laval Vicarb SAS		Grenoble	200,000	100	-
Canada Inc		Newmarket	480,000	100	-
Alfa Laval Inc		Newmarket	481,600	33	-
SCI du Companil		Grenoble	32,165	100	-
Alfa Laval HES SA		Lyon	150,000	100	-
Alfa Laval SAS		Les Clayes	46,700	8	-
Packinox SA		Paris	178,010	100	-
Ziepack SA		Paris	37,701	51	-
Tranter SAS		Paris		100	-
Alfa Laval Holding GmbH		Glinde		100	-
Alfa Laval Mid Europe GmbH		Wiener Neudorf		100	-
Tranter Warmetauscher GmbH		Guntramsdorf		100	-
Alfa Laval Mid Europe GmbH		Glinde	1	100	-
Tranter GmbH		Hildesheim		100	-
Alfa Laval Mid Europe AG		Dietlikon	647	100	-
Alfa Laval AEBE		Holargos	807,000	100	-
Alfa Laval Kft		Budapest	1	100	-
Tranter Kft		Budapest		100	-
Alfa Laval SpA		Monza	1,930,500	99	-
Tranter S.r.l.		Monza		100	-
Alfa Laval Polska Sp.z.o.o.		Warsaw	7,600	100	-
Cetetherm Polska Sp.z.o.o.		Warsaw	5,109	100	-
Wytwornia Separator Krakow Sp.z.o.o.		Krakow	80,080	100	-
Alfa Laval (Portugal) Ltd		Linda-A-Velha		1	-
Alfa Laval SRL		Bucharest	38,566	100	-
Alfa Laval Iberia SA		Madrid	99,999	100	-
Alfa Laval (Portugal) Ltd		Linda-A-Velha	1	99	-
Alfa Laval Holdings Ltd		Camberley	14,053,262	100	-
Alfa Laval 2000		Camberley	28,106	100	-
Alfa Laval Ltd		Camberley	11,700,000	100	-
Alfa Laval Finance Co Ltd		Camberley	856,000	100	-
Alfa Laval Oilfield Ltd		Aberdeen	500,000	100	-
Ibex Pumps Ltd		Sutton Coldfield	100	100	-
Alfa Laval Pumps Ltd		Eastbourne	100	100	-
SSP Pumps Ltd		Camberley	1,000	100	-
Alfa Laval Separation Ltd		Camberley	375,000	100	-
Rolls Laval Heat Exchangers Ltd		Wolverhampton	5,000	50	-
Toftejorg Ltd		Camberley	50,000	100	-
Tranter Ltd		Doncaster		100	-
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	1	1	-
Alfa Laval USA Inc		Richmond		100	-
Alfa Laval US Holding Inc		Richmond	180	100	-
Alfa Laval Inc		Richmond	44,000	100	-
Hynetics Inc		Logan	100	50	-
Alfa Laval US Treasury Inc		Richmond	1,000	100	-
DSO Fluid Handling Inc		Irvington	100	100	-
AGC Acquistion Inc		Bristow	1,000	100	-
Tranter Inc.		Witchita Falls		100	-
MCD Gaskets Inc		Richmond	100	100	-
Alfa Laval Tank Equipment Inc		Richmond		100	
AO Alfa Laval Potok		Koroljov	31,077,504	100	-
OÜ Alfa Laval		Tallinn	1	100	-
Alfdex AB	556647-7278	Botkyrka	500	50	-
Alfa Laval Support Services Pvt Ltd		Poona	9,999	100	-
Alfa Laval Ukraine		Kiev		100	-
Alfa Laval SpA		Monza		1	-
Alfa Laval KK		Tokyo	1,200,000	100	208
Alfa Techno Service KK		Kanagawa	200	100	-
Total					**4,669**

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK in thousands
Alfa Laval KK				
Chugairo	Japan	5,250		115
Orugano	Japan	769		46
Asahi Denka	Japan	13,114		860
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		13
Alfa Laval Nordic OY				
Master Golf Course OY	Finland	1		133
Suomen Talotekniikka KK	Finland	10		28
Helsinki Halli	Finland	4		133
Fincoil - teollisuus OY				
Mikeelin Puhelin OY	Finland	5		47
Länsi-Vantaan Tenniskeskus	Finland	4		0
Alfa Laval France SAS				
SEMACLA	France	10		9
Alfa Laval HES SA				
Thermothec	France	9,130		1,316
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		142
Helpman Holding BV				
Helpman Sofia OOD	Bulgaria	90	49	5,463
Alfa Laval NV				
Dalian Haven Automation Co Ltd	Hong Kong	102	42.5	843
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		512
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) N.V.	Curacao	36,129		0
Multiprogress	Hungary	100	3.18	0
Kurose Chemical Equipment Ltd	Japan	180,000	11.25	0
Poljopriveda	former Yugoslavia			0
Tecnica Argo-Industrial S.A.	Mexico	490	49	0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0.30	0
Adela Investment Co S.A.	Luxembourg	1,911	0.30	0
Mas Dairies Ltd	Pakistan	125,000	5	0
Total				**9,660**

Note 19. Inventories

Consolidated, SEK in millions	2007	2006
Raw materials and consumables	2,126	1,570
Work in progress	1,297	967
Finished goods & goods for resale, new sales	1,015	783
Finished goods & goods for resale, spare parts	566	433
Advance payments to suppliers	82	39
Total	**5,086**	**3,792**

The provision for obsolescence amounts to and has changed as follows:

Obsolescence

Consolidated, SEK in millions Year	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
2006	413	-27	7	89	-55	-27	400
2007	400	2	2	212	-39	-40	537

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 2007 amounts to SEK 378 (287) million.

Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 149 (143) million have not been accounted for as fixed 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

SEK in millions Year	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2006	205	-13	6	86	-36	-26	1	223
2007	223	4	1	123	-31	-37	0	283

Note 20. Accounts receivable, continued

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 in millions	2007	%	2006	%
Overdue:				
Maximum 30 days	530	10.5	400	10.1
More than 30 days but maximum 90 days	280	5.6	176	4.4
More than 90 days	310	6.1	252	6.3
Total	**1,120**	**22.2**	**828**	**20.8**

Note 21. Other short-term receivables

Consolidated, SEK in millions	2007	2006
Notes receivable	387	254
Tax receivable	634	592
Financial leasing receivables	45	6
Other receivables	907	809
Total	**1,973**	**1,661**
Of which, receivables not due within one year:		
Notes receivable	10	5
Other receivables	39	107
Total	**49**	**112**

Note 22. Prepaid expenses and accrued income

Consolidated, SEK in millions	2007	2006
Prepaid expenses	93	69
Accrued income	8	5
Total	**101**	**74**

Note 23. Other current deposits

Consolidated, SEK in millions	2007	2006
Deposits with banks	149	170
Bonds and other securities	35	53
Other deposits	6	6
Total	**190**	**229**
Of which, deposits not due within one year:		
Deposits with banks	34	38
Other deposits	5	5
Total	**39**	**43**

Note 24. Cash and bank

The item cash and bank in the balance sheet 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 35 (32) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 76.7 (64.1) percent.

Note 25. Impact on cash-flow due to acquisition and sale of businesses

Acquisitions

On December 1, 2007 Alfa Laval finalized the acquisition of the Finnish company Fincoil. The acquisition of Fincoil is in line with Alfa Laval's strategy to expand the presence in the European air heat exchanger market. Fincoil has 150 employees. The company has a well-established position in the Nordic countries, the Baltic countries and Russia. Approximately 80 percent of the sales are exported. Fincoil has one manufacturing site outside Helsinki in Finland. The intention is to fully integrate Fincoil into Alfa Laval. The purchase price is SEK 474 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 5 million. After deducting acquired cash and bank the impact on the cash flow was SEK -470 million. Out of the difference between the purchase price paid and the net assets acquired SEK 233 million was allocated to patents and un-patented know-how, while the residual SEK 228 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Fincoil's ability to over time recreate its intangible assets. The value of the goodwill is still preliminary. The step up value for patents and un-patented know-how is depreciated over 10 years. Fincoil's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 26 million and SEK 2 million respectively. If Fincoil had been acquired at January 1, 2007 the corresponding figures would have been SEK 348 million and SEK 43 million respectively.

On July 2, 2007 Alfa Laval acquired the American company AGC Engineering through an asset deal. The company provides sanitary plate heat exchanger service and equipment to the dairy and food processing industries. AGC has 65 employees. The acquisition adds a complementary channel for sanitary plate heat exchangers to the dairy and food processing industries mainly in the USA. This applies to new units as well as parts and service. AGC will not be integrated into Alfa Laval. The two organizations will go to market independently of each other according to a multi-brand strategy. The purchase price is SEK 42 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -42 million. Out of the difference between the purchase price paid and the net assets acquired SEK 12 million was allocated to the AGC trademark, while the residual SEK 9 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and AGC'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 depreciated over 10 years. AGC's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 39 million and SEK 4 million respectively. If AGC had been acquired at January 1, 2007 the corresponding figures would have been SEK 78 million and SEK 8 million respectively.

Through a public offer that closed on May 26, 2007 Alfa Laval increased the ownership in the Indian subsidiary Alfa Laval (India) Ltd with 12.6 percent to 76.7 percent. The total cost for the acquisition was SEK 486 million. The costs directly linked to the acquisition of the shares (fees to bankers, lawyers and assisting counsel) come in addition to this and have amounted to SEK 11 million. The impact on the cash flow was SEK -497 million. Out of the difference between the purchase price paid and the net assets acquired of SEK 441 million all was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The acquisition only has an impact on the minority's part of the consolidated net income and equity.

On April 4, 2007 Alfa Laval acquired the Dutch company Helpman. Helpman is a leading company in the European market for air heat exchangers used in the sensitive logistical chain for food, i.e. refrigeration and temperature control to secure the final quality of the products. Helpman has 130 employees within R&D, sales and at two manufacturing units, in Groningen, the Netherlands and in Sofia, Bulgaria. The intention is to fully integrate Helpman into Alfa Laval. The purchase price is SEK 136 million, out of which SEK 113 million has been paid in cash and the rest is retained for a period of 1-2 years. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 4 million. After deducting acquired cash and bank the impact on the cash flow was SEK -111 million. Out of the difference between the purchase price paid and the net assets acquired SEK 5 million was allocated to properties and SEK 36 million was allocated to patents and un-patented know-how, while the residual SEK 11 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads and Helpman'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 33 years and the step up value for patents and un-patented know-how is depreciated over 10 years. Helpman's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 136 million and SEK 5 million respectively. If Helpman had been acquired at January 1, 2007 the corresponding figures would have been SEK 178 million and SEK 6 million respectively.

On March 16, 2007 Alfa Laval acquired the American company DSO Fluid Handling. The acquisition strengthens Alfa Laval's position within sanitary processing industries in the US. DSO is a supplier of predominantly parts for pumps and valves and adds a complementary channel for replacement parts. In line with Alfa Laval's multi-brand strategy, DSO will continue to sell its products under its own brand. DSO has 20 employees and is based in Irvington (Newark), New Jersey USA. The purchase price is SEK 74 million, out of which 62 million has been paid in cash and the rest is retained for a period of 1-2 years. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 1 million. After deducting acquired cash and bank the impact on the cash flow was SEK -62 million. Out of the difference between the purchase price paid and the net assets acquired SEK 39 million was allocated to the DSO trademark, while the residual SEK 29 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics

and corporate overheads and DSO'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 depreciated over 10 years. DSO's net sales and adjusted EBITA for 2007 from the date of the acquisition are SEK 39 million and SEK 12 million respectively. If DSO had been acquired at January 1, 2007 the corresponding figures would have been SEK 51 million and SEK 16 million respectively.

During the beginning of 2007 a transaction was made as a consequence of the acquisition of Tranter where SEK 17 million was paid to buy out the agent in Taiwan and thereby achieve full control over Tranter's company in China. This transaction is seen as a part of the acquisition of Tranter and has influenced the final purchase price allocation according to the below description.

In a press release on September 23, 2005, Alfa Laval announced that the company had signed an agreement to acquire 100 percent of Tranter PHE from the U.S. company, Dover Corporation. In a press release on March 6, 2006 Alfa Laval communicated that the acquisition of Tranter PHE had been approved by the regulatory authorities and thereby been finalised. The purchase price was SEK 1,199 million in cash. The costs directly linked to the acquisition (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to SEK 25 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,217 million. Out of the difference between the purchase price paid and the net assets acquired SEK 17 million was allocated to properties, SEK 180 million was allocated to patents and un-patented know-how, SEK 265 million to the Tranter trademark and SEK 6 million to accrued gross margin in work in progress, while the residual SEK 530 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill has been finalised in 2007, which meant a decrease from SEK 551 million to SEK 530 million. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2006. Tranter is a major competitor in the United States and the acquisition opens for a double branding strategy versus mainly the American market.

The acquisition was financed through a bilateral bank loan of EUR 25 million and a US private placement of USD 110 million. The company had 2005 approximately 450 employees globally in R&D, manufacturing and sales.

Tranter is part of the Alfa Laval Group as of March 1, 2006. The impact of the acquisition on the income statement and the cash flow statement for 2006 was thus only for ten months of operation. Tranter is reported as an integrated part of the Equipment and Process Technology divisions, but is acting as an independent sales channel. Tranter's net sales and adjusted EBITA for the first ten months were SEK 981 million and SEK 148 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141 million and SEK 171 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10 million. The operation has less than 10 employees and a turnover of about SEK 45 million per annum.

On February 15, 2005 Alfa Laval acquired 100 percent of Packinox S.A. in France for SEK 542 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 9 million. After deducting acquired cash and bank the impact on the cash flow was SEK -505 million. Out of the difference between the purchase price paid and the net assets acquired SEK 104 million was allocated to patents and un-patented know-how, SEK 192 million to the Packinox trademark and SEK 7 million to accrued gross margin in work in progress, while the residual SEK 265 million was allocated to goodwill. The goodwill was relating to estimated synergies in procurement, logistics and corporate overheads. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress was expensed during 2005. Packinox is a world leader in large welded plate heat exchangers for oil & gas and refinery applications. The Packinox business is characterized by a limited number of large projects and in 2005 the company had net sales of SEK 495 million, an adjusted EBITA of SEK 114 million and 152 employees within R&D, manufacturing and sales.

The total value of the acquired assets and liabilities is presented in the below tables, which also shows the cash flow impact of the acquisitions. All acquired assets and liabilities were reported according to IFRS at the time of the acquisition. The many minor acquisitions during 2007 are reported together since a split per acquisition would have been too fragmented and rather would have burdened the presentation than increased clarity.

2007 Consolidated, SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	61	5	66
Intangible assets	2	320	322
Inventory	99	-	99
Accounts receivable	134	-	134
Other receivables	77	-	77
Liquid assets	16	-	16
Other provisions	-2	-	-2
Accounts payable	-61	-	-61
Advance payments and other liabilities	-23	-	-23
Deferred tax	-	-75	-75
Acquired net assets	303	250	553
Goodwill			697
Purchase price			-1,229
Costs directly linked to the acquisitions			-21
Retained part of purchase price			35
Liquid assets in the acquired businesses			16
Effect on the Group's liquid assets			**-1,199**

2006 Consolidated, SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	69	17	86
Intangible assets	-	456	456
Inventory	197	6	203
Accounts receivable	215	-	215
Other receivables	8	-	8
Liquid assets	7	-	7
Provisions for pensions and similar commitments	-44	-	-44
Other provisions	-19	-	-19
Accounts payable	-115	-	-115
Advance payments and other liabilities	-31	-	-31
Tax liabilities	-17	-	-17
Deferred tax	-2	-64	-66
Acquired net assets	268	415	683
Goodwill			551
Purchase price			-1,209
Costs directly linked to the acquisitions			-25
Liquid assets in the acquired businesses			7
Effect on the Group's liquid assets			**-1,227**

Note 25. Impact on cash-flow due to acquisition and sale of businesses, continued

2005 Consolidated, SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	33	-	33
Intangible assets	7	296	303
Inventory	116	7	123
Accounts receivable	62	-	62
Other receivables	91	-	91
Liquid assets	47	-	47
Long-term liabilities	-18	-	-18
Accounts payable	-87	-	-87
Advance payments and other liabilities	-164	-	-164
Deferred tax	-	-103	-103
Acquired net assets	87	200	287
Goodwill			265
Purchase price			-543
Costs directly linked to the acquisition			-9
Liquid assets in the acquired business			47
Effect on the Group's liquid assets			**-505**

Divestments

In a press release on December 13, 2006, Alfa Laval announced that the company had taken the strategic decision to divest its engineering activity for the biopharm industry. The activity was sold to its local Management. The primary reason for divesting the engineering activity for the biopharm industry, which comprises the offering of engineering and validation services, was the limited connection to Alfa Laval's core business of process solutions and heat transfer, separation and fluid handling products. The divestment was not anticipated to have any negative impact on Alfa Laval's Life Science activity. The turnover of the divested activity was slightly more than SEK 100 million and it employed approximately 110 people. The transaction was finalized at December 29, 2006. The divestment caused a non-recurring charge to the profit and loss statement in the fourth quarter 2006 of SEK -126 million. The realised loss creates a loss carry forward that only can be used against future capital gains. Since there is no expectation of any future capital gains there is no income tax effect triggered by the sale.

The biopharm engineering activity was fully integrated into the Life Science customer segment in the Process Technology division until it was divested. As such it did not constitute a separate cash-generating unit and due to the integration it did not become one either when the sale approached. One reason for this is that the decision to sell the activity was taken close to the actual sale. This means that the future cash flows from the activity was expected to arise from continuing use rather than from a sale until just before the sale was a fact. In summary this means that no separate specification of the revenues, expenses, pre-tax result or post-tax result of this discontinued operation can be made.

The total value of the divested assets and liabilities is presented in the table below, which also shows the cash flow impact of the divestments.

Consolidated, SEK in millions	2007	2006	2005
Property, plant and equipment	-	2	-
Intangible assets	-	24	-
Goodwill	-	85	-
Inventory	-	2	-
Accounts receivable	-	21	-
Other receivables	-	10	-
Accounts payable	-	-3	-
Other liabilities	-	-11	-
Realised result	-	-126	-
Purchase price	-	4	-
Liquid assets in the sold business	-	-	-
Effect on the Group's liquid assets	**-**	**4**	**-**

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.

Note 26. Defined benefit obligations, continued

Consolidated, SEK in millions	2007	2006	2005
Net defined benefit liability			
Present value of the defined benefit obligation, unfunded	-889	-1,038	-1,098
Present value of the defined benefit obligation, funded	-2,607	-3,116	-3,032
Present value of the defined benefit obligation at year end	-3,496	-4,154	-4,130
Unrecognised actuarial losses	468	990	1,102
Unrecognised past service cost	7	1	0
Fair value of plan assets	2,288	2,280	2,174
Defined benefit liability	-733	-883	-854
Less amount disallowed	-38	-3	-
(-) liability/(+) asset	**-771**	**-886**	**-854**

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 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.

Consolidated, SEK in millions	2007	2006	2005
Net plan cost			
Current service cost	-45	-92	-76
Interest cost	-178	-241	-185
Expected return on plan assets	141	170	136
Recognised actuarial losses	-12	-123	-66
Recognised past service cost	0	1	-1
Effect of any curtailments or settlements	26	8	-10
(-) cost/(+) income	**-68**	**-277**	**-202**

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.

Consolidated, SEK in millions	2007	2006	2005
Present value of defined benefit liability at December 31			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1	-4,154	-4,130	-3,545
Acquired businesses	-	-34	-
Reclassification / prior year adjustments	-	-15	30
Translation difference	114	287	-447
Current service cost	-45	-92	-76
Interest cost	-178	-241	-184
Employee contributions	-5	-9	-5
Current year change in actuarial losses	548	-138	-67
Recognised past service cost	0	1	-1
Effect of any curtailments or settlements	26	8	-10
Benefit payments	198	209	175
(-) liability/(+) asset	**-3,496**	**-4,154**	**-4,130**

The following table presents how the fair value of the plan assets has developed during the year and lists the components of the change.

Consolidated, SEK in millions	2007	2006	2005
Fair value of plan assets at December 31			
Change in plan assets:			
Fair value of plan assets at January 1	2,280	2,174	1,831
Reclassification / prior year adjustments	0	5	-34
Translation difference	-62	-140	233
Employer contributions	203	149	111
Employee contributions	5	9	5
Actual return on plan assets	60	292	203
Benefit payments	-198	-209	-175
(-) liability/(+) asset	**2,288**	**2,280**	**2,174**

The table below presents how the net defined benefit liability has changed and the factors affecting the change.

Consolidated, SEK in millions	2007	2006	2005
Defined benefit liability/asset at December 31			
Change in defined benefit liability/asset			
Defined benefit liability/asset at January 1	-886	-854	-665
Acquired businesses	0	-34	-
Reclassification / prior year adjustments	-32	-13	-43
Translation difference	17	81	-84
Net plan cost	-68	-277	-202
Employer contributions	203	149	111
Change in unrecognised actuarial gains/losses	-24	63	27
Change in unrecognised past service cost	16	0	-1
Change in disallowed asset amount	3	-1	3
(-) liability/(+) asset	**-771**	**-886**	**-854**

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.

Consolidated, SEK in millions	2007	2006	2005
Assets			
Fair value of plan assets	2,288	2,280	2,174
Less amount disallowed	-38	-3	0
	2,250	2,277	2,174
Netting	-2,144	-2,222	-2,125
Assets in balance sheet	**106**	**55**	**49**
Liabilities			
Present value of the defined benefit obligation at year end	-3,496	-4,154	-4,130
Unrecognised actuarial gains (less losses)	468	990	1,102
Unrecognised past service costs	7	1	0
	-3,021	-3,163	-3,028
Netting	2,144	2,222	2,125
Provision in balance sheet	**-877**	**-941**	**-903**

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

Consolidated, %	2007	2006	2005
Discount rate	5	5	5
Expected return on investment	6	6	4
Expected wage increase	4	4	4
Change in health care costs	9	9	10
Change of index for future increase of remunerations	4	4	4

Changes in the health care costs have a significant impact on the costs and the level of the obligations for defined benefit obligations. If the health care costs change by one percent, it gives the following profit and loss effect calculated on the conditions as of the end of the year:

Consolidated, SEK in millions	2007		2006	
	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-3	4	-6	5
Present value of the defined benefit obligation	-54	46	-66	55

Note 27. Other provisions

Consolidated, SEK in millions

2006	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
Claims & warranty	370	-18	8	526	-191	-34	661
Deferred costs	90	-3	-	71	-25	-20	113
Restructuring	99	4	2	53	-57	-6	95
Onerous contracts	85	-1	-	89	-53	-21	99
Litigations	118	-1	3	51	-	-46	125
Other	195	-17	3	108	-72	-29	188
Total	**957**	**-36**	**16**	**898**	**-398**	**-156**	**1,281**
2007							
Claims & warranty	661	4	2	709	-222	-52	1,102
Deferred costs	113	3	-	114	-38	-33	159
Restructuring	95	0	-	19	-15	-1	98
Onerous contracts	99	1	-	76	-24	-12	140
Litigations	125	1	-	23	-11	-2	136
Other	188	-1	-	134	-127	-19	175
Total	**1 281**	**8**	**2**	**1,075**	**-437**	**-119**	**1, 810**

Unused amounts reversed refer to, among other items, sold companies, changed classifications and reversals of provisions made on an estimated basis.
The provisions for restructuring are affecting approximately 155 (170) employees.

Note 28. Loans and net debt

Consolidated, SEK in millions	2007	2006
Credit institutions	2,717	1,471
Private placement	703	755
Capitalised financial leases	34	25
Interest-bearing pension liabilities	2	2
Total debt	**3,456**	**2,253**
Cash, bank and current deposits	-1,046	-775
Net debt	**2,410**	**1,478**

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 69 (85) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 76.7 (64.1) percent.

The loans from credit institutions and the senior notes are distributed among currencies as follows:

Consolidated	Current		Non-current	
SEK in millions, Currency	2007	2006	2007	2006
CNY	28	-	-	-
DKK	19	-	7	7
EUR	33	69	1 792	841
INR	76	38	9	9
PLN	6	6	-	-
SEK	132	75	-	-
USD	45	7	1 273	1 142
Other	0	25	-	7
Total	**339**	**220**	**3 081**	**2 006**
Of which, not due within five years:			938	981

Loan from credit institutions

Alfa Laval has a senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 4,742 million. At December 31, 2007, SEK 2,098 million of the facility were utilised. The facility matures in April 2011 with another year's option until April 2012.

The average interest and currency duration including derivatives is 9.1 (13.3) months at the end of 2007. The interest is based on applicable IBOR plus a mark up based on the relation between net debt and EBITDA as described below.

Net debt/EBITDA	Mark-up, %
2.50 - 2.75	0.40
2.00 - 2.50	0.325
<2.00	0.25

At year end the mark up is 25 (25) (25) basis points. At the end of 2007 the loans are accruing interest in the range of 4.82 % - 5.33 % (3.75 % - 5.66 %) (0.32 %- 4.62 %). The average interest rate at the end of 2007 was 4.97 (4.86) (3.36) percent.

The syndicated loan is linked to three financial covenants that must be fulfilled throughout the life of the loan. These covenants refer to the relationship between net debt and EBITDA, the interest coverage ratio and the debt ratio. If the covenants are not fulfilled, the banking syndicate is 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 in April 2005.

In connection with the acquisition of Tranter Alfa Laval signed a bilateral term loan with SHB of EUR 25 million, corresponding to SEK 236 million. The loan matures in December 2013.

The senior credit facility and the bilateral term loan accrue interest at floating rate. The Group has chosen to hedge 39 (57) percent of the loans to fixed interest rate, with a duration of 20 months.

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 11 (18) million. The current year's cost for the fee amortisation is SEK -7 (-7) (-7) million.

Private placement

Alfa Laval has made a private placement in the US. The offer was over-subscribed and was closed at USD 110 million with a maturity of 10 years and an interest based on US Treasury bills plus a mark-up of 95 basis points. The loan was raised on April 27, 2006. In anticipation of this a bridge loan of USD 100 million was raised from HSBC on March 1, 2006 in connection with the payment of the purchase price for Tranter.

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

Senior notes

Alfa Laval redeemed the outstanding senior notes on November 15, 2005 at a premium of 6.063 percent. This incurred an additional interest cost during 2005 of SEK 68 million for the premium and SEK 21 million for the outstanding capitalised transaction costs, totalling SEK 89 million. These costs were reported as financial comparison distortion items within interest expenses, see Note 6.

The current year's cost for the capitalised transaction cost amortisation is SEK - (-) (-4) million.

Note 29. Other current liabilities

Consolidated, SEK in millions	2007	2006
Financial lessee payable	34	25
Other non-interest bearing liabilities	948	643
Total	**982**	**668**

Note 30. Accrued costs and prepaid income

Consolidated, SEK in millions	2007	2006
Accruals for social security	224	202
Reserve for severance pay	139	181
Accrued interest expenses	19	16
Other accrued expenses	691	462
Prepaid income	11	8
Total	**1,084**	**869**
Of which, not due within one year:		
Accruals for social security	26	28
Reserve for severance pay	86	83
Other accrued expenses	10	10
Total	**122**	**121**

Note 31. Pledged assets and contingent liabilities

Consolidated, SEK in millions	2007	2006
Pledged assets		
Other pledges and similar commitments	8	27
Total	**8**	**27**
Contingent Liabilities		
Discounted bills	80	78
Performance guarantees	1,064	910
Other contingent liabilities	2,017	1,499
Total	**3,161**	**2,487**

As of December 31, 2007 the Group had sold receivables with recourse totalling SEK 80 (78) million. These are disclosed as discounted bills above.

Other contingent liabilities are among other items referring to bid guarantees, payment guarantees to suppliers, retention money guarantees and commitments for future leasing fees relating to leased assets.

The increase in performance guarantees and other contingent liabilities is generally due to the increased sales, but particularly to the large increase in the number of large projects and that the number of orders with long delivery times has increased. The last two factors tend to increase the volume of issued guarantees. The increased sales to countries that to a larger extent demand guarantees have also contributed to the increase. The shortage in supply of raw materials concerning titanium has heavily increased the payment guarantees to the suppliers of raw materials.

Note 32. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 4.3 (4.5) (4.8) 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 sales and 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, 2006. It has a 12 month period of notice. The prices that Tetra Pak receives are not lower than the prices that Alfa Laval would obtain from a comparable third party. The prices are fixed on a calendar year basis.

Alfa Laval purchases facilities management services relating to the real estate in Lund in Sweden from Tetra Pak Business Support AB for SEK 4 (3) (3) million. Alfa Laval rents premises to Tetra Pak and DeLaval in Russia and DeLaval in Germany for SEK 14 (11) (12) million.

The Board of Directors for Alfa Laval AB has two representatives from Tetra Laval - Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

Consolidated, SEK in millions	2007	2006
Assets:		
Accounts receivable	39	31
Other receivables	55	72
Liabilities:		
Accounts payable	3	3
Other liabilities	5	0

Alfa Laval has had the following transactions with companies within the Tetra Laval group (Tetra Pak and DeLaval).

Consolidated, SEK in millions	2007	2006	2005
Income statement:			
Net sales	1,080	895	789
Other operating income	14	11	12
Other operating costs	-4	-3	-3

Note 33. Work in progress on plant projects

Consolidated, SEK in millions	2007	2006	2005
Income statement items			
Amount of recognised project sales revenue	438	562	555
Work performed on ongoing projects			
Aggregate amount of costs incurred and recognised profits (less recognised losses)	880	866	788
Assets			
Retentions	64	56	57
Gross amount due from customers for work in progress	8	19	149
Liabilities			
Advances received	168	140	153
Gross amount due to customers for work in progress	31	31	0

Note 34. 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 317 (297) (236) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 13 (0) million. In addition to that acquisitions of businesses during the year have contributed with a capitalised value for finance leases of SEK - (1) million. See Note 17 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:

Consolidated, SEK in millions	Operating leases		
Year	2007	2006	2005
2006	N/A	N/A	84
2007	N/A	144	61
2008	195	129	50
2009	168	110	28
2010	146	92	17
2011	124	76	N/A
2012	104	N/A	N/A
Later	216	114	70
Total	**953**	**665**	**310**

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

Consolidated, SEK in millions	Financial leases			Present value of financial leases		
Year	2007	2006	2005	2007	2006	2005
2006	N/A	N/A	3	N/A	N/A	3
2007	N/A	4	3	N/A	4	2
2008	4	2	1	3	2	1
2009	4	2	-	3	1	-
2010	3	1	-	3	1	-
2011	2	1	N/A	2	1	N/A
2012	2	N/A	N/A	2	N/A	N/A
Later	19	14	-	13	10	-
Total	**34**	**25**	**7**	**26**	**20**	**6**

Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Unrestricted equity capital	3,108,967,019
Repurchase of shares	-1,497,492,076
Received Group contribution, net after tax	1,062,531,462
Net income for 2007	954,020,125
	3,628,026,530

The Board of Directors propose a dividend of SEK 9.00 (6.25) per share corresponding to SEK 972,625,086 (697,949,956) and that the remaining income of SEK 2,655,401,444 (3,108,967,019) 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 3, 2008

Anders Narvinger
Chairman

Gunilla Berg
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

Waldemar Schmidt
Director

Lars Renström
Managing Director

Our Auditors' Report concerning this Annual Report has been issued on March 3, 2008.

Ingvar Ganestam
Authorised Public Accountant

Kerstin Mouchard
Authorised Public Accountant

Audit Report

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Alfa Laval AB (publ) for the year 2007. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 46-107. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Lund March 3, 2008

Ingvar Ganestam
Authorized Public Accountant

Kerstin Mouchard
Authorized Public Accountant


VALERO

For refineries, reusing energy is the key

With 18 plants, Valero Energy Corporation in San Antonio, Texas, in the U.S. is the largest refinery in North America. Energy efficiency and reduced emissions are priority issues for the company.

Valero's challenges in the energy area have grown in pace with the company. Energy accounts for half of the operating costs. Not only is the energy expensive, but it also has a substantial environmental impact, particularly in terms of emissions of greenhouse gases.

The need to reduce energy use is the foundation for the cooperation between Valero and Alfa Laval. For Valero, Alfa Laval's specialized heat exchangers Packinox and Compabloc are attractive. The products maximize the reuse of energy in a way that well exceeds the traditional industry standard. By reusing the heat generated by the refining process, the heat exchangers contribute to reducing fuel costs and emissions to the atmosphere.

"Alfa Laval contributes important expertise and value to the process," says Javier Quintana, Senior Vice President Engineering at Valero.

Corporate Governance Report 2007

Contents

Increased openness yields increased trust

Alfa Laval has applied the "Swedish Code of Corporate Governance" since it first came into effect – that is, July 1, 2005. Among other requirements, this implies that a Corporate Governance Report must be appended to the Annual Report. Alfa Laval early published a Corporate Governance Report, and this is now the fourth consecutive year in which the company presents a detailed report on is governance. This is also well in line with the company's efforts to be increasingly transparent, to make it easier for shareholders and other stakeholders to assess the degree to which the Board and company management have lived up to the responsibility implied by the trust shareholders have placed in them.

Alfa Laval applies the Code with the exception of Board member Finn Rausing being appointed Chairman of the Nomination Committee. The background is that the Nomination Committee viewed Finn Rausing as highly suitable for leading the Nomination Committee's work in an effective manner to achieve the best results for the company's shareholders.

The Corporate Governance Report is, as last year, reviewed by the company's auditors.

In accordance with the "Swedish Code of Corporate Governance", the Board is required to ensure that the requisite ethical guidelines for the company's behavior are established. During the year, the Board pointed out the importance of conducting internal training concerning the company's Business Principles. The Business Principles and information on compliance with them are extremely important for the entire company and favorably impact on relations with key stakeholders, which helps strengthen confidence in Alfa Laval.

The Swedish Corporate Governance Board is planning to revise the "Swedish Code of Corporate Governance," with the aim that the revised code will come into effect on July 1, 2008. The Board intents to establish the new code during the first half of 2008, and Alfa Laval is monitoring the progress of the project to be able to position itself to changes in the new code as quickly as possible.

Alfa Laval aims for the highest quality as regards its management, governance and control functions – in both the daily operations of the company and in the work of the Nominating Committee and the Board.

Lund, March, 2008
Anders Narvinger
Chairman of the Board

Corporate governance at Alfa Laval

The Annual General Meeting is the highest decision-making body and annually appoints, among others, the members and Chairman of the Board of Directors, based on proposals from the Nominating Committee. The Board's responsibilities are regulated by the Swedish Companies Act, the Swedish Code of Corporate Governance and the Board's formal work plan. The Board is responsible for the company's long-term goals and strategy. The president manages the company's operations and draws his closest support from a management group and from the managements of the divisions, to which responsibility and authority have been delegated. Alfa Laval has developed a number of business principles and fundamental values and implemented them in its organization to support the sound governance of the organization. This is a way of ensuring that the necessary ethical guidelines for the company's conduct are established, which is a duty required of the Board of Directors by the Swedish Code of Corporate Governance. Alfa Laval's business principles and values are described on the Alfa Laval website, www.alfalaval.com.

The company's external auditors scrutinize the company, including the Annual Report. They also make a statement concerning the discharge of the Board from liability. The internal audit involves examination of a broad range of procedures and issues. The Corporate Governance Report, in accordance with the "Swedish Code of Corporate Governance", gives a detailed description of how the different units for corporate governance within Alfa Laval act and interact.

Articles of Association

In accordance with Alfa Laval's Articles of Association, the registered name of the company is Alfa Laval AB. The registered office of the Board of Directors of the company shall be in Lund municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The par value of each share shall be SEK 10. The fiscal year is the calendar year.

The objective of the company's operations is, directly or through subsidiaries and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, primarily within the areas of separation, heat transfer and flow technology, and to administer fixed and movable property, and other related operations.

Alfa Laval's Board of Directors shall comprise at least four and not more than ten members, with not more than four deputy members. The number of auditors shall be at least one and not more than two, with not more than two deputies. Auditors are appointed when necessary at the Annual General Meeting for the period until the close of the Annual General Meeting held during the fourth fiscal year after the election of auditors. Authorized public accountants or registered public accounting firms are appointed as auditors and, when applicable, deputy auditors.

In addition to the above information, the Articles of Association also contain rules concerning the procedures to be followed at Annual General Meetings. The Articles of Association are available in their entirety on the Alfa Laval website, www.alfalaval.com. Alfa Laval's current Articles of Association were adopted at the Annual General Meeting held on April 27, 2006.

Annual General Meeting

The Annual General Meeting (AGM) is the Alfa Laval Group's highest decision-making body. According to Alfa Laval's Articles of Association, the Annual General Meeting shall be held within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the AGM takes place at the end of April or beginning of May each year in Lund.

The AGM for fiscal year 2006 was held in Lund on April 23, 2007. Board Chairman Anders Narvinger was elected as the meeting chairman. Following the President's report, the Board Chairman spoke about the Board's activities and the Remuneration Committee's work. Finn Rausing, Chairman of the Board's Audit Committee, reported on the work of the Audit Committee. Jörn Rausing, Chairman of the Nominating Committee and representative of Tetra Laval, reported on the work of the Nominating Committee. All the persons nominated to the Alfa Laval Board were present at the meeting. The company's two auditors were present.

Decisions made at the 2007 Annual General Meeting

The most important decisions made at the 2007 Annual General Meeting were as follows:

- The AGM adopted the income statement and balance sheet, decided in favor of utilizing the company's profits in accordance with the Board's proposal to the effect that a dividend of SEK 6.25 per share be paid for 2006 and that the Board of Directors and president be discharged from liability.
- The AGM decided in accordance with the Nominating Committee's proposal that the number of Board members shall be eight and that no deputies be appointed. At the 2004 AGM, two auditors and two deputy auditors were appointed, with their assignments extending until the fourth fiscal year after the election of auditors – in other words, up to and including the 2008 AGM.
- The AGM approved the Nominating Committee's proposal that fees to the Board should be SEK 3,050,000.
- The AGM decided that remuneration of auditors shall be in accordance with invoices submitted.
- Election of members was in accordance with the Nominating Committee's proposal of Anders Narvinger, Gunilla Berg, Björn Hägglund, Ulla Litzén, Finn Rausing, Jörn Rausing, Lars Renström and Waldemar Schmidt. The AGM elected Anders Narvinger as Chairman of the Board.
- The AGM adopted principles for compensation to, and other employment conditions for, company management.
- In accordance with the proposal of the Nominating Committee, the AGM adopted criteria for appointing the Chairman and members of the Nominating Committee for the period until and including the 2008 AGM. A Nominating Committee must always be established to prepare and present proposals to the AGM pertaining to election of the Meeting Chairman, the Board Chairman, Board members and, when appropriate, the fees payable to Board members and auditors.
- The AGM approved the transfer of Alfa Laval Biokinetics Inc. to its corporate management.
- The AGM authorized the Board to repurchase up to 10 percent of the company's own shares outstanding during the period up to the 2008 Annual General Meeting.

Nominating Committee for the 2007 AGM

The Nominating Committee for the 2007 AGM consisted of Jörn Rausing, Tetra Laval, Lars-Åke Bokenberger, AMF-Pension, Jan Andersson, Swedbank Robur Funds, Björn Franzon, Fourth AP Fund, Kjell Norling, Handelsbanken, and Board Chairman Anders Narvinger. Jörn Rausing was the Chairman.

The Nominating Committee proposed that the AGM approve the following measures:

that a Nominating Committee shall be appointed to prepare and present proposals to the shareholders at the AGM as regards the election of the chairman of the meeting, the Board Chairman, the members of the Board and, where necessary, the auditor and the fees to be paid to the Board and to the auditor.

that the Nominating Committee shall consist of not more than five members, who shall be representatives of the five largest shareholders at the close of the third quarter. The majority of the members of the Nominating Committee must not be Board members. The members of the Nominating Committee shall be appointed as follows: At the close of the third quarter, the Board Chairman shall contact the company's five largest shareholders. These are then entitled to appoint one member each to the Nominating Committee. In addition, the Nominating Committee can decide that the Board Chairman and one other Board member shall be part of the Nominating Committee. If any of the five shareholders abstains from the right to appoint a member, the next-largest shareholder shall be given the opportunity to appoint a member to the Nominating Committee. If several shareholders abstain from the right to appoint a member to the Nominating Committee, not more than eight of the largest shareholders need be consulted, unless required to ensure that the Nominating Committee consist of at least three members. If any of the shareholders resigns from the Nominating Committee before its work is completed, the shareholders that appointed the member shall be entitled to appoint a replacement. The chairman of the Nominating Committee shall be a shareholder representative who may also be a Board member. The chairman of the Nominating Committee shall not be the Board Chairman. The Board Chairman shall report to the Nominating Committee, on circumstances relating to the Board's work and requirement of spe-

cial expertise, etc., that may be relevant to the work of the Nominating Committee. Individual shareholders shall be entitled to submit proposals for Board members to the Nominating Committee for further consideration within the framework of its work.

that information about the Nominating Committee's composition shall be published in Alfa Laval's interim report for the third quarter and on the company's website not later than six months before the AGM.

that the Nomination Committee shall be entitled to charge costs to the company for engaging recruitment consultants, if this is deemed necessary to achieve a proper selection of candidates for the Board, and

that the Nominating Committee shall report on its activities at the AGM.

Nominations for the 2008 Annual General Meeting

In accordance with a decision made at Alfa Laval AB's AGM on April 23, 2007, the five major shareholders in Alfa Laval appointed the following members to the Nominating Committee prior to the AGM to be held on April 22, 2008: Finn Rausing, Tetra Laval, Lars-Åke Bokenberger, AMF Pension, Jan Andersson, Swedband, Robur Funds, Lars Öhrstedt, AFA Insurances, and Peter Rudman, Nordea Funds. The chairman of the Nominating Committee is Finn Rausing.

The Nominating Committee appointed the Board Chairman, Anders Narvinger, to be a member of the Nominating Committee and its secretary. Individual shareholders can submit proposals for Board members to any member of the Nominating Committee. For contact details, see Alfa Laval's website.

Nomination process

The Nominating Committee meets as often as required to reach a consensus on proposals for the AGM. In advance of the 2008 AGM, the Nominating Committee met two times. As the basis for its work, information was analyzed regarding the company's operations, financial and strategic development, the Board's work during the fiscal year and the work of the Board's Remuneration Committee. The evaluation of the Board's work, conducted in accordance with the Swedish Code of Corporate Governance, was performed and presented by an external consultant. The Chairman of the Board reported on other circumstances affecting the Board's work, such as the need for particular expertise that could be of importance for the nomination process.

Candidates for the Nominating Committee are sought through recommendations, recruitment consultants and nomination proposals from shareholders. The proposal presented to the AGM was based on the parameters governing the work of the Nominating Committee, as defined above.

The Board of Directors

The Board shall consist of eight members elected by the AGM, and no deputy members.The members are elected annually for the time until the conclusion of the next AGM. Three members and three deputies are appointed by the employees. Salaried employees within the company are invited to Board meetings as presenters and experts. The company's chief financial officer participate in all meetings. The company's chief legal counsel serves as Board secretary. The work of the Board is regulated by an annually updated formal work plan that sets the Board's internal division of labor and meeting agenda. There is a special set of instructions for the president that, among other things, describes the financial reports to be presented to the Board to enable the latter to properly assess the financial situation on an ongoing basis. For further information about the Board's members, see pages 118-119.

The Board's responsibilities

According to the Swedish Companies Act and the Board's formal work plan, the Board is responsible for preparing and evaluating Alfa Laval's overall, long-term strategies and objectives, adopting budgets and business plans, checking and approving financial statements, adopting key guidelines, making decisions on issues relating to acquisitions and divestments of operations and deciding on major investments and significant changes in Alfa Laval's organization and operations.

The Board (through its Audit Committee) also procures auditing services and maintains ongoing contact with the

Present at Board meetings and committee meetings

		Board	Remuneration Committee	Audit Committee
	Chairman / Member			
Elected at AGM	Anders Narvinger	11	1	3
	Gunilla Berg	8	-	3
	Björn Hägglund	10	-	-
	Ulla Litzén	11	-	-
	Finn Rausing	11	-	3
	Jörn Rausing	10	1	-
	Lars Renström	10	-	-
	Waldemar Schmidt	10	-	-
Employee representatives	Arne Kastö	10	-	-
	Jan Nilsson	10	-	-
	Susanna Norrby	10	-	-
	Number of meetings	11	1	3

Composition of the Nominating Committee for the 2008 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval[1], %
Finn Rausing, Board Chairman	Tetra Laval	17.68
Lars-Åke Bokenberger	AMF Pension	5.68
Jan Andersson	Swedbank Robur Funds	3.79
Lars Öhrstedt	AFA Insurances	2.84
Peter Rudman	Nordea Funds	1.89
Anders Narvinger	Board Chairman	
Total		31.88

[1] As at Sep. 30, 2007

company's auditors. The Board appoints the president and define the instructions the president must follow. The Board (through the Remuneration Committee) also determines salaries and remuneration to the president and members of executive management.

The Board's formal work plan

The Board's formal work plan is determined annually in a statutory meeting following the AGM. The formal work plan describes the Board's work assignments and the division of responsibility between the Board and the president. The formal work plan also prescribes that the Board shall have a Remuneration Committee and an Audit Committee, as well as defining the role of the Board Chairman. The company 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 information or documentation on which to base decisions can be prepared.

Notices of meetings, with the meeting agenda and the requisite information or documentation on which to base decisions, shall reach Board members not later than seven days prior to the date of the meeting. Minutes from Board meetings shall be numbered, and all Board members shall receive copies. The original shall be stored in a safe manner by the company. This is the responsibility of the company president. Matters discussed by the Board are by definition confidential, and every Board member is subject to a duty of confidentiality regarding matters that could harm the company.

Board Chairman

The Board Chairman directs the work in a manner that ensures compliance with the Swedish Companies Act. The Chairman is also responsible for ensuring that the Board's work is well organized and efficiently conducted, so that the Board fulfills its tasks. In dialogue with the company's president, the Chairman monitors developments and is responsible for the other members receiving, on an ongoing basis, information necessary for Board work to be performed in the most effective manner. The Chairman is responsible for evaluating the Board's work and participates in evaluation and development matters with respect to the Group's senior executives. The Chairman represents the company in ownership issues.

Independent Board members

All members of the Alfa Laval Board selected by the AGM are considered to be independent of the company, except Lars Renström, who is President and CEO of the company. Two members, Finn Rausing and Jörn Rausing, are considered not to be independent of Tetra Laval, which, as at December 31, 2007, owned 17.68 percent of the shares. The other members are independent of the company's largest shareholders. Board members have a duty to devote the necessary time and attention to their Board work and to possess the knowledge this requires, in order to further the company's and its shareholders' interests in the best possible manner.

Board work during 2007

Eleven Board meetings were held during 2007, of which six were regularly scheduled meetings. The meetings normally lasted four hours. Board meetings normally take place in Lund. In five cases, meetings were held by circular.

The normal agenda items for Board meetings include earnings results, order trends, investments, acquisitions and shareholder developments.

In addition to the normal agenda items, the Board meetings held during 2007 addressed the following matters:

- the company's ongoing strategic direction
- review and revision of the company's financial objectives
- asbestos-related lawsuits
- pension issues concerning senior executives
- audit planning
- overall funding
- share repurchasing
- Alfa Laval's business principles
- Environmental considerations
- Staffing

Board decisions are made based on open discussion led by the Chairman. During the year, no dissenting opinion on any issue was entered in the minutes.

Audit Committee

Alfa Laval has had a special Audit Committee since 2006. Members of the Audit Committee are appointed annually within the Board. During 2007, the committee comprised Finn Rausing (chairman), Gunilla Berg and Anders Narvinger. Alfa Laval's General Counsel is the Committee secretary.

During the year, the Audit Committee held three meetings averaging approximately three hours in length. Minutes are kept at all meetings of the Audit Committee and are distributed to Board members. The Audit Committee has the right to make decisions regarding the focus of the internal audit and the formulation of guidelines for financial reporting and follow-up. The Audit Committee also makes decisions, in consultation with the external auditors, regarding the focus of the external audit. The Audit Committee's work also includes continually monitoring the effectiveness of internal controls. The Audit Committee's duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting.

The Audit Committee examines the procedures for reporting and financial controls, the auditors' work, their qualifications and their independence. Its supervision also encompasses other key matters related to 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.

Remuneration Committee

Alfa Laval's Remuneration Committee is appointed on an annual basis within the Board. During 2007, it comprised Anders Narvinger (Chairman) and Jörn Rausing. The Remuneration Committee held one meeting during 2007. In addition, the committee acts in conjunction with recruitment and is involved when other conditions of employment relating to the president or other members of Group Management require discussion. Minutes are kept at all meetings of the Remuneration Committee and the contents are distributed to Board members.

The Remuneration Committee's assignment is to handle matters relating to salary and employment conditions for the president and senior executives who report directly to the president and to propose principles regarding employment conditions for the executive management to be submitted to the AGM for approval.

Evaluation of the Board's work

The Board Chairman ensures that the work of the Board is evaluated annually. This is made on an ongoing basis through open discussions and interviews between the Board Chairman and individual Board members. The evaluation of the Board's work focuses on the forms in which the work is carried out, the work climate and the availability of and the need for special Board expertise. The purposes of the evaluation include assisting the Nominating Committee in its task of nominating Board members and proposing remuneration levels.

Remuneration to the Board

Remuneration to Board members elected at the AGM is determined by the AGM based on the proposals submitted by the Nominating Committee. Supplements are paid to the chairman of the Audit

Remuneration to the Board

Remuneration is fixed. No variable portion exists. No remuneration to elected Board members who are employees of the company is paid.

	Board of Directors	Remuneration Committee	Audit Committee
Anders Narvinger (Chairman)	800,000	50,000	50,000
Gunilla Berg	325,000	0	50,000
Björn Hägglund	325,000	0	0
Ulla Litzén	325,000	0	0
Finn Rausing	325,000	0	100,000
Jörn Rausing	325,000	50,000	0
Lars Renström	0	0	0
Waldemar Schmidt	325,000	0	0
Total	2,750,000	100,000	200,000

Committee and to members of the Audit Committee and the Remuneration Committee. No Board member is entitled to pension payments from the company.

The table above summarizes the remuneration received by all Board members from Alfa Laval for the period from the 2007 AGM until the 2008 AGM.

Group Management

Alfa Laval's executive management comprises 11 persons led by President Lars Renström, who is also CEO of the Alfa Laval Group. The president directs daily operations and is responsible for the Board receiving information and the necessary decision-making foundation. The president is responsible for ensuring that the company's accounting complies with applicable laws and provisions.

Alfa Laval's management group consists of the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board. For further information about Group Management, see pages 120-121.

The persons in the management group are responsible both for their own areas of operation and, collectively, for the Group as a whole. The management group held six minuted meetings during 2006. In addition to minuted meetings of the management group, quarterly reviews of operations are held with the heads of divisions and geographical regions. These deal with the business situation, earnings, earnings projections for the upcoming 12 months and specific questions for the various components of operations.

Fixed and variable remuneration

The principles of remuneration to the president and other members of senior management are decided by the AGM. The principle used when deciding the remunerations to senior executives is that the remuneration is mainly based on a fixed monthly salary, with the option of a company car and corporate healthcare services. In special cases, Alfa Laval may also provide a residence. The variable remuneration takes the form of a yearly bonus of between 15 and 60 percent of the fixed salary, depending on the position held. The size of the variable remuneration depends on the degree to which outcomes fulfill a number of established financial targets, and to a limited extent on qualitative objectives.

Compensation paid to Group Management in 2007 and 2006 is shown in the table below (SEK 000s).

	2007		2006	
	Fixed	Variable	Fixed	Variable
Lars Renström, President	6,497	3,000	5,214	1,456
Other	22,000	5,000	18,700	3,200

For further information, see Note 3, page 86.

CEO and President Lars Renström currently has a base salary of SEK 6 M per year. He has a variable salary of a maximum of 60 percent. The fixed salary in the table above also contains the value of car benefit, taxable per diem, vacation pay and vacation benefit paid in cash.

Other senior executives comprise the ten members of Group Management other than the president. Their remuneration totals SEK 27 M (22), of which bonuses amounted to SEK 5 M (3). The bonus figure relates to bonuses paid during the year.

Pensions

Company President Lars Renström does not have an agreement on early retirement. The ordinary ITP up to a salary of 30 base amounts is funded preto achieve full ITP benefits at the age of 60. If Lars Renström continues to work for Alfa Laval after the age of 60, he will not receive any pension during the time he is still receiving salary. On top of the ordinary ITP, he has a defined-contribution benefit comprising 50 percent of the base salary.

The other members of Group Management will receive, depending on their position, a premium-based pension commitment based on a retirement age of 62. Under this premium-based solution, premiums are paid from age 50 to age 62, corresponding to 15 percent of the base salary.

During the year, Alfa Laval's expenses for pension premiums totaled SEK 427 M (387).

Severance pay/Termination of employment

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

Lars Renström will receive severance pay corresponding to two years' salary in the event of notice of termination from the company prior to 58 years of age, which successively declines to six months' salary at 60 years of age.

GOVERNANCE AND CONTROL

Financial reporting

The Board oversees financial reporting through instructions to the president. The Audit Committee prepares all the financial reports issued by the company, while the Board as a whole prepares the company's quarterly reports and year-end report. The Audit Committee also handles quarterly risk reporting and information about risk assessments, legal disputes and any irregularities that may occur.

Policy documents

As governance instruments, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples of such documents include the Board's procedural rules, the president's instructions, reporting instructions, business principles, investment policy, financial policy and communications policy. The Board annually checks that these instructions and policies remain relevant and up to date.

Internal controls

The Board is responsible for the company's internal controls, the overall purpose of which is to protect shareholders' investments and the company's assets. The Board as a whole received reports from the company's external auditors at one Board meeting during 2007. In addition, the Board's Audit Committee received reports from the company's external auditors on three occasions.

On one occasion, the Board received reported from the company's external auditors without the president or any other representative of executive management being present.

The internal audit team took part in all meetings with the Audit Committee

For further information about internal controls, see the Board's report on internal controls provided below in the Corporate Governance Report. It describes the control environment, risk assessment, control activities, information and communication, and the supervision of the internal control system.

Internal audit

The internal audit consists of two auditors supplemented by internal specialist company resources and auditors from the KPMG organization for internal auditing.

During 2007, 19 internal audits were carried out. The audits encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining, for example:

- efficiency within the current units
- the processes that ensure that the principles for best practice are applied and that the controls that have been systematically built in are relevant
- the existence of systems to ensure that financial transactions are implemented, archived and reported in an accurate and lawful manner
- the systems and processes established by the management group to ensure that business operations are conducted in accordance with the policies and procedures that management has established

Opportunities to improve management control, the company's profitability and the organization's image may be identified during audits.

The internal audit team reports to the Audit Committee on the results of the audits performed. On these occasions, the planning parameters for the next six to eight months are also established. The internal audit team also distributes reports from individual audits to the Group Management members concerned. To ensure that concrete effects result from the internal audits, a procedure for continuous follow-up of agreed measures has been established.

Risk management

Alfa Laval's risk management processes are explained in the Risk management section on pages 78-82 of the Annual Report.

Audits and auditors

The 2004 AGM gave a renewed mandate to auditor Ingvar Ganestam and newly elected auditor Kerstin Mouchard. Both are elected until the 2008 AGM. As deputy auditors, the 2004 AGM reelected Håkan Olsson and newly elected Thomas Swenson, who are both elected until the 2008 AGM. All are authorized public accountants with Ernst & Young AB. Ingvar Ganestam, born in 1949, has been an auditor for Alfa Laval since 2000. Kerstin Mouchard, born in 1952, has been an auditor for Alfa Laval since 2004. Håkan Olsson, born in 1961, has been a deputy auditor for Alfa Laval since 2000. Thomas Swenson, born in 1957, has been a deputy auditor for Alfa Laval since 2004.

In Alfa Laval's judgment, none of these auditors has any relationship to Alfa Laval, or a company close to Alfa Laval, that could affect their independent status in relation to the company. All of the auditors also possess the requisite competence to be able to execute their assignment as auditors for Alfa Laval.

Remuneration of auditors (see Note 4 on page 87)

An audit assignment involves examining the Annual Report, evaluating the accounting principles employed, making significant judgments concerning corporate management, evaluating the general presentation in the Annual Report and conducting an overall review of the interim report for the third quarter. It also involves a review on which to base a decision on discharging the Board from liability. Any other tasks performed are defined as other assignments.

As an extension of our auditing assignment, which has now been completed as a result of our Audit Report dated March 3, 2008, we have reviewed the Corporate Governance Report (pages 110-121) for Alfa Laval AB for 2007. Based on our review, nothing has come to our attention that causes us to believe that the Corporate Governance Report does not comply with the guidelines contained in the Swedish Code of Corporate Governance.

Lund, March 3, 2008

Ingvar Ganestam
Authorized Public Accountant

Kerstin Mouchard
Authorized Public Accountant

Board of Directors' report on internal control for fiscal year 2007

The Board's description of the internal control.

Control environment

Effective work by the Board forms the foundation for good internal control. The Board has established clearly defined processes and priorities for its work and the Board's committees. An important part of the Board's work is to formulate and approve fundamental rules and guidelines. These include Finance Policy, Business Principles, Rules for Investment Decisions, Financial Reporting Requirements and Communications Policy. These rules and guidelines are intended to create the foundation for good internal control. They are revised and updated continuously as the need arises. The Board has also ensured that the organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes that facilitate effective management of operational risks and enable the company to fulfill its goals. The responsibility structure includes evaluations by the Board of business performance and results through a purpose-adapted package of reports that contains results, forecasts and analyses of important key factors. The Audit Committee has meetings with the internal audit team, the external auditors and various specialists in senior management and support functions. The Board receives reports on these meetings. The Audit Committee's work also includes continually monitoring the effectiveness of internal controls. The Audit Committee's duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting. Group Management maintains and manages the system of internal controls needed to manage significant risks in ongoing business operations.

This work includes ensuring that there are appropriate rules and guidelines for such areas as HR matters, staffing and skills development.

Management's responsibility also includes a commitment to active efforts to ensure that all employees understand the requirement for, and the individual's role in, maintaining effective internal control.

Risk assessment

The framework for ongoing business operations and follow-up includes procedures for risk assessment and thus also for ensuring the production of accurate financial reporting. These procedures include, for example, the following areas:

- Risk assessments related to strategic planning, forecasts and acquisition activities that are intended to identify events in the market or in business operations that could, for example, lead to changes in valuations of assets and currency exchange-rate effects on earnings.
- Processes to track changes in accounting regulations that ensure that these changes are implemented correctly in the financial reporting.

Control structures

The control structures have been designed to manage risks that the Board and management consider to be significant for business operations, internal control and financial reporting.

The control structures consist, firstly, of an organization with clearly defined roles that support an effective, and from an internal control perspective, appropriate division of responsibility, and secondly, specific control activities that are intended to discover or prevent the risk of errors in the reports.

Examples of control activities include clearly defined decision-making processes and priorities for important decisions (investments, agreements, acquisitions, divestments, etc.) earnings analyses and other forms of analytical follow-up, reconciliations, inventory-taking and automatic controls in the key IT systems related to financial reporting.

Information and communication

The company's main control documents in terms of regulations, guidelines and manuals, to the extent they are related to financial reporting, are updated continuously and communicated via the intranet, memorandums, internal meetings, etc. The effectiveness of this communication is monitored continuously to ensure reception of the information.

There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors.

A clearly defined policy has been formulated for communication with external interests, including guidelines for modes of communication. The policy is intended to ensure accurate and complete compliance by all persons responsible for the dissemination of information.

Follow-up

The internal control process is monitored mainly by three entities outside the line organization: the Audit Committee, External Audit and Internal Audit.

The Audit Committee established the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations.

The Audit Committee meets with the external auditors regularly to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits. The Committee also establishes the direction, extent and time schedules for the internal audit team's work. The internal audit team reports the results of its audits to the Audit Committee at the latter's meetings. Results of the audit reviews are also reported continuously to Group Management so that any necessary measures may be taken.

The extent of the internal audit includes operational efficiency, compliance with regulations and guidelines and the quality of financial reporting from the subsidiaries.

This report comprises only a description of how internal control is organized without expressing an opinion on how well it functions.

Lund, March 2008
Board of Directors

Elected by the Annual General Meeting

Anders Narvinger
Chairman since 2003.
Born: 1948.
President of Teknikföretagen and formerly President and CEO of ABB Sweden.
Education: BSc. Eng and BSc. Econ.
Chairman of Trelleborg AB, V&S Vin & Sprit AB, Invest in Sweden Agency and the Swedish Trade Council.
Board member of Volvo Car Corporation.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 10,000* (10,000**).

Gunilla Berg
Board member since 2004.
Born: 1960.
CFO SAS Group, formerly Executive Vice President and CFO of KF Group.
Education: BSc. Econ.
Board member of LE Lundbergföretagen AB.
Independent of company and major shareholders.

Björn Hägglund
Board member since 2005.
Born: 1945.
Former positions include Deputy CEO of Stora Enso.
Education: PhD. (For.)
Board Chairman of Swedish Industrial Institute for Economics and Social Research and World Wildlife Fund, Sweden.
Board member of among others Bergvik Skog AB and Mistra.
Vice Chairman at IVA (Royal Academy of Engineering Sciences).
Independent of company and major shareholders.

Ulla Litzén
Board member since 2006.
Born: 1956.
Previously President of W Capital Management and held various 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, Karo Bio AB, Posten AB and SKF AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 2,400* (2,400**).

Finn Rausing
Board member since 2000.
Born: 1955.
Education: B.L., MBA (Insead).
Chairman of R.R. Institute of Applied Economics AB.
Board member of Tetra Laval Group, De Laval Holding AB and Swedeship 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 Profilgruppen AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 10,100* (10,100**).

Waldemar Schmidt
Board member since 2000.
Born: 1940.
Former President and CEO of ISS Group.
Education: BSc. Eng.
Chairman of Superfos Industries A/S and Thrane & Thrane A/S. Vice Chairman of Majid Al Futtaim Group LLC, Dubai.
Board member of Enodis plc and Welzorg Group BV.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 15 000* (21 749**).

*Holdings as at December 31, 2007. **Holdings as at December 31, 2006.

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 (SIF).

Jan Nilsson
Employee representative since 2000.
Born: 1952.
Employed by Alfa Laval since 1974.
Employee representative for the Swedish Metal Workers' Union (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).

Deputy employee representatives

Maria Fröberg
Deputy member since 2005.
Born: 1973.
Employed by Alfa Laval since 2001.
Deputy employee representative for the Swedish Union of Clerical and Technical Employees in Industry (SIF).

Henrik Nilsson
Deputy member since 2007.
Born: 1971.
Employed by Alfa Laval since 1995.
Deputy employee representative for the Swedish Metal Workers' Union (Metall).

Stefan Sandell
Deputy member since 2005.
Born: 1971.
Employed by Alfa Laval since 1989.
Deputy employee representative for the Swedish Organisation for Managers (Ledarna).

Auditors

Ingvar Ganestam
Authorized Public Accountant,
Ernst & Young AB, Malmö.
Born: 1949.
Auditor for Alfa Laval since 2000.
Reelected auditor at 2004 Annual General Meeting.
Ingvar Ganestam has years of experience in auditing exchange-listed companies and among other assignments is auditor for Tetra Pak AB, Lindab AB and the IKEA Group.

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 years of experience in auditing exchange-listed companies and among other assignments is auditor for Cardo AB and Strålfors AB.

Deputy auditors

Håkan Olsson
Authorized Public Accountant
Ernst & Young AB, Malmö.
Born: 1961.
Deputy auditor for Alfa Laval since 2000.

Thomas Swensson
Authorized Public Accountant,
Ernst & Young AB, Malmö.
Born: 1957.
Deputy auditor for Alfa Laval since 2004.

Lars Renström
President and CEO.
Born: 1951.
CEO since October 1, 2004.
Joined Alfa Laval from Seco Tools AB, where he was President and CEO from 2000 to 2004. Previously served as a division manager at Ericsson AB and Atlas Copco AB. Board member of Profilgruppen AB.
Education: BSc. Eng., BSc. Econ.
Number of shares in Alfa Laval: 10,100* (10,100**).


Lars Renström

Thomas Thuresson
Executive Vice President, Chief Financial Officer.
Born: 1957.
Employed by Alfa Laval since 1988.
CFO since 1995.
Previous assignments include Controller of the Flow business area and Group Controller of the Alfa Laval Group.
Education: BSc. Econ.
Number of shares in Alfa Laval: 35,300* (40,000**).


Thomas Thuresson

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.
Education: BSc. Eng.
Number of shares in Alfa Laval: 1,647* (5,647**).


Göran Mathiasson

Svante Karlsson
President, Equipment Division.
Born: 1955.
Employed by Alfa Laval since 1984.
President of the Equipment Division since 2001.
Former head of the Thermal business area and President of Marine & Power.
Education: BSc. Econ.
Number of shares in Alfa Laval: 20,686* (30,686**).


Svante Karlsson

Ulf Granstrand
President, Process Technology Division.
Born: 1947.
Employed by Alfa Laval since 1975.
President of the Process Technology Division since 2003. Previously responsible, among other roles, for the Operations Division, parts of the regional sales operations and the Thermal business area.
Education: BSc. Eng.
Number of shares in Alfa Laval: 45,672* (59,672**).


Ulf Granstrand

Peter Leifland
Executive Vice President in charge of the Western Europe and North America Region.
Born: 1954.
Employed by Alfa Laval since 1985.
Peter Leifland has been a regional manager since 1999. Formerly President of Alfa Laval International Engineering AB.
Board member of Observer AB.
Education: B.L., lic.spec. IMD (PED).
Number of shares in Alfa Laval: 116,716* (116,716**).


Peter Leifland

*Holdings as at December 31, 2007. **Holdings as at December 31, 2006.


Lars Henriksson


Peter Bailliére


Peter Torstensson


Ray Field


Nils Olof Björk

Lars Henriksson
Executive Vice President in charge of the Central and Eastern Europe and Latin America Region.
Born: 1950.
Employed by Alfa Laval since 1977.
Responsible for the Central and Eastern Europe and Latin America Region since September 1, 2004. Prior to this he was President of Alfa Laval Inc. in Canada and held executive positions for Alfa Laval in Sweden, Spain and Brazil.
Education: BSc. Eng.
Number of shares in Alfa Laval: 9,000* (9,000**).

Ray Field
Executive Vice President in charge of the Asia, Oceania and Middle East Region.
Born: 1954.
Employed by Alfa Laval since 1985.
Responsible for the Asia, Oceania and Middle East Region since September 1, 2004. Prior to this, he served as President of Alfa Laval China for slightly more than 10 years.
Education: BSc. Eng.
Number of shares in Alfa Laval: 13,647* (13,647**).

Peter Bailliére
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.

Nils Olof Björk
Senior Vice President, Corporate Development.
Born: 1947.
Employed by Alfa Laval since 1975.
Responsible for Corporate Development since 2002.
Previous positions include head of Thermal in Canada, Marketing Director of Alfa Laval in Lund, head of Alfa Laval in Asia, Hong Kong, and President of Alfa Laval, Japan.
Board member of Österlens Kraft AB.
Education: PhD. (Chemistry).
Number of shares in Alfa Laval: 3,944* (9,944**).

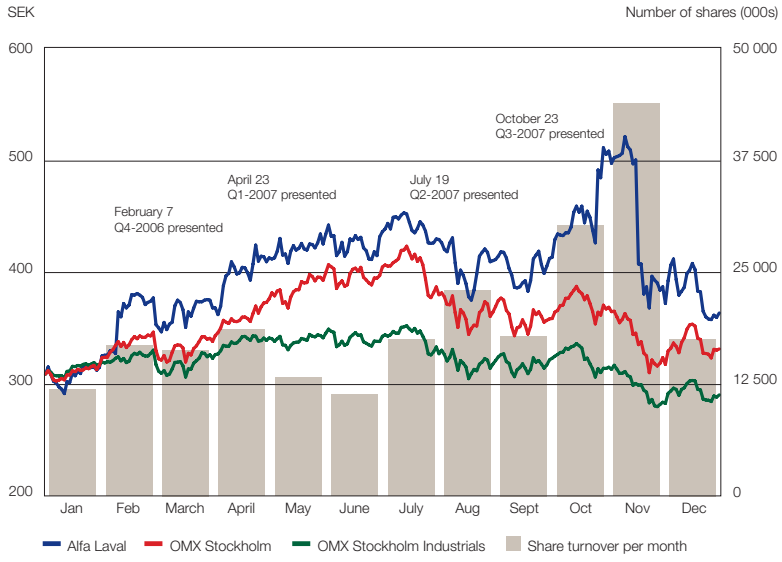
Peter Torstensson
Senior Vice President, Corporate Communications.
Born: 1955.
Employed by Alfa Laval since 1999.
Senior Vice President, Corporate Communications since 1999. Formerly President of Borstahusen Informationsdesign.
Member of Advisory Board for Bona Kemi AB.
Number of shares in Alfa Laval: 19,000* (19,000**).

Share price rose 18 percent

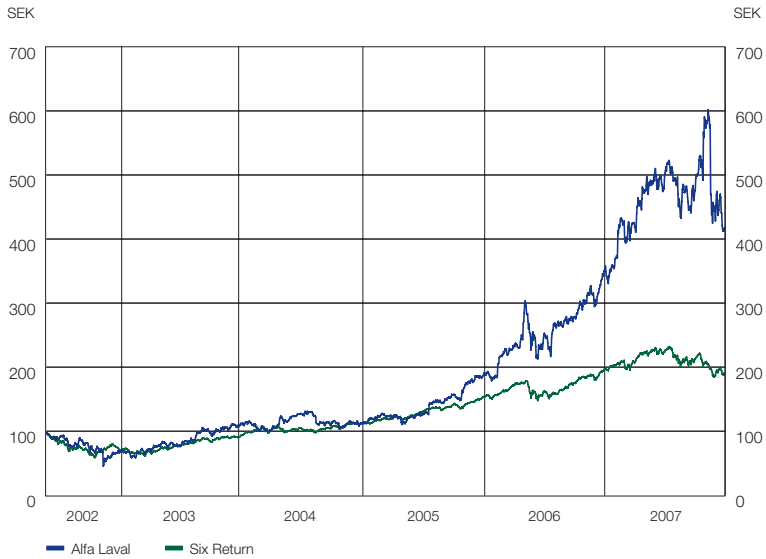
THE VALUE OF THE ALFA LAVAL SHARE rose 18 percent in 2007, from SEK 308.50 to SEK 363.50. The trend was better than average for both the industry (Industrials), which rose 7 percent during the year, and the exchange (OMX Stockholm) as a whole, which declined 6 percent. Alfa Laval's total market capitalization at year-end 2007 was SEK 40.6 billion (34.5). The highest and lowest closing prices paid for the Alfa Laval share during the year were SEK 501 and SEK 291, respectively.

Alfa Laval has also been a good investment for shareholders in a longer perspective. Since its initial listing at SEK 91 in May 2002, the total yield, which includes reinvested dividends, through year-end 2006 was 360 percent. This corresponds to an average annual return of about 31 percent.

Price trend, January 1 – December 31, 2007



Total return, May 17, 2002 – December 31, 2007



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 40–50 percent of net profit over a business cycle, adjusted for surplus value. For 2007, the Board has proposed that the Annual General Meeting approve a dividend of SEK 9.00 (6.25), an increase of 44 percent. The proposed dividend corresponds to 29 percent (37) of net profit, adjusted for surplus value.

Repurchase of shares

With an equity/assets ratio of 34.1 percent (36.4), Alfa Laval's financial position is strong. In order to permit a more purpose-adapted capital structure and thus improve yield, the 2007 AGM approved a mandate to repurchase up to 10 percent of the total number of shares, from now until the next AGM. The mandate applies until the AGM that is to be held on April 22, 2008. The repurchase shall take place through transactions on the Stockholm Stock Exchange, and the intention is that the repurchased shares will be cancelled and the share capital reduced. Until December 31, 2007, Alfa Laval had repurchased 3.6 million shares, corresponding to 3.2 percent of the total number of shares.

Share turnover

During the year, a total of 239.7 million (151.8) Alfa Laval shares were traded at a value of SEK 97.7 billion (35.0). This means that 218 percent (136) of the total number of shares outstanding in Alfa Laval was traded during the year. The corresponding figure for the Stockholm Stock Exchange was 139 percent. During the year, an average of more than 1,946 share transactions (650) per day were completed in Alfa Laval shares. Each transaction averaged more than 1,880 shares (900). A trading lot in Alfa Laval corresponds to 25 shares.

The Alfa Laval share was first listed on the Stockholm Stock Exchange in 1901. After the company was bought out from the market in 1991, Alfa was again listed on the market on May 17, 2002. Between the listing in May 2002 and December 31, 2007, the price appreciated 300 percent.

With a market capitalization of SEK 40.6 billion, Alfa Laval is part of the Large Cap segment on the Nordic Exchange, OMX. The share is also among the most heavily traded on the Nordic Exchange in Stockholm and are included in the OMXS30. According to the exchange industry categorization, Alfa Laval is part of the Industrials sector. Other major companies in the same

sector are, for example, the Swedish companies Atlas Copco, Sandvik, SKF, Volvo and the Finnish company KONE.

Share capital

The share capital in Alfa Laval totals SEK 1,117 M. The number of shares totals 111.7 million, with a par value of SEK 10 per share. All shares carry equal voting rights and equal right to the company's assets. Alfa Laval has no outstanding options that could create a dilution effect for shareholders. The Board has a mandate until the 2008 AGM to repurchase up to 10 percent of the total number of shares.

Alfa Laval's shareholders

At year-end 2007, Alfa Laval had 16,090 (12,178) shareholders. Tetra Laval BV is the company's largest shareholders with 17.68 percent (17.68) of the shares. The ten largest shareholders at year-end 2007 held approximately 44 percent (51) of the shares.

Data per share

	2007	2006	2005	2004	2003
Market price at year-end, SEK	363.50	308,50	171	107	109
Highest paid, SEK	501	312	172.50	125.50	110
Lowest paid, SEK	291	157	98.50	96	58
Shareholders' equity, SEK	71.10	61.16	52.0	47.2	43.8
Earnings per share	28.48	15.10	7.92	7.12	5.78
Dividend, SEK	9.00[3]	6.25	5.10	4.75	4.00
Unrestricted cash flow, SEK[2]	14.42	9.32	8.52	11.10	10.71
Price change during the year, %	+18	+80	+ 60	-1.8	+40.3
Dividend as % of EPS, %	31.6	41.4	64.4	88.0	69.2
Direct return, %[4]	2.5	2.0	3.0	4.4	3.7
Market price/shareholders' equity, times	5.1	5.0	3.6	2.4	2.5
P/E ratio[5]	13	20	22	20	19
No. of shareholders	16,090	12,178	10,964	11,758	7,254

[1] Share listed on May 17, 2002
[2] Free cash flow is the sum of cash flow from operating and investing activities.
[3] Board proposal to AGM.
[4] Measured as proposed dividend in relation to closing price on last trading day.
[5] Closing price last trading day in relation to earnings per share.

Ten largest owners, as at December 31, 2007

	Number of shares	Capital/ voting rights, %	Change in 2007
Tetra Laval B.V.	19,744,014	17.68	0
AMF Pension	6,681,152	5.99	- 588,048
Barclays Bank	5,695,271	5.10	+ 5,695,271
AFA Insurances	2,296,508	2.75	- 386,317
Swedbank Robur Funds	2,943,470	2.64	- 1,481,962
Fidelity	2,791,800	2.50	- 8,335,401
Alecta Pension Insurance	2,450,000	2.19	+ 2,450,000
Handelsbanken Funds	1,969,633	1.76	- 903,120
Gulf 1 Fund	1,769,045	1.58	+ 1,769,045
Second AP-Fund	1,743,986	1.56	+ 743,986

Alfa Laval AB held 3,602,539 shares - corresponding to 3.2 percent of total outstanding shares – at year end 2007.

There are no option programs or other instruments that could give rise to dillution.

Ownership distribution by size, as at December 31, 2007

Holding	No. of shareholders	No. of shares	Holding (%)
1 – 500	12,060	2,040,777	1.83
501 – 1 000	1,812	1,533,456	1.37
1,001 – 5,000	1,432	3,345,130	3.00
5,001 – 10,000	237	1,793,997	1.61
10,001 – 15,000	116	1,426,670	1.28
15,001 – 20,000	68	1,225,616	1.10
20,001 –	365	100,306,347	89.81
Total	16,090	111,671,993	100.00

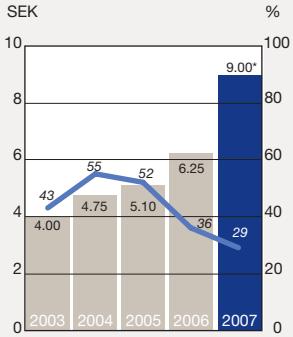
Ownership categories

Category	No. of shares	Capital/ voting rights, %
Shareholders domiciled abroad	62,318,737	57.67
Financial companies*	31,252,577	27.99
Other Swedish legal entities	5,409,229	4.84
Swedish individuals	5,179,118	5.71
Social insurance funds	4,996,220	4.47
Special-interest organizations	1,380,632	1.24
Uncategorized legal entities	459,645	0.41
Government	435,901	0.39
Other financial companies*	180,684	0.16
Municipalities and county councils	59,250	0.05
Total	111,671,993	100.00

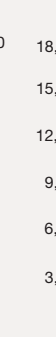
* Banks, securities companies and stockbrokers, fund companies, insurance companies and pension institutions, pension foundations and financial companies' non-profit organizations.

Category	No. of shares	Capital/ voting rights, %
Legal entities	106,218,002	95.12
Individuals	5,453,991	4.88

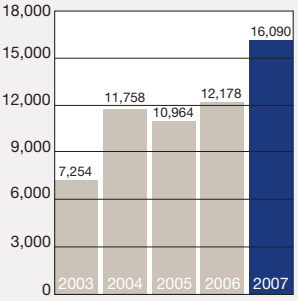
Dividend



Percentage of net profit**

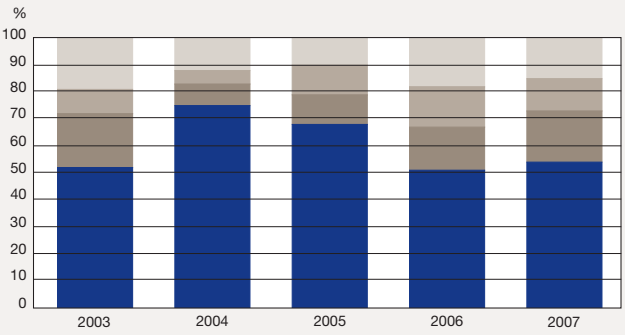


Total number of shareholders



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

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



	2003[3]	2004[2]	2005[1]	2006[1]	2007[1]
Sweden	52	75	68	51	54
U.S.	20	8	11	16	19
U.K.	9	5	11	15	12
Others	19	12	10	18	15

[1] Excluding Tetra Laval (Netherlands) about 18 percent.
[2] Excluding Industri Kapital (United Kingdom) about 9 percent and Tetra Laval (Netherlands) about 18 percent.
[3] Excluding Industri Kapital (United Kingdom) about 18 percent and Tetra Laval (Netherlands) about 18 percent.

Ten-year overview**

				Successor Alfa Laval					Predecessor Alfa Laval Holding	
								pro forma		
SEK millions, unless otherwise stated	2007	2006	2005	2004 *	2003	2002	2001	2000	1999	1998
Profit and loss information										
Net sales	24,849	19,802	16,330	14,986	13,909	14,595	15,830	15,012	14,405	14,734
Comparison distortion items	-265	-120	-73	37	6	-29	5	130	30	497
Operating income	4,691	2,552	1,377	1,438	1,138	1,220	1,231	810	249	772
Financial net	-134	-177	-278	-177	-321	-848	-1,189	-1,107	-133	-204
Result after financial items	4,557	2,375	1,099	1,261	817	372	42	-297	116	568
Minority share in income					-41	-34	-32	-48	-27	-16
Taxes	-1,377	-650	-171	-421	-130	-218	26	-60	-333	40
Net income for the year	**3,180**	**1,725**	**928**	**840**	**646**	**120**	**36**	**-405**	**-244**	**592**
Balance sheet information										
Goodwill	4,459	3,706	3,531	2,978	3,099	3,369	3,373	3,314	1,692	2,069
Other intangible assets	1,275	1,191	1,067	924	1,101	1,334	1,641	1,805	23	25
Property, plant and equipment	2,824	2,514	2,553	2,480	2,756	3,083	3,599	4,112	2,883	2,913
Financial long-term assets	1,133	784	676	601	671	752	1,102	1,094	324	635
Inventories	5,086	3,793	3,091	2,453	2,218	2,279	2,624	2,882	2,931	3,321
Current receivables	7,428	5,987	4,467	3,976	3,631	3,590	4,334	4,353	3,891	4,037
Current deposits	190	229	342	257	659	414	293	596	283	96
Cash and bank	856	546	479	415	555	606	666	635	677	551
TOTAL ASSETS	**23,251**	**18,750**	**16,206**	**14,084**	**14,690**	**15,427**	**17,632**	**18,791**	**12,704**	**13,647**
Equity capital	7,937	6,831	5,811	5,269	4,897	4,512	1,445	1,312	3,343	3,652
Minority interest					104	108	132	170	148	119
Provisions for pensions etc.	877	941	903	789	755	721	775	658	520	672
Provisions for taxes	1,090	949	767	760	817	990	1,144	1,413	199	182
Other provisions	1,810	1,281	957	948	891	989	1,063	1,179	950	0
Non-current liabilities	3,081	2,006	2,702	2,307	3,492	4,234	8,321	8,899	449	2,957
Current liabilities	8,456	6,742	5,066	4,011	3,734	3,873	4,752	5,160	7,095	6,065
TOTAL EQUITY CAP. & LIAB.	**23,251**	**18,750**	**16,206**	**14,084**	**14,690**	**15,427**	**17,632**	**18,791**	**12,704**	**13,647**

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP

				Successor Alfa Laval					Predecessor Alfa Laval Holding	
SEK millions, unless otherwise stated	2007	2006	2005	2004 *	2003	2002	2001	pro forma 2000	1999	1998
KEY RATIOS										
Orders received	27,553	24,018	18,516	15,740	14,145	14,675	15,894	15,374	13,897	13,866
Order backlog at year end	14,730	12,359	7,497	4,763	4,021	4,340	4,314	4,063	3,532	3,907
EBITA	5,034	2,891	1,692	1,732	1,633	1,726	1,743	1,290	964	1,462
EBITDA	5,299	3,153	1,957	1,993	1,926	2,058	2,144	1,756	1,440	1,958
EBITA-margin %	20.3	14.6	10.4	11.6	11.7	11.8	11.0	8.6	6.7	9.9
EBITDA-margin %	21.3	15.9	12.0	13.3	13.8	14.1	13.5	11.7	10.0	13.3
Adjusted EBITA	4,980	3,010	1,765	1,695	1,627	1,755	1,738	1,160	934	965
Adjusted EBITDA	5,245	3,273	2,030	1,956	1,920	2,087	2,138	1,626	1,410	1,461
Adjusted EBITA-margin %	20.0	15.2	10.8	11.3	11.7	12.0	11.0	7.7	6.5	6.5
Adjusted EBITDA-margin %	21.1	16.5	12.4	13.1	13.8	14.3	13.5	10.8	9.8	9.9
Profit margin %	18.3	12.0	6.7	8.4	5.9	2.5	0.3	-2.0	0.8	3.9
Excl. Goodwill and step-up values										
Capital turnover rate, times	6.4	6.3	5.5	5.3	5.0	4.4	4.1	3.4	3.2	3.4
Capital employed	3,863	3,137	2,958	2,822	2,807	3,283	3,901	4,385	4,476	4,367
Return on capital employed %	130.3	92.2	57.2	61.4	58.2	52.6	44.7	29.4	21.5	33.5
Incl. Goodwill and step-up values										
Capital turnover rate, times	2.7	2.5	2.2	2.0	1.8	1.7	1.7	1.9	2.3	2.2
Capital employed	9,289	8,062	7,470	7,317	7,667	8,565	9,401	8,011	6,357	6,781
Return on capital employed %	54.2	35.9	22.7	23.7	21.3	20.2	18.5	16.1	15.2	21.6
Return on equity capital %	44.1	25.3	16.0	15.9	13.2	2.7	2.5	-30.8	-7.3	16.2
Solidity %	34.1	36.4	35.9	37.4	33.3	29.2	8.2	7.0	26.3	26.8
Net debt	2,410	1,478	2,013	1,884	2,401	3,499	7,778	8,422	2,855	2,809
Net debt to EBITDA, times	0.5	0.5	1.0	0.9	1.2	1.7	3.6	4.8	2.0	1.4
Debt ratio, times	0.30	0.22	0.35	0.36	0.49	0.78	5.38	6.42	0.85	0.77
Interest coverage ratio, times	23.7	14.4	6.9	7.4	5.0	3.0	1.9	1.6	5.9	6.2
Cash flow from:										
operating activities	3,264	2,619	1,617	1,203	1,654	1,924	1,999	1,630	1,324	911
investing activities	-1,676	-1,578	-665	36	-457	-548	115	-8,284	-600	-256
financing activities	-1,291	-935	-973	-1,353	-1,167	-1,320	-2,095	6,618	-586	-626
Investments	556	373	324	388	259	277	275	312	431	438
Average number of employees	10,804	9,923	9,524	9,400	9,194	9,292	9,693	11,001	11,696	12,613
Earnings per share, SEK	28.48	15.10	7.92	7.12	5.78	1.41	0.96	-10.79	-19.52	47.30
Free cash flow per share, SEK	14.42	9.32	8.52	11.10	10.71	16.10	56.37	-177.45	57.99	52.37

*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).

Already in 2000 Alfa Laval started to implement the International Accounting Standards (IAS) issued by IASB and translated and adapted to Swedish legislation by the Financial Accounting Standards Council in Sweden. Since there were some minor differences between the Swedish recommendations and IAS, 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, except IAS 39. This statement was implemented as of January 1, 2005.

Since all IAS rules except IAS 39 were close to prior Swedish GAAP in terms of valuation and accountancy, the transfer to IFRS only affected the following areas. As of January 1, 2005 the goodwill was not amortised any longer but instead tested for impairment. Minority interests were earlier reported under a separate heading next to equity, but are now reported as a separate item within equity. Provisions were split in short term and long term. Since IAS 39 was implemented first in 2005 it only had an effect on the opening balance for 2005 and not in the income statement for 2004. The effect was relating to fair value adjustments of financial derivatives, bonds and non-listed external shares.

Production: Alfa Laval AB, Investor Relations / Corporate Communications / RHR Corporate Communications **Pree-press and printing:** Holmbergs i Malmö AB, Mars 2008

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 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 goodwill and other step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of goodwill and other 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 goodwill and other step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of goodwill and other step-up values that from time to time burden the Group."

EBITA-margin %
Operating income before amortisation of goodwill and other step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %

Operating income before depreciation and amortisation of goodwill and other 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 and step-up values and the corresponding deferred tax liability.

Capital employed
Total assets less liquid funds, capitalised financing costs, 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 capital %
Net income for the year in relation to equity capital, expressed in percent. Due to the change of ownership during 2000, a calculation of the return in relation to average equity capital will not be representative.

Solidity %
Equity capital 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 capital, expressed as a multiple of equity capital.

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 and indication of the cost rationalisation that is taking place.

Earnings per share, SEK
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, SEK
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.

Tables and diagrams

Financial information

Alfa Laval uses a number of channels to provide information about the company's operations and financial development. Information published in the form of annual reports, quarterly reports and press releases is presented on an ongoing basis on the company's website at www.alfalaval.com/investors. Presentation material from capital markets days, press conferences and analyst meetings is also available for downloading at the site.

The annual report is sent to those shareholders who have notified the company that they wish to receive a copy.

Annual reports and interim reports can be ordered at www.alfalaval.com or by calling +46 (0)40-36 65 00.

Alfa Laval arranges press conferences and analyst meetings following publication of the company's quarterly reports. In addition, representatives of company management meet with analysts, investors and journalists on an ongoing basis in order to ensure that these parties have correct and current information on which to base their work.

Financial information during 2008

Alfa Laval will release financial information during 2008 on the following dates:

First-quarter report 2008	April 22
Annual General Meeting in Lund	April 22
Second-quarter report 2008	July 16
Third-quarter report 2008	October 22

Pursuant to the company's agreement with the Stockholm Stock Exchange, information that could have an effect on the share price that is not yet publicly known is never disclosed at these types of meeting or contacts.

Alfa Laval also arranges a so-called "capital markets day" each year, at which representatives for financial markets are offered more in-depth information regarding the company's operations.

Alfa Laval employs a so-called "silence period" of three weeks. This implies that the President and Chief Financial Officer do not meet or speak to representatives representatives from the financial market during the three weeks prior to a quarterly report.

In accordance with the company's Articles of Association, notice of the Annual General Meeting is inserted as an announcement in Dagens Nyheter and the Swedish Official Gazette at the earliest six and at the latest four weeks prior to the meeting. The information below concerning the meeting does not constitute legal notice. As a service to existing shareholders, information about the Annual General Meeting is sent to them by mail.

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Annual General Meeting 2008

The Annual General Meeting of Alfa Laval AB will be held on Tuesday, April 22, 2008 at 4:00 p.m. Swedish time in the Olympen, Tunavägen 39 (Sparta), Lund, Sweden. Light refreshments will be served after the Meeting.

Meeting program

1:30 p.m.	Bus departs Olympen to Alfa Laval's production unit for heat exchangers in Lund
3:30 p.m.	Registration starts
4:00 p.m.	Start of Meeting

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 the Swedish Securities Register Center (VPC AB) not later than Wednesday, April 16, 2008, and register their intention to participate — along with any assistants — not later than Wednesday, April 16, 2008 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 16. The shareholder must inform the trustee about this at least two working days before the deadline.

Notification of participation shall be made to:

- Alfa Laval AB, Group Staff Legal, Box 73, SE-221 00 Lund, Sweden .
- E-mail: arsstamma.lund@alfalaval.com.
- Fax: +46-46-367187.
- Website: www.alfalaval.com
- Telephone: +46 (0)46-36 72 22, 36 65 26 or 36 65 00.

Shareholders shall state their name, personal ID number and telephone number on their notice of participation. If participation is by proxy, this power of attorney or authorization shall be submitted to the company prior to the Meeting.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 9:00 per share be paid. The proposed record date for this dividend is Friday, April 25, 2008. If the Meeting approves the proposal, the dividend will be distributed by VPC on Wednesday, April 30, 2008.

However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

Tour of production facility in Lund

Prior to the Annual General Meeting there will be an opportunity to view the production of plate heat exchangers at the plant in Lund. The tour begins with assembly at Olympen (Sparta), Tunavägen 39, 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 shall be made in conjunction with the notification to participate in the Annual General Meeting. Please note that the number of participants is limited.

Alfa Laval in brief

Alfa Laval is a leading global provider of specialized products and engineered solutions.

The company's equipment, systems and services are dedicated to helping customers to optimize the performance of their processes. Time and time again.

Alfa Laval helps customers to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuffs, starch and pharmaceuticals.

Alfa Laval's worldwide organization works closely with customers in 100 countries to help them stay ahead.

More information on the Internet

Contact details for all countries are continuously updated on Alfa Laval's website.

read more at www.alfalaval.com

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