Ladies and gentlemen, shareholders and employees.

2006 was a highly successful year, with very strong order intake and sharply improved profitability.

In October 2006, the Board of Directors raised the goal for operating margin by two percentage points to 12-15 percent. The Board based the increase on the company’s improved product mix, productivity improvements and a structural increase in demand from energy-related industries.

Operating margin has successively improved during 2005 as well as 2006. The operating margin in 2006 was 15.2 percent.

The reasons for the improvement are:

• **Focus on profitability.**
  As a result of our strong market positions and the added value we create for our customers, we have managed to offset higher raw material prices in virtually all instances. In addition, we are working to further develop our ability to improve the customer and product mix.

• **A very high 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.

• **Improved production, sales and administration efficiency.**

Order intake during 2006 rose a full 30 percent to slightly more than SEK 24 billion. All geographical regions developed highly favorably. The strongest growth was achieved in Central and Eastern Europe and in North America. In Russia, order intake rose 52 percent in a solid, broad-based upturn. In the US, the increase was 59 percent, driven by investments in bioethanol, the process industries and the acquisition of Tranter. The recovery in Western Europe, which began at the end of 2005, accelerated during 2006.

Base business progressed favorably in Western Europe and North America, attributable primarily to upgrades in the process industry and nationwide energy-saving programs. Base business is of fundamental significance for Alfa Laval, since it accounts for more than 80 percent of total order intake. Order intake from the key aftermarket sector rose by slightly more than 16 percent.
Acquisitions shall primarily involve companies that supplement Alfa Laval’s existing business in terms of products, geography or in the form of new sales channels.

The acquisition of the U.S.-based company Tranter in 2006 is an example of a new sales channel. As a result of the acquisition, Alfa Laval consolidates its leading position in heat transfer. Tranter reported sales of SEK 1 billion in 2006, with 450 employees worldwide. Tranter will remain a separate market channel and will offer its product range under the Tranter brand via an independent distribution network in full competition with Alfa Laval’s brand. The company will retain its own R&D and manufacturing units. At year-end, Tranter acquired its distributor in China as part of efforts to strengthen the company’s presence in China. During 2006, Tetra Pak’s fruit processing equipment unit was acquired. The unit brings with a valuable expertise and has sales of SEK 50 million.

In December 2006, Alfa Laval divested the project section of its biotechnology Industry operations. Sales of the divested unit were more than SEK 100 M. The sale resulted in a nonrecurring financial effect on the income statement of SEK 125 M, of which SEK 85 M represents a write-down of goodwill. The sale will have a positive impact on earnings per share in 2007.

In April 2007, Alfa Laval acquired the Dutch company Helpman. The acquisition broadens the product range and the synergies with Alfa Laval’s sales organization are obvious. Helpman’s customers are involved in the industrial cooling of agricultural products, fruit and meat. The company has a strong position in Europe ad will become Alfa Laval’s product center for industrial cooling with air heat exchangers, Sales in 2006 amounted to SEK 200 million and the company has 300 employees. An interesting note is that the company’s most important assignment in its first year of operations was to deliver equipment to hold tulips at the correct temperature at the Dutch tulip exchange.
In March 2007, Alfa Laval acquired the U.S.-based company DSO. The acquisition strengthens the presence in the U.S. market. DSO supplies spare parts for pumps and valves for sanitary applications. The company has sales of SEK 50 million.

An important and prioritized area for Alfa Laval is new products and time to market. New products are the key to profitable growth and a positive price trend. During 2006, we increased investments in R&D by 13 percent compared with 2005, fully in accordance with our plans. In the years immediately ahead will see more new products that reach the market faster.

Among other additions during 2006, we increased the range aimed at the sharply expanding market for biodiesel with two high-capacity separators.

We added another two large plate heat exchangers in the Alfa Nova family for customers in air-conditioning, cooling and heating, such as heating of warm water.

Another interesting product launched is a new valve that will set an entirely new standard in many industries. The valve is intended for use in the dairy, beverage and food industries and meets extremely high hygiene and safety demands.

In a number of areas, Alfa Laval foresees continued favorable opportunities, based on a structural change in demand.

- Globalization is increasing the need for seaborne transport, which is favorable for our marine segment. The demand from the shipbuilding industry remained strong in 2006 for the fourth consecutive year and the order backlog now stretches all the way into 2009.

- Economic growth in China and India is creating a large, high-consumption middle class and a 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.

- The term “BRIC” countries refers to Brazil, Russia, India, China – four large and rapidly growing economies.

- In 2002, these four countries accounted for 13 percent of total order intake.
This share rose to 18 percent in 2006. During these four years, order intake in the BRIC countries rose twofold, while the remaining parts of the Group increased by slightly more than 50 percent.

- The technology shift is opening up new opportunities, ranging all the way from the gradual replacement of shell-and-tube heat exchangers by plate heat exchangers to various pro-environmental applications such as ballast tank cleaning onboard vessels. Ballast water is used to stabilize the ship. For example, water can be pumped onboard in Shanghai and then pumped back into the sea in Gothenburg or in South America.

- Demand from the energy and energy-related industries accounts for some 40 percent of the Group’s order intake. High-energy prices, environmental aspects and changes in the global energy policy map open many opportunities for Alfa Laval.

In areas such 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 unique product range of heat exchangers for refineries and order intake has grown to SEK 1 billion from SEK 100 million in two years.

Alfa Laval holds a strong position in the production of bioethanol and biodiesel. Order intake for bioethanol and biodiesel equipment tripled during 2006 and amounted to SEK 1 billion.

District cooling is growing rapidly as countries in warm latitudes rapidly raise the standard of living. Heat exchangers for air-conditioning of Burj Dubai, which will be the world’s highest building, exemplifies the demand from the fast-growing markets. Generally, there is a major interest in reducing energy consumption, thereby raising the demand for plate heat exchangers.

The environment- and climate questions are very important for Alfa Laval and I mentioned earlier two very exciting orders, driven by the global interest in the environment; cleaning of ballast water and production of alternative fuels bio ethanol and bio diesel.

The largest contribution from Alfa Laval when it comes to the environment comes without doubt from our products. Let me give you a good example. We have just got an order where our unique plate heat exchangers are going to help an oil refinery to decrease its CO2-emissions with 30 000 tons per year.
Environment from an overall perspective is a natural and an important question for Alfa Laval. We have, during a longer period of time worked actively with our manufacturing units’ influence on the environment and will gradually present numbers as well as goals. We want to create changes that are sustainable – and therefore we have integrated the environmental work into our organization. Let me give some examples on what we have done so far:

- We expect that 80% of our manufactured volume will come from units that are ISO 14001 certified by the end of 2007

- Right now we are collecting all CO2 emission figures from the whole Group and we will set and communicate goals during the fourth quarter 2007.

During 2006, Alfa Laval’s share rose 80 percent, which was three times higher than the Stockholm Stock Exchange as a whole. The share has continued to rise in 2007 and was up 30 percent as of yesterday.
If we look at this performance in a little longer perspective, we can note that value of Alfa Laval at the Annual General Meeting in April 2005 was SEK 12 billion. When the exchange closed yesterday, Alfa Laval was valued at SEK 45 billion. We have been on a fantastic trip together!

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 extremely commendable work efforts.