



Annual Report 2006

Structural changes create  
continued profitable growth



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## Under the flap

Definitions

Cover:

### The natural force

C<sub>2</sub>H<sub>5</sub>OH.

Or ethanol, as it is more commonly known. It is produced from barley, wheat and other agricultural products. Used as an additive to the fuel you fill your car with. Converted to pure water and carbon dioxide in the combustion process. Provides plants with the perfect atmosphere to thrive. And closes in this way a cycle of nature. Alfa Laval plays a key role in this ongoing process. We are the world leader in heat exchangers, evaporators, condensers and separators for ethanol production. And we stand ready to meet the growing need for new plants.

# Alfa Laval in 2 minutes

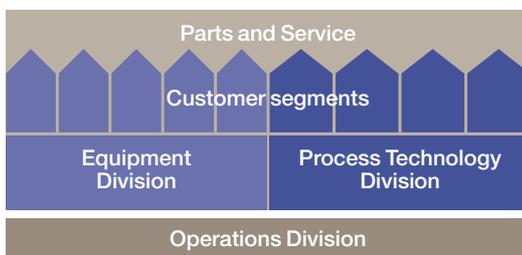


## 3 key technologies that play a decisive role

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.

## 3 divisions and 9 segments mean close relations with customers

The market strategy at Alfa Laval is based on a sales organization that works close to the customers. The company markets its products in nine different customer segments and to gain a distinct customer focus the segments are divided into two 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 of the right quality at the right time.



## 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 aim is an average annual growth rate of at least 5 percent over a business cycle.

## 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. Alfa Laval primarily seeks companies that:

- complement current products and strengthen the offering made to the customer
- supply new key products
- strengthen the existing core technologies.

The Group has the management capacity as well as the financial strength to achieve this. In 2006, Alfa Laval conducted one major acquisition – the American company Tranter, with annual sales of about SEK 1 billion.



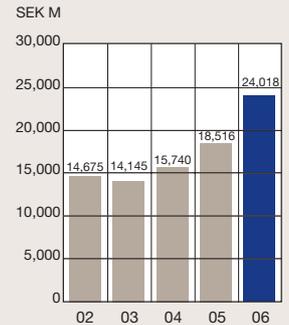


## 25-30 new products each year

Continuous development of products is necessary to enhance competitiveness and maintain the leading positions. Between 2.5 and 3.0 percent of sales is invested yearly in research and development, resulting in 25-30 new products each year.

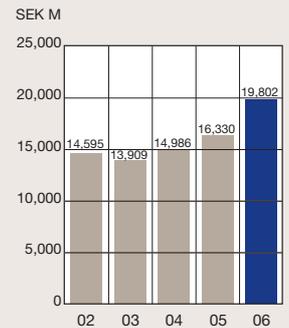
## 30 percent rise in order intake to SEK 24 billion

Order intake during 2006 rose by 30 percent to SEK 24 billion (18.5).



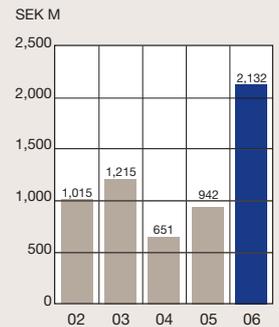
## Sales increased to SEK 19.8 billion

Sales increased to SEK 19.8 (16.3) billion during 2006, an increase of 21 percent. The goal is an annual average growth of at least 5 percent over a business cycle.



## Free cash flow of SEK 2.1 billion

Alfa Laval generated a free cash flow of SEK 2,132 M (942) in 2006.



## Sales in more than 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 and 20 percent in North and South America.

Some 25 large production units (16 in Europe, six in Asia and three in the US), and 70 service centers are placed strategically around the world. Alfa Laval has approximately 10,100 (9,500) employees. The largest numbers of employees are in Sweden (2,100), India (1,150), Denmark (1,100), the US (950) and France (750).

## Focus on profitability resulted in a 15.2 percent operating margin

The operating margin (adjusted EBITA) for 2006 was 15.2 (10.8). The Board of Directors raised the goal by two percentage points to between 12 and 15 percent.



## Increased profitability goal – operating margin of 12-15 percent

The Board of Directors of Alfa Laval performed a review of the company's financial goals in the autumn of 2006. 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) of two percentage points to 12-15 percent.

## Share up 80%

The Alfa Laval share rose during the year by 80 percent, closing at SEK 308.50 (171).



# Highlights

- The Board of Directors decided to raise the goal level for the operating margin (EBITA margin) by two percentage points to 12-15 percent. The factors underlying the increase are a superior product mix, productivity increases and the structural improvement in demand from energy-related industries.
- The operating margin for 2006 rose to 15.2 percent (10.8).
- The continuation of very high demand in most of the company's end markets – primarily the energy industry and energy-related sectors – contributed to the increase in order intake by 30 percent from 2005.
- 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.
- The acquisition of Tranter from U.S.-based Dover Corporation was completed. Tranter has sales of some SEK 1 billion, with about 450 employees. Tranter acquired its distributor in China, with sales of approximately SEK 100 M.
- Acquisition of the fruit concentrate unit from Tetra Pak, with sales of about SEK 45 M.
- Divestment of the biotechnology engineering activity, with sales of approximately SEK 100 M.
- Alfa Laval was dismissed as a defendant in the “Desert Storm” legal actions, referring to the claims surrounding injuries alleged to have occurred during the Gulf War (Desert Storm) in 1991.
- Closure of the Madrid production unit was completed. The measures entail savings of at least SEK 50 M annually from mid-2006.
- The Board proposes a dividend of SEK 6.25 (5.10) per share for 2006.
- The Board proposes a mandate for the buy-back of up to 10 percent of shares outstanding.
- Alfa Laval intends to acquire a further 26 percent of Alfa Laval (India) Ltd. through a public offer to achieve an ownership of 90 percent.

Amounts in SEK M unless otherwise stated	+/- % <sup>6)</sup>	2006	2005	2004 <sup>7)</sup>	2003	2002
Order intake	+30	24,018	18,516	15,740	14,145	14,675
Net sales	+21	19,802	16,330	14,986	13,909	14,595
Adjusted EBITDA <sup>1)</sup>	+61	3,273	2,030	1,956	1,920	2,087
Adjusted EBITA <sup>2)</sup>	+70	3,010	1,766	1,695	1,627	1,755
Operating margin (adjusted EBITA <sup>2)</sup> ), %	+41	15.2	10.8	11.3	11.7	12.0
Profit/loss after financial items	+116	2,375	1,099	1,262	817	372
Return on capital employed, %	+58	35.9	22.7	23.7	21.3	20.2
Return on shareholders' equity, %	+58	25.3	16.0	15.9	13.2	2.7
Earnings per share, SEK	+91	15.10	7.92	7.12	5.78	1.41
Dividend per share, SEK	+23	6.25 <sup>3)</sup>	5.10	4.75	4.00	2.00
Equity per share, SEK	+18	61.2	52.0	47.2	43.8	40.4
Free cash flow per share, SEK <sup>4)</sup>	+9	9.32	8.52	11.10	10.71	16.10
Equity ratio, %	+1	36.4	35.9	37.4	33.3	29.2
Debt/equity ratio, %	-37	22	35	36	49	78
Number of employees <sup>5)</sup>	+7	10,115	9,429	9,527	9,358	9,125

1) Adjusted EBITDA – Operating income before depreciation and amortization of goodwill and 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 2005 and 2006.

7) Restated to IFRS.



# »Sharply improved profitability and very strong order intake«

IN OCTOBER 2006, the Board of Directors of Alfa Laval raised the goal level for the operating margin (EBITA) by two percentage points to 12-15 percent. The Board based the increase on the company's enhanced product mix, productivity increases and the structural improvement in demand from energy-related industries.

## Sharply improved profitability

The operating margin increased steadily during 2005 and 2006. The operating margin for 2006 was 15.2 percent. The factors underlying the improvement were:

- *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 customer and product mix.
- *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.
- *Higher efficiency in production, sales and administration.*

## Very strong order intake

Order intake in 2006 rose a full 30 percent to SEK 24 billion. All geographic regions performed highly favorably. The sharpest growth was reported in Central and Eastern Europe, as well as in North America. In Russia, order intake rose 52 percent in a solid, broad-based upturn. In the U.S., the increase was 59 percent, driven by investments in bioethanol, the process industry and the acquisition of Tranter. The recovery in Western Europe that emerged in late 2005 accelerated in 2006.

During the year, Alfa Laval secured 15 orders worth more than EUR 5 M each, with a total value of SEK 1.4 billion. Most of the orders derive from the oil, gas and petrochemical industries and 50 percent are for installations in the Middle East.

Base business, meaning orders valued at less than EUR 0.5 M, 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 14

percent. In particular, the maturing installed base in the rapidly expanding markets of China, India and Russia developed considerably

## Acquired growth

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 opportunities for consolidation in industries in which we hold a leading position.

The acquisition of Packinox in 2005 is an excellent example of product enhancement in the refinery industry. Moreover, the acquisition resulted in higher sales of conventional Alfa Laval products. Between 2004 and 2006, order intake from the refinery industry rose from SEK 100 M to some SEK 1,000 M.

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 1,000 M in 2006, with a workforce of almost 450 worldwide. Operating margin exceeded Alfa Laval's and the acquisition contributed to earnings per share in 2006. 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. The distributor's sales amount to SEK 100 M, with 100 employees in assembly and service. The acquisition is 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 it valuable application expertise. Operations have sales of SEK 45 M and have been integrated into Alfa Laval.

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, with a workforce of 110. The project section has only a limited link with Alfa Laval's core products and does not have the prerequisites to meet Alfa Laval's financial goals. 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

## Major orders in 2006 (number of orders/SEK M)



positive impact on earnings per share in 2007.

In March 2007 Alfa Laval signed an agreement to acquire the Dutch company Helpman. The acquisition will clearly broaden the product range and provide synergies with Alfa Laval's sales organization. Helpman's customers are active in industrial cooling of agricultural products, fruit and meat. The company has a strong position in Europe and will be Alfa Laval's product center for industrial cooling using air heat exchangers. The company will be integrated into Alfa Laval. Sales in 2006 totaled SEK 200 M, with a workforce of 100. During 2007, Helpman is expected to contribute positively to earnings per share.

### Structural growth

Alfa Laval sees continuing favorable opportunities for growth in a number of areas, based on structural changes 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 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 consolidate 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 whose GDP growth exceeds the global average. In 2006, they accounted for a combined 18 percent of the Group's total order intake, compared with 13 percent in 2002.
- 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 or the treatment of truck crankcase gases.

- 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 herald 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 solid position in the production of bioethanol and biodiesel. Sales for these applications grew sharply during the year. District cooling is growing rapidly as countries in warm latitudes rapidly raise the standard of living. Generally, there is a major interest in reducing energy consumption, thereby raising the demand for plate heat exchangers.

### Share trend

During 2006, Alfa Laval's share rose 80 percent, while the Stockholm Stock Exchange as a whole advanced 24 percent and the SX20 Industrials – the industrial index against which Alfa Laval is gauged – rose 30 percent. Since its listing on May 17, 2002 the share has climbed 239 percent, while the Stockholm Stock Exchange as a whole has risen by 77 percent and the SX20 Industrials by 101 percent.

### Outlook for the near future

"In most of the markets, geographical as well as customer segments that Alfa Laval serves, a continued very strong demand is expected."

(included in the year-end report for 2006 as published on February 7, 2007.)

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 2007

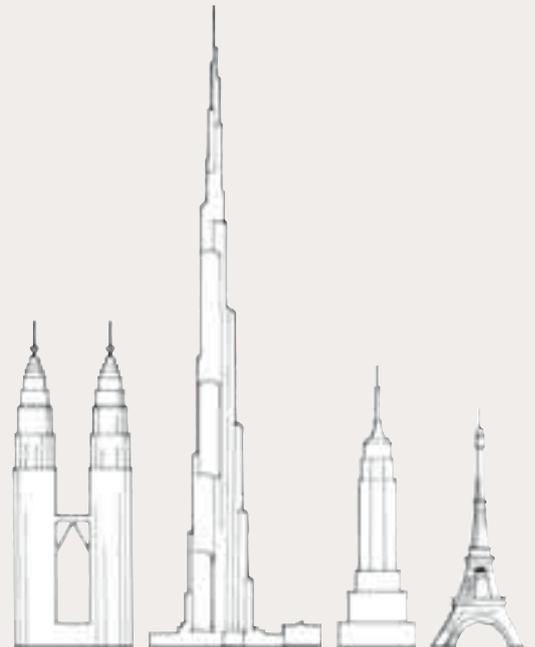
  
LARS RENSTRÖM  
President and CEO



## Heavenly cool

The awesome Burj Dubai Tower in the United Arab Emirates – designed for exclusive offices and housing – will be some 800 meters high and thus the world's tallest structure. The building, which is moving up at a rate of one new floor every four days, is expected to be completed in 2008.

Since the temperature in Dubai can top 40°C, air conditioning of buildings is crucially important. Plate heat exchangers from Alfa Laval will be installed at various levels to split up the heating system into a number of smaller circuits. This reduces the static pressure on all equipment, thereby offering more reliable operation, superior operating economy and lower investments costs.



Petronas  
Towers 1&2 in  
Kuala Lumpur,  
452\* meters

Burj Dubai Tower  
in the United Arab  
Emirates,  
800\* meters

Empire State  
Building in  
New York,  
443\* meters

Eiffel Tower  
in Paris,  
324\* meters

\*including masts

# Continuing very good performance – up 80 percent

THE VALUE OF THE ALFA LAVAL SHARE rose steeply in 2006. The share price advanced from SEK 171 to SEK 308.50, or a rise of more than 80 percent (60). For the second consecutive year, Alfa Laval's share price trend substantially outperformed its industry index (Industrials) and the stock exchange as a whole (OMX Stockholm), which rose by 30 (44) and 24 (33) percent, respectively, during the year. Alfa-Laval's total market capitalization at year-end 2006 was SEK 34.5 billion (18.4). The highest and lowest prices paid for the Alfa Laval share during the year were SEK 312 and SEK 157, respectively.

The Alfa Laval share was listed on the Stockholm Stock Exchange for the first time as early as 1901. After

the company was acquired privately in 1991, Alfa Laval was reintroduced on the stock market on May 17, 2002.

Since its initial listing at SEK 91 in May 2002, the total return, which includes reinvested dividends, through year-end 2006 was 284 percent. This corresponds to an annual return of 30 percent. The average accumulated annual return on the stock exchange during the same period (via the SIX Return Index) was 15 percent.

## Trading volume remains high

During 2006, a total of 151.8 million (165.8) shares were traded at a value of SEK 35.0 billion (20.9). This means that 136 percent (148) of the total number of shares outstanding in Alfa Laval was traded during the year. The corresponding figure for the Stockholm Stock Exchange was 145 percent. During the year, an average of more than 650 share transactions (326) per day were completed in Alfa Laval's share. Each transaction averaged more than 900 shares (2,000). A trading lot in Alfa Laval corresponds to 100 shares.

With a market capitalization of SEK 34.5 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 is included in the OMXS30 Index. 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.

The Alfa Laval share is exempt from estate tax for Swedish individuals.

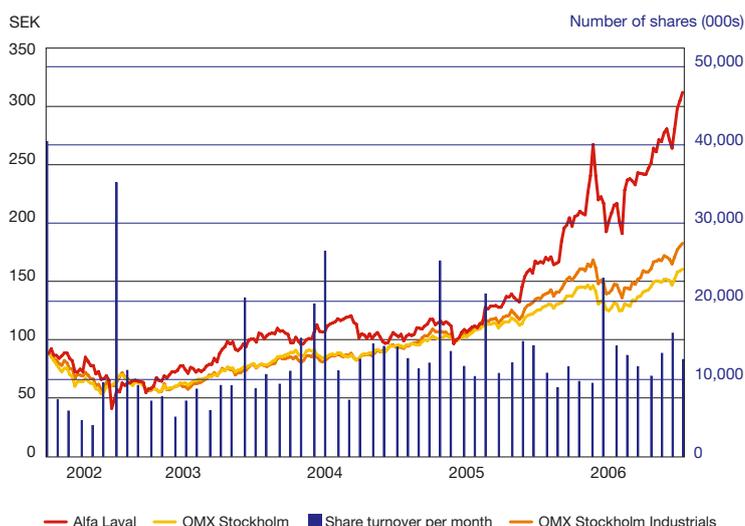
## Share capital

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. Also, the Board has not been given a mandate to acquire the company's own shares.

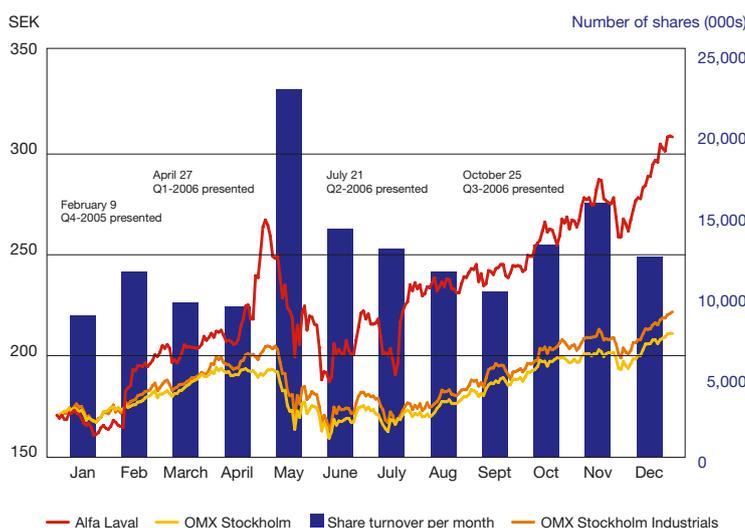
## Proposal on repurchase of shares

Alfa Laval's financial position is 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 mandate the Board to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate will refer to repurchase of up to 10 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's Stock Exchange.

Price trend, May 17, 2002 – December 31, 2006



Price trend, January 1 – December 31, 2006



## 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 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 2006, the Board has proposed that the Annual General Meeting approves a dividend of SEK 6.25 (5.10).

## Alfa Laval's shareholders

At year-end 2006, Alfa Laval had 12,178 shareholders (10,964). Tetra Laval BV is the company's largest shareholder with 17.68 percent of the shares (17.68). The ten largest shareholders at year-end 2006 held 51 percent (51) of the shares.

## Data per share

	2006	2005	2004	2003	2002 <sup>1)</sup>
Market price at year-end, SEK	308,50	171	107	109	77
Highest paid, SEK	312	172.50	125.50	110	98.50
Lowest paid, SEK	157	98.50	96	58	43.10
Shareholders' equity, SEK	61.16	52.0	47.2	43.8	40.4
Earnings per share	15.10	7.92	7.12	5.78	1.41
Dividend, SEK	6.25 <sup>3)</sup>	5.10	4.75	4	2
Unrestricted cash flow, SEK <sup>2)</sup>	9.32	8.52	11.10	10.71	16.10
Price change during year, %	+80	+60	-1.8	+40.3	-15.4
Dividend as % of EPS, %	41.4	64.4	88.0	69.2	141.8
Direct return, %	2.0	3.0	4.4	3.7	2.6
Market price/shareholders' equity, %	5.0	3.6	2.4	2.5	1.9
P/E ratio	20	22	20	19	55
No. of shareholders	12,178	10,964	11,758	7,254	5,746

<sup>1)</sup> Share listed on May 17, 2002.

<sup>2)</sup> Free cash flow is the sum of cash flow from operations and investing activities.

<sup>3)</sup> Board proposal to AGM.

### Ten largest owners, as at December 31, 2006

	Number of shares	Capital/ voting rights, %	Change in 2006
Tetra Laval B.V.	19,744,014	17.68	+/- 0
Fidelity	11,278,871	10.10	+ 5,248,848
AMF Pension	7,269,200	6.51	- 1,569,000
Swedbank Robur Funds	4,425,432	3.96	+ 131,641
Fourth AP-fund	2,998,000	2.68	- 947,000
Handelsbanken Funds	2,872,753	2.57	+ 98,543
Afa Insurance	2,682,825	2.40	- 147,588
SEB Funds	2,366,871	2.12	- 1,309,809
Nordea Funds	1,837,229	1.65	
Lannebo Funds	1,656,545	1.48	- 761,350
Others	54,540,253	48.85	
Total	111,671,993	100.00	

There are no option programs or other instruments that could give rise to dilution.

### Ownership distribution by size, as at December 31, 2006

Holding	No. of shareholders	No. of shares	Holding, %
1 - 500	8,493	1,680,090	1.50
501 - 1 000	1,735	1,471,577	1.32
1 001 - 5 000	1,255	2,912,229	2.61
5 001 - 10 000	211	1,621,328	1.45
10 001 - 15 000	82	1,034,140	0.93
15 001 - 20 000	65	1,173,731	1.05
20 001 -	337	101,778,898	91.14
Total	12,178	111,671,993	100.00

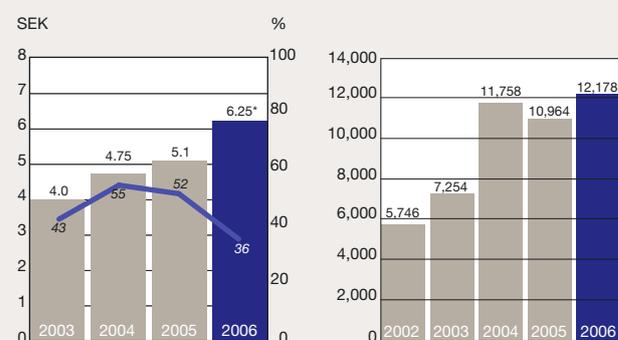
### Ownership categories

Category	No. of shares	Capital/ voting rights, %
Financial companies *	30,635,920	27.43
Other financial companies	128,142	0.11
Social insurance funds	6,595,805	5.91
Government	297,611	0.27
Municipalities and county councils	89,162	0.08
Stakeholder organizations	1,202,660	1.08
Other Swedish legal entities	1,783,536	1.60
Ej kategoriserade juridiska personer	157,676	0.14
Shareholders domiciled abroad	64,406,000	57.67
Swedish individuals	6,375,481	5.71
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
Individuals	6,637,846	5.94
Legal entities	105,034,147	94.06

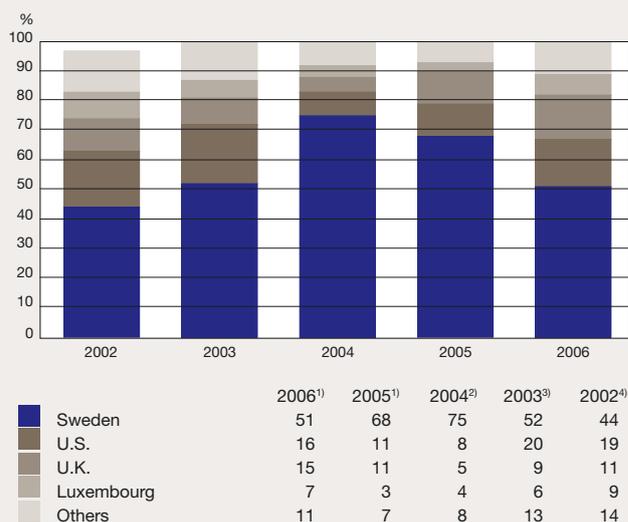
### Dividend Percentage of net profit Total number of shareholders



\*Board proposal to AGM.

\*\*Adjusted for surplus values.

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



<sup>1)</sup> Excluding Tetra Laval (Netherlands) about 18 percent

<sup>2)</sup> Excluding Industri Kapital (United Kingdom) about 9 percent and Tetra Laval (Netherlands) about 18 percent

<sup>3)</sup> Excluding Industri Kapital (United Kingdom) about 18 percent and Tetra Laval (Netherlands) about 18 percent

<sup>4)</sup> Excluding Industri Kapital (United Kingdom) about 27 percent and Tetra Laval (Netherlands) about 18 percent

# Optimizing performance among customers – and at Alfa Laval



Alfa Laval’s business concept is based on the company’s customers in selected business segments. The constant creation of added value for the customers provides the platform for Alfa Laval’s business model and the basis to attain its financial goals.

## Resources for successful operations

The possibilities to realize the business concept is based on Alfa Laval’s key technologies, technological know-how and applications expertise. These are strengthened by the company’s global organization and its extensive resources for the development of new products and markets.

Alfa Laval is organized into three divisions: two divisions involved in marketing, Equipment and Process Technology, and the Operations Division, which 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 also built up a special service organization – Parts & Service.

In addition, Alfa Laval has 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 financial goals for growth, operating margin and return. In recent

years, the company has attained the particular goals effective at any given time. This creates shareholder value by increasing the value of the company, a favorable share price performance and an annual dividend to shareholders.

Favorable results make it possible for the company to develop strategies to strengthen the leading global positions and continued profitable growth. Consequently, this creates even better conditions for successful operations.

## Delivering results

For Alfa Laval, performance is a key word and one that acts as an important component in supporting the business concept. “To optimize the performance in our customers’ processes. Time and time again.”

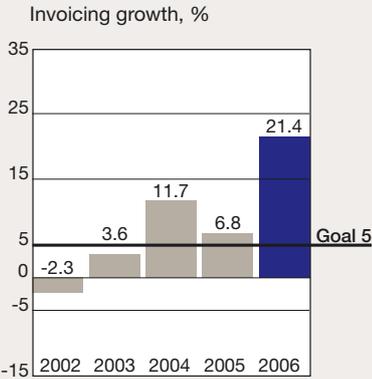
This involves delivering results. Just as the company’s business concept states that Alfa Laval is to optimize performance in customer processes, so must each person in the company contribute results that ensure that the Alfa Laval Group continually develops. Alfa Laval is marked by a strong desire to 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.

# Financial goals

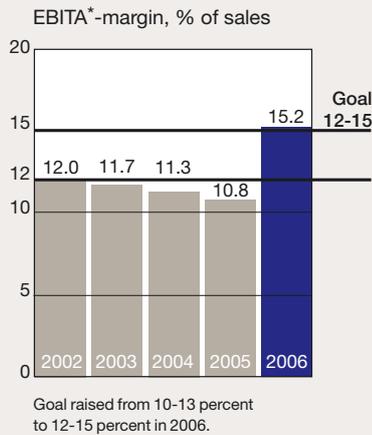
The Board of Directors of Alfa Laval governs operations by means of financial goals and three financial standards. During autumn 2006, the Board conducted a review of the financial goals and raised the goal for operating margin (adjusted EBITA) by two percentage points to 12–15 percent.

The reasons underlying the raised interval are Alfa Laval's superior product mix and productivity improvements as well as the structural increase in demand from energy-related sectors (refer to pages 12-13). The goal for the operating margin is measured over a year.



**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, adding about one percent growth on average for each year.

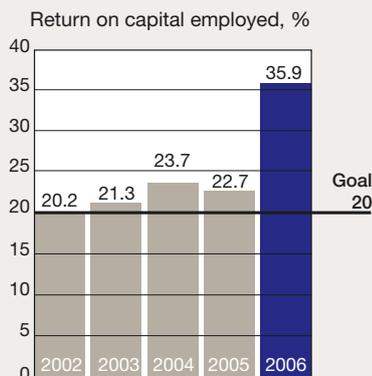
*Goal fulfillment in 2006:* Growth in invoicing was 21.4 percent. 15.4 percent was organic growth and 6 percent was growth derived from the acquisition of Tranter.



**Goal: 12-15 percent.**  
The lower end applies during economic downturns and the upper end to the peak of the business cycle. The goal is chosen to maintain financial flexibility.

*Goal fulfillment in 2006:* The margin for the entire year was 15.2 percent. The factors underlying the sharp growth of the operating margin are the company's superior product mix and productivity improvements, the high volume during the year and a structural increase in demand from energy-related sectors.

Goal raised from 10-13 percent to 12-15 percent in 2006.



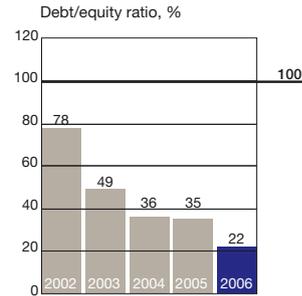
**Goal: Minimum 20 percent.**  
Despite the substantial goodwill and allocated surplus values, the goal for the return on capital employed is a minimum 20 percent. The level has been set taking into account the low level of capital tie-up in current operations.

*Goal fulfillment in 2006:* The return was 35.9 percent. During the five past years, the return goal has been exceeded as a result of continuous improvements in capital employed.

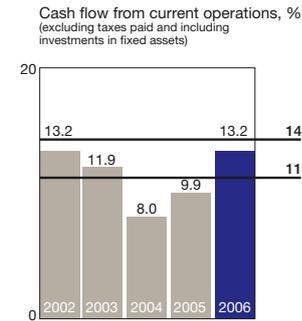
\* Adjusted EBITA = Operating profit before goodwill amortization and depreciation of other surplus values.

# Financial standards

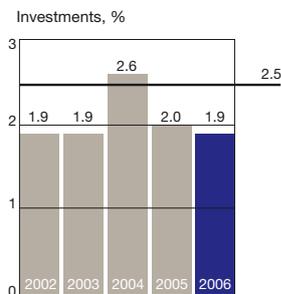
As a supplement to the financial goals, Alfa Laval has established target standards for certain key financial ratios to assist the company in meeting its financial goals.



**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 2006, the debt/equity ratio was 22 percent.



**Target: 11-14 percent of sales.**  
This target has been raised two percentage points in pace with the Board raising the goal for operating margin, adjusted EBITA. The value is just below the goal for operating margin, since growth normally increases tied-up 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 2006, the target value was within the interval – at 13.2 percent.



**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 2006, investments accounted for 1.9 percent of sales.

# Three steps to profitable growth

ALFA LAVAL'S GROWTH GOAL is to expand 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

As part of efforts to understand and satisfy their requirements, close cooperation with customers ensures sustained growth from the three key technologies. The company's high-quality products and strong market positions, combined with the customer-focused sales organization, offer 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.

## 2. Aftermarket

Despite its high growth in recent years, the aftermarket continues to offer potential. Alfa Laval has a large base

of installed equipment and systems and by means of the global network of service workshops and personnel, the company is well poised to handle this service. 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. The company's product offering to develop the aftermarket has increased and service agreements in particular are playing an increasingly important role.

## 3. New market concepts and new key products

Alfa Laval consistently 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 – 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. An excellent example of this is the acquisition of the French company Packinox, which is a world leader in large-scale welded plate heat exchanges, designed primarily for oil refineries.

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 the strategic decision to dispose of 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/alliances:

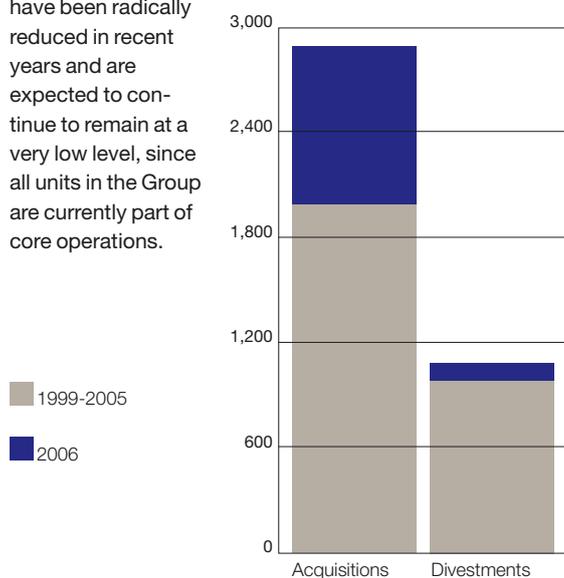
- that strengthen existing key technologies
- that involve key products
- that involve supplementary products that complement

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.

## Acquisitions and divestments 1999 – 2006

Between 1999 and 2006, Alfa Laval acquired twelve companies or units with overall sales of SEK 3,035 M. This represents an average annual growth of about SEK 435 M. During the same period, eight companies/units with overall sales of less than SEK 1,100 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.



Acquired growth since 1999: SEK 3,035 M that is approximately 20 percent, or an average 2.6 percent annually.

Acquired net growth since 1999: SEK 1,950 M that is 13,2 percent, or an average 1.7 percent annually.

Acquired net growth during 2006: 945 M, that is 5.8 percent. Calculated on the basis of sales in 2005.

Year	Company	Sales, SEK M*
1999	Acquisitions:	
	Vicarb Group, France	425
	Scandibrew, Denmark	70
	Kvaerner Hetland, U.S.	50
	Dorr Oliver, U.S.	125
Divestments:	Thermotechnik	50
	Cardinal	40
2000	Acquisitions:	
	Separator division in Wytworna Sprzeta, Poland	20
	Divestments:	
Tetra Pak division in an Indian company	50	
Aircoil	50	
2001	Acquisitions:	
	An additional 13 percent of the share capital in Alfa Laval India.	Did not affect sales
	Divestments:	
Rema Control	70	
Industrial Flow	650	
2002	Acquisitions:	
	DSS, Denmark	90
Divestments:	-	
2003	Acquisitions:	
	Toftejorg, Denmark	210
	Biokinetics, U.S.	550
Divestments:	-	
2004	Acquisitions:	-
	Divestments:	
Tri-Lad	75	
2005	Acquisitions:	
	Packinox, France	450
Divestments:	-	
2006	Acquisitions:	
	Tranter, U.S.	900
	Fruit concentration, Sweden	45
	Tranter, China	100
	Divestments:	
Biotechnology engineering activity	100	

\*Refers to annual sales before acquisitions and divestments

## Structural changes create continued profitable growth

Alfa Laval sees continued possibilities for continuing profitable growth based on structural changes in a number of areas. In one of the areas, energy industry and energy-related sectors, structural increase in demand is so significant that Alfa Laval's Board referred to it as one of the three factors when the company's goal for its operating margin was raised during autumn 2006.

The following pages describe Alfa Laval's potential for structural growth in energy industry and energy-related sectors, and in what is referred to as the BRIC countries – Brazil, Russia, India and China – and as a result of technological progress.

# 40 percent of sales to energy-related industries

SOME 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 the Equipment Division and the products 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.

### **Oil and Gas**

*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 – as in the case of 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.

### **New deployments methods require new facilities**

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. Additional future extraction of gas for this purpose is quite possible. But it is difficult to say when. However, several small reception stations will be built in the U.S. and most likely also in the U.K.

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 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/petrochemicals**

*Capacity growth 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. Moreover, new legislation is forthcoming. For example, the authorities in Europe and North America have decided to reduce sulfur content, which favors Alfa Laval's unique Packinox heat exchangers.

Alfa Laval's sales to refineries have grown from SEK 100 M to some SEK 1,000 M in just two years. The increase is primarily attributable to the acquisition

of Packinox. The acquisition has had a dual impact: Packinox' good relations with refinery customers have facilitated the sale 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.

### Power and heat production

#### Unutilized potential

In this area, 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 adjusted to the primary process, that is, the steam process. Alfa Laval is achieving this through the further development of existing technologies and by securing other technologies outside the company.

Alfa Laval believes that there is an attractive future market in power 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

#### Continuing expansion at the global level

Demand for biofuel has risen sharply in recent years and is expected to continue to do so in the future driven by environmental factors and oil prices. Growth is occurring in essentially all geographic markets, In the U.S. – currently with the highest growth – development has gained pace in recent years.

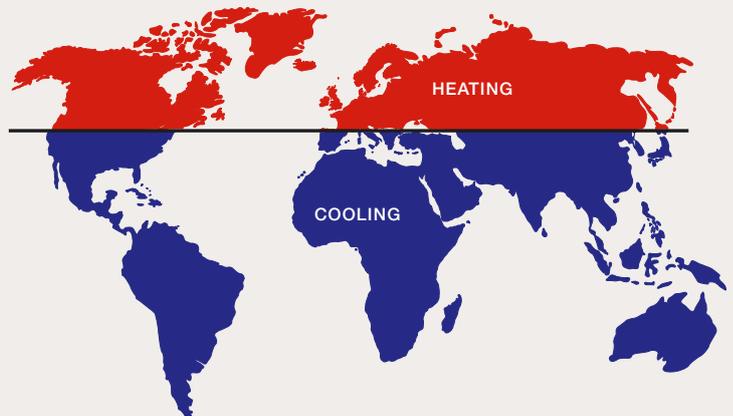
Bioethanol is extracted mainly from corn and cane sugar, while biodiesel uses various types of oils as the raw material – such as rapeseed oil or palm oil. Alfa Laval's products are required in both processes. Rapid market development is in progress in biofuel and the challenges for suppliers to the industry are to continually work towards process development.

Alfa Laval's sales to the biofuel market grew in 2006 to more than SEK 1 000 M. Products for the manufacture of bioethanol have tripled while sales for the production of biodiesel have grown almost fourfold compared with 2005.

## Overview energy

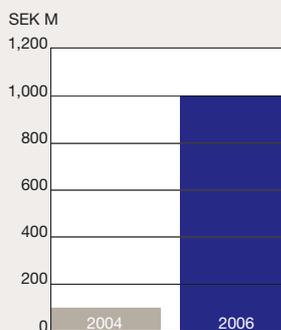
### Higher global need for comfort is driving more efficient energy utilization

Traditionally, comfortable indoor environments have been associated with heating in countries far up in the northern hemisphere. Continuing improvements in living standards in the southern hemisphere are driving the demand for cooling. These are equally demanding in terms of energy requirements. Increased consumption of scarce energy resources means that energy must be used more efficiently. Heat transfer is a pivotal factor in this process, an area in which Alfa Laval is the world leader.



### Good growth in oil refineries

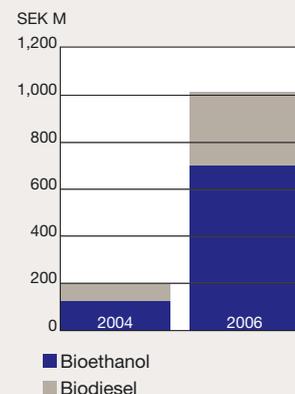
Refineries are a rapidly expanding customer group for Alfa Laval. A major factor underlying this development has been the strategic acquisition of Packinox, which has also contributed to higher sales of Alfa Laval's other products.



### Strong positions in tomorrow's energy sources

Many observers believe that biofuels, such as bioethanol and biodiesel, are tomorrow's energy sources. Alfa Laval has the technology to process both. And sales are rising steadily.

Biofuels, total



# Advantage, Alfa Laval!

ALFA LAVAL'S SUCCESS is based on the continual development of unique technologies. This approach offers the company market advantages that create many opportunities for structural growth.

## High-speed separators

*The only technology that copes with three phases*

Fluids, gas and particles are individually referred to as "phases." A high-speed separator can cope with all these three phases, making it superior to other technologies for separation.

In the production of beer, for example, the yeast, the particles, must be removed to become finished beer – the fluid. This requires a separator. The filters used in competing separation technologies can also manage this, but it is not as cost-efficient.

Adding another fluid, you get separation with three phases: fluid, fluid and particles. One example of this is removing water and dirt particles from lube oils (mineral

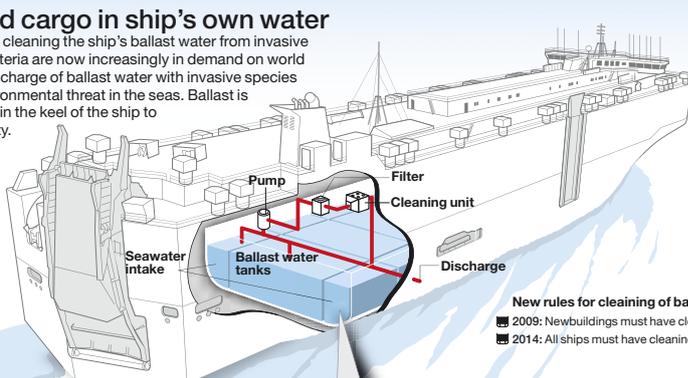
oils). Currently, there is no existing commercial technology other than the high-speed separator that can cope with this.

*Handles large proportions of particles and large particles*

The capacity of the different technologies to separate various particle sizes differs. The filter is used when the proportion of particles is low and when very small particles are to be separated. The high-speed separator can cope with a substantially higher proportion of particles and larger particles. A third approach is to separate using decanter centrifuging – in which Alfa Laval also has a strong market position. The decanter is most applicable in processes such as waste management, in which the proportion of particles is very high and in which very large particle must be separated.

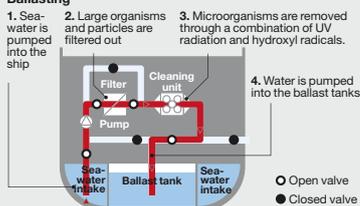
## Unwanted cargo in ship's own water

New methods of cleaning the ship's ballast water from invasive species and bacteria are now increasingly in demand on world markets. The discharge of ballast water with invasive species is a serious environmental threat in the seas. Ballast is normally placed in the keel of the ship to improved stability.

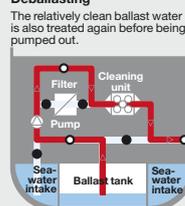


**New rules for cleaning of ballast water**  
 ■ 2009: Newbuildings must have cleaning  
 ■ 2014: All ships must have cleaning

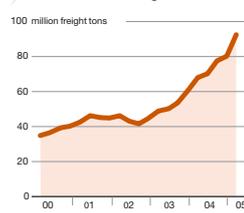
### Ballasting



### Deballasting



### Work fleet is increasing



## "Debugged" ballast water

*A growing environmental threat – a potentially vast market*

Ballast water onboard vessels is a major and growing environmental problem. Vessels that take ballast water across the oceans also transport various organisms, animals or plants. For example, a mussel from China and Southeast Asia has been introduced into South America through the ballast water of a ship. There it has no natural enemies and is reproducing rapidly. This has already caused major problems in Brazil, where the maintenance costs of power plants has tripled and energy supplies are being threatened.

Previously, there has been no efficient and environmental solution for cleaning ballast water. 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 WALLENIIUS Water. The solution is based on their AOT unit, which is a patented advanced ultraviolet technology that kills all organisms in the water. The equipment can be tailored in line with the vessel size, and the clean water can be pumped directly into the sea. Product sales commenced at year-end 2006.

The market for the product is expected to be a SEK billion market and Alfa Laval aims to take the leading position in the industry.

### High-speed separator moves into a new phase

When Alfa Laval discovered that it was possible to exchange one of the fluid phases for gas, a new market for the high-speed separator opened. The first commercial application to be launched is Alfdex. This separates oil and particles from the crankcase gases of heavy trucks.

Legislation involving vehicle crankcases is already in place in South Korea and Japan. In North America, it will be introduced in 2007 and in the EU in 2008 and 2009. The market is estimated to be worth SEK 1 billion. Alfdex, Alfa Laval's joint venture with Haldex has already secured commercial agreements with Volvo, Scania och Daimler Chrysler.

### Plate heat exchangers

#### Steadily replacing shell-and-tube heat exchangers

The total market for heat transfer is estimated to be worth SEK 75 billion. Excluding air heat exchangers and cooling towers, the market is worth about SEK 35 billion. Of this amount, compact plate heat exchangers account for SEK 15 billion.

The plate heat exchanger is steadily replacing the shell-and-tube heat exchanger and this technological shift is expected to offer Alfa Laval average growth of about 1 percent annually. Alfa Laval's strategy is to continue to build further on this technological substitution.

#### Capable of coping with increasingly high temperatures and pressure

The major difference between the two technologies is that the compact heat exchanger requires much less space than the shell-and-tube heat exchanger. Other major advantages of the plate heat exchanger are that it is easy to clean, the investment cost is lower and it is easy to increase capacity.

The shell-and-tube heat exchanger can cope with high temperatures and pressure, which are key factors in certain applications.

The plate heat exchanger is developing continually as part of efforts to attain higher temperatures and pressures. Development has gone from gasket-equipped to brazed and subsequently welded plate heat exchangers.

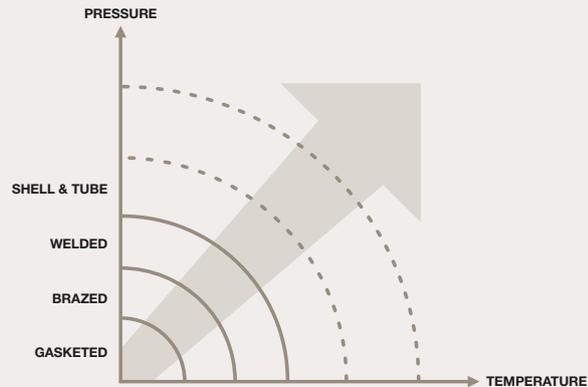
A few years ago, Alfa Laval launched a completely new fused technology, referred to as AlfaFusion, in which the plates were stainless steel fused with the same material. This initially resulted in the AlfaNova product, which offers entirely new potential. Alfa Nova can manage far higher temperatures and pressures and can be used in corrosive environments.

Two years ago, Alfa Laval acquired the French company Packinox, a specialist manufacturer focusing on refineries, which produces a plate heat exchanger with greater efficiency than the shell-and-tube heat exchanger.

## Overview technology

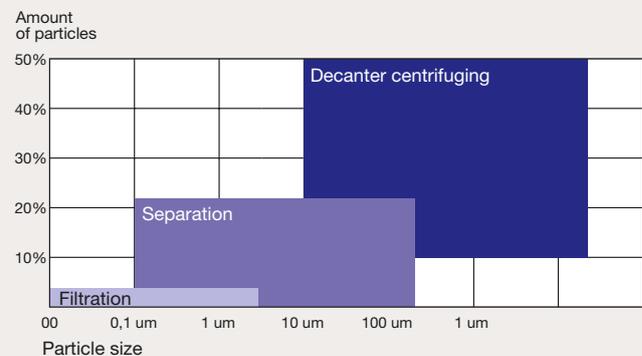
Plate heat exchangers are gaining ground

Shell-and-tube heat exchangers are the most common solution in applications involving high temperatures and considerable pressures. Alfa Laval has developed plate heat exchangers that require less space but can nevertheless cope with high pressures and temperatures. As a result, the plate heat exchanger can replace the shell-and-tube model to a greater degree.



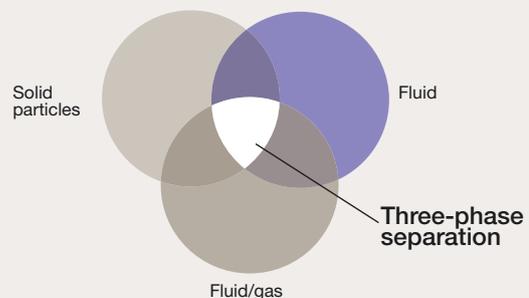
### Alfa Laval masters all separation technologies

There are essentially three ways to separate particles from a fluid. The optimum manner is determined by the amount of particles in the unprocessed fluid and how large the particles are. Regardless, Alfa Laval is the leader in all technologies.



### Only high-speed separation can handle three phases

When a gas – or as it is usually called, a third phase – is to be separated, only one technology applies, namely, high-speed separation. One example is the Alfdex that separates oil and solid particles from the crankcases gases of heavy trucks.



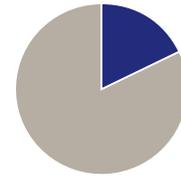
# Years of presence creates strong growth

COUNTRY	MARKET IN FOCUS
 <p><b>BRAZIL</b>  <b>Presence:</b> since 1959.                      115 employees in sales, service and manufacturing. Network of agents and distributors to ensure that the company's products and services reach potential customers.  <b>Order intake:</b> About SEK 500 M. Brazil has considerable natural resources. Consequently, it is only natural 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.</p>	<p><b>Biofuel production has been conducted since the 1970s</b>                      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. Alfa Laval's products are a key factor in this development. The aim in the next few years is to build ten new bioethanol plants annually.                      Biodiesel, as a substitute for conventional vehicle diesel, is a new trend in Brazil. The country has major potential to extract bio-diesel from, for example, soybeans. Investments are now in progress in biodiesel, especially in various refinery processes. Alfa Laval secured orders for five of the seven new plants built in 2006.</p>
 <p><b>RUSSIA</b>  <b>Presence:</b> since 1903.                      265 employees in sales, services and manufacturing. Production is conducted outside Moscow. Alfa Laval has 11 regional sales offices ranging from Murmansk to Vladivostok. Two new offices are about to be established.  <b>Order intake:</b> About SEK 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.</p>	<p><b>World's largest district heating system</b>                      Russia is a major player in district heating. Some 70% of the population lives in houses connected to district heating and 40% of the total energy consumption derives from district heating. The current systems are obsolete and are very inefficient. Alfa Laval sees growth potential in three areas:</p> <ul style="list-style-type: none"> <li>• Reconstruction of the existing district heating stations, including the replacement of technology, with shell-and-tube heat exchangers being replaced by plate heat exchangers. Only 25% of the old installations have been modernized.</li> <li>• Reconstruction of the entire district heating system by the government and municipalities, but an increasingly number of private owners are taking over the operation via tariffs. This provides income for modernization programs.</li> <li>• Property construction is moving rapidly.</li> </ul>
 <p><b>INDIA</b>  <b>Presence:</b> since 1937. Alfa Laval holds a 64-percent interest in a company listed on the Mumbai Exchange.                      1,150 employees in sales, service and manufacturing in Pune, where products in all three technologies are manufactured.  <b>Order intake:</b> About SEK 900 M. The Process Technology Division accounts for the greater share. Both the Equipment Division and the aftermarket have grown sharply in the past year</p>	<p><b>Migration into the major cities – an urgent environmental problem</b>                      Currently, 340 million people live in the cities. In ten years time, this figure is expected to be 430 million. This means that the total population in a country the size of Sweden must move each year to the cities.                      The authorities have drawn up an comprehensive environmental plan to cope with the new demands this imposes on society. Some USD 11 billion has been earmarked for environmental programs in 65 cities, of which USD 1.5 billion is for municipal wastewater treatment systems.                      Thanks to its customer-oriented and locally produced decanters, Alfa Laval has primarily a strong position in waste management in India.</p>
 <p><b>CHINA</b>  <b>Presence:</b> since 1984  <b>Workforce:</b> 750. Two wholly owned production plants for the manufacture of products in all three technology areas.  <b>Order intake:</b> About SEK 2 billion. This makes China 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 customer requirements in terms of increased service.</p>	<p><b>The marine market is moving eastward</b>                      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 in terms of the number of vessels and number two in tonnage. The marine market is expected to continue growing in China, which has invested a great deal in order to build vessels with higher value, such as vessels for crude oil transport (VLCC) and a whole new generation of container vessels.                      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.</p>

The term “BRIC countries” refers to Brazil, Russia, India and China – four large and rapidly developing 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. The high growth in the BRIC countries has resulted in them accounting for increasing share of the Group’s total order intake. In 2002 they represented 13 percent of order intake, but in 2006 this share was 18 percent.

Order intake during this period increased 70 percent or more in these countries, while the Alfa Laval Group has grown 40 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.

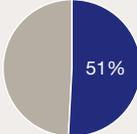
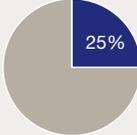
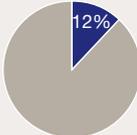


The BRIC markets account for some 18 percent of Alfa Laval’s sales.

SHARE OF GROUP ORDER INTAKE	PERCENTAGE INCREASE IN ORDER INTAKE, 2002-2006	ALFA LAVAL'S PRESENCE*

\* Sales, production, distribution and service.

# Leading globally in all key technologies

	KEY TECHNOLOGIES	SELECTED MARKET SEGMENTS	COMPETITORS																			
Heat transfer		<table border="1"> <tr><td>Comfort &amp; Refrigeration</td><td>●</td></tr> <tr><td>Marine &amp; Diesel</td><td>●</td></tr> <tr><td>OEM</td><td>●</td></tr> <tr><td>Fluids &amp; Utility</td><td>●</td></tr> <tr><td>Sanitary</td><td>●</td></tr> <tr><td>Food</td><td>●</td></tr> <tr><td>Energy &amp; Environment</td><td>●</td></tr> <tr><td>Process Industry</td><td>●</td></tr> <tr><td>Life Science</td><td>●</td></tr> </table>	Comfort & Refrigeration	●	Marine & Diesel	●	OEM	●	Fluids & Utility	●	Sanitary	●	Food	●	Energy & Environment	●	Process Industry	●	Life Science	●	<b>Plate heat exchangers</b> <ul style="list-style-type: none"> <li>• GEA (Germany)</li> <li>• Hisaka (Japan)</li> <li>• Invensys/APV (U.K.)</li> <li>• SWEF (U.S.)</li> </ul>	<b>Market position</b>  >30% of the world market <b>Share of Group's new sales in 2006</b> 
		Comfort & Refrigeration	●																			
Marine & Diesel	●																					
OEM	●																					
Fluids & Utility	●																					
Sanitary	●																					
Food	●																					
Energy & Environment	●																					
Process Industry	●																					
Life Science	●																					
Separation		<table border="1"> <tr><td>Comfort &amp; Refrigeration</td><td></td></tr> <tr><td>Marine &amp; Diesel</td><td>●</td></tr> <tr><td>OEM</td><td>●</td></tr> <tr><td>Fluids &amp; Utility</td><td>●</td></tr> <tr><td>Sanitary</td><td>●</td></tr> <tr><td>Food</td><td>●</td></tr> <tr><td>Energy &amp; Environment</td><td>●</td></tr> <tr><td>Process Industry</td><td>●</td></tr> <tr><td>Life Science</td><td>●</td></tr> </table>	Comfort & Refrigeration		Marine & Diesel	●	OEM	●	Fluids & Utility	●	Sanitary	●	Food	●	Energy & Environment	●	Process Industry	●	Life Science	●	<b>High-speed separators</b> <ul style="list-style-type: none"> <li>• GEA (Germany)</li> <li>• Mitsubishi Kakoki Kaisha (Japan)</li> <li>• Pieralisi (Italy)</li> </ul> <b>Decaners</b> <ul style="list-style-type: none"> <li>• GEA (Germany)</li> <li>• Pieralisi (Italy)</li> <li>• Andritz (France, Austria)</li> <li>• Flottweg (Germany)</li> </ul>	<b>Market position</b>  25-30% of the world market <b>Share of Group's new sales in 2006</b> 
		Comfort & Refrigeration																				
Marine & Diesel	●																					
OEM	●																					
Fluids & Utility	●																					
Sanitary	●																					
Food	●																					
Energy & Environment	●																					
Process Industry	●																					
Life Science	●																					
Fluid handling		<table border="1"> <tr><td>Comfort &amp; Refrigeration</td><td></td></tr> <tr><td>Marine &amp; Diesel</td><td></td></tr> <tr><td>OEM</td><td></td></tr> <tr><td>Fluids &amp; Utility</td><td></td></tr> <tr><td>Sanitary</td><td>●</td></tr> <tr><td>Food</td><td>●</td></tr> <tr><td>Energy &amp; Environment</td><td></td></tr> <tr><td>Process Industry</td><td></td></tr> <tr><td>Life Science</td><td>●</td></tr> </table>	Comfort & Refrigeration		Marine & Diesel		OEM		Fluids & Utility		Sanitary	●	Food	●	Energy & Environment		Process Industry		Life Science	●	<b>Sanitary fluid handling</b> <ul style="list-style-type: none"> <li>• GEA (Germany)</li> <li>• Invensys/APV (U.K.)</li> <li>• SPX/Waukesha Cherry Burrell (U.S.)</li> <li>• ITT Industries (U.S.)</li> </ul>	<b>Market position</b>  10-12 % of the world market <b>Share of Group's new sales in 2006</b> 
		Comfort & Refrigeration																				
Marine & Diesel																						
OEM																						
Fluids & Utility																						
Sanitary	●																					
Food	●																					
Energy & Environment																						
Process Industry																						
Life Science	●																					

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 51 percent of new sales in 2006; separation products for 25 percent and fluid handling products for 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 importance

A heat exchanger transfers heating or cooling from, for example, one fluid to another. The products are of vital importance for efficiency in the entire manufacturing process.

The main products in Alfa Laval's product range are plate heat exchangers, with a wide variety of applications. The range also

includes spiral heat exchangers, air heat exchangers, shell-and-tube heat exchangers and scraped surface 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 cool 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 the company was established in 1883, separation technology has been a central part of operations. 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.

### Increase quality

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 purification 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. Membrane filtration is the established solution to separate very small particles.

Transporting and regulating fluids in an efficient and safe manner is crucial for industry. In recent years, Alfa Laval has focused on sanitary fluid handling, in which the hygiene requirements are stringent. 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. Customers often integrate many of Alfa Laval's products for fluid handling into their systems, and therefore, continually require product deliveries.

### Varying lifetimes

The average life of Alfa Laval's products for fluid handling varies with the type of product and the application. In a corrosive environment,

the working life may be limited to only a few months, while products in other applications have a life of more than 20 years.

### Pumps and valves

The products are used for exact pumping of all types of fluids in 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.

# Product centers cut time to market

ALFA LAVAL'S BRAND has been associated with innovation for more than a century. 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 2006 amounted to SEK 526 M (448), or 2.7 percent (2.7) of the Group's total sales. The Group has about 290 employees and five product centers involved in R&D. The basis for this is a long-term approach to basic research and applied development, focusing on technologies relating to 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 the 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.

Each year, Alfa Laval launches some 25-30 products as well as many product improvements. The company holds more than 200 patents on its own products, and the Alfa Laval brand is registered in 100 countries.

### *Product centers strengthen key products*

As a result of establishing specific product centers with complete control for product strategy and development of the company's key technologies, the products' significance for Alfa Laval has been further strengthened.

The product centers combine the development and technology know-how with the expertise within various applications. The overall goal is to cut the time for a new product to reach market and improve the product's profitability. For many, "time to market" is equated with ability to quickly develop new products, but for Alfa Laval this is a far more comprehensive process. It starts with an idea, which is then developed through a series of different phases before being launched and finally the new product achieves its sales targets.

In-house development of products is the best and most important way to improve and develop the prod-

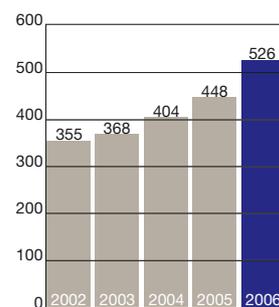
uct range. But prompt access to a market may also be attained through acquisition or an alliance. The key factor is the assessment of market potential.

### *Product centers provide focus*

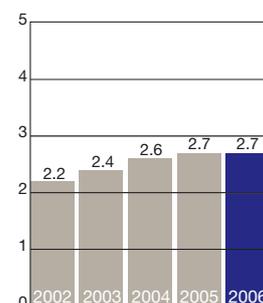
Specific product centers permit the organization to prioritize and concentrate more resources on a few activities. This results in products that reach the market in a shorter time and with the promised customer value. This requires careful preparations prior to commencing development activities.

The organization works across in-house boundaries with the product as the common factor. This means that many different functions – manufacturing, purchasing, services and development – are involved in the development process.

R&D costs, SEK M



R&D costs as a percentage of net sales



## Examples of products launched in 2006

### HEAT TRANSFER

#### Coping with large flows in the ethanol industry

- Wide Gap 350 has been developed primarily for the expanding ethanol industry, and for application in the sugar, pulp and paper industries. The primary advantages of this new product is that it can cope with both large flows and flows with very large particles.

#### Wider range for comfort cooling

- T20 B has been developed for the comfort cooling market. The product supplements Alfa Laval's broad range and combines the demands for compactness and exact temperature control.

#### A more cost-efficient product series

- Frontline 8 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.

### SEPARATION

#### Modernized range for the marine industry

- The products for the marine industry are the core of the separator range. Alfa Laval recently modernized the range, as exemplified by the two new small separators for cleaning fuel and lube oils.

#### Wider range for separating gases

- The technology underlying high-speed separators for treating gases – primarily involving oil droplets and particles – has been further developed. The initial application is to treat crankcase gases from trucks engines. The application has been broadened to include large diesel engines on vessels and ashore, as well as for machine tools.

#### Energy-related industries drive new products

- The focus on energy-related industries has resulted in the launch of a series of separators with different capacities for the production of biodiesel.

### FLUID HANDLING

#### New valve for increased hygiene and safety

- A new Single Seat Valve (SSV) has been developed for sanitary end markets such as the dairy, brewery, beverages and food industries, all of which have very stringent hygiene and safety standards.

#### New product to reduce contamination in tanks

- A new product for cleaning tanks has been developed to further reduce the risk of contamination during the cleaning of tanks in the marine and food industry.



## Energizing Brazil

Petrobras, the government-owned oil and gas company in Brazil, is responsible for the extraction, production and distribution of the country's oil and gas resources. Petrobras can continually raise its capacity thanks to large investments in advanced technology.

Alfa Laval has cooperated with Petrobras for more than 20 years and supplies a considerable amount of different equipment to the company for extraction and refining.

Petrobras operates more than 100 offshore platforms. Most of the oil and gas deposits are in very deep waters, thus extraction and production represent major challenges.

"Alfa Laval is a key partner for us in our development of separation technology," says Tuerte Amaral Rolim, in charge of Process Technology at Petrobras. For all those working on the platforms, access to fresh water is a necessity, so Alfa Laval's desalination system also plays a major role.

Petrobras is now modernizing its refineries in an effort to reduce the company imports of diesel and oil-derivatives such as naphtha. "A large share of the upgrade

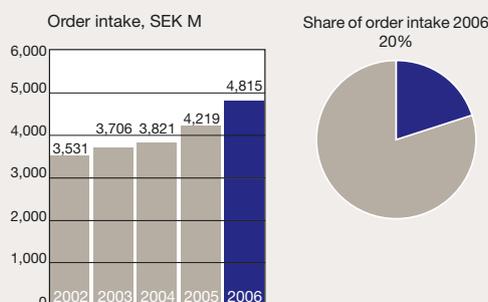
involves replacing old process equipment with new corrosion-resistant equipment that can handle difficult crude oil," explains Washington Geraldelli, engineering consultant at the CENPES Petrobras Technology and Development Center.



# Aftermarket continues to offer major potential

## Development during 2006

- In 2006, order intake from the aftermarket rose by 14 percent (8), accounting for 20 percent (23) of the Group's total sales during the year.
- New sales for Alfa Laval continued to progress positively especially in the case of Process Industry, Energy & Environment and Marine & Diesel. These segments generate a large share of aftermarket business and offer good conditions for future market potential.
- Geographically, the aftermarket increased in all areas in 2006. 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.



THE AFTERMARKET is a priority area. One of Alfa Laval's fundamental strategies is to continue to develop spare parts and service operations. This creates customer value and brings customers closer to Alfa Laval, while reducing sensitivity to economic fluctuations. Constantly generating customer contacts also creates opportunities for new sales.

### Joint organization

The company's sales units have a joint organization to handle these operations, which covers Alfa Laval'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 customers.

Alfa Laval's aftermarket organization normally takes over the commercial responsibility for the customer and the products supplied when the warranty period expires. Optimal product function and maximum lifetime require regular maintenance.

#### • Plate heat exchangers

Depending on the application area, a heat exchanger needs to be cleaned regularly to ensure maximum performance. In certain cases, they are cleaned daily to meet hygienic requirements and in other cases a few times annually.

#### • High-speed separators

Since this involves rotating equipment, minimum service is required after 1,000 hours operation. The first major service takes place normally 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

Alfa Laval has a major competitive advantage in the

dedicated and local aftermarket organization in all major 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.

The age of the installed base varies depending on the region in which the product is in operation. Generally the products are older in Western Europe and the U.S. and younger in Central and Eastern Europe, Latin America and Asia. Customers in the West tend to be more receptive to outsourcing maintenance to professional service companies such as Alfa Laval.

Many customers expect a key supplier, such as Alfa Laval, to assist them in reducing costs by continually optimizing their processes. To meet these requirements, Alfa Laval has a portfolio of products that customers are offered as part of a service agreement or as an individual service offering. These may include:

- Review and consultation
- Repairs and maintenance
- Training
- Replacements and leasing products
- Products for upgrading and modernization
- Maintenance tools
- Product monitoring.

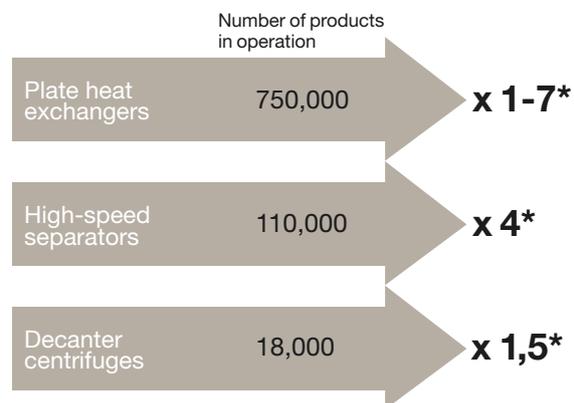
## Future growth

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.



## Long-term potential

Different technologies have been installed in various degrees and have varying service lives. 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



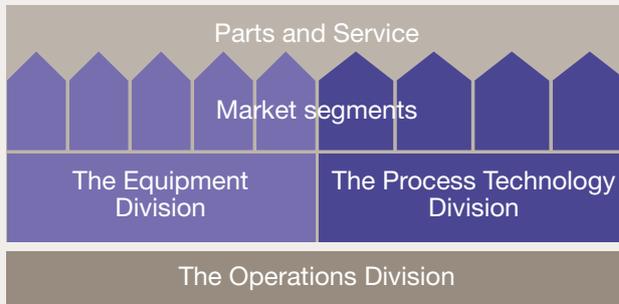
## Ships in perfect shape

The condition of onboard equipment is of major significance for a vessel's overall performance and operating costs. Regular checks and good care of equipment are required to ensure maximum performance. In a number of the world's largest ports such as Antwerp and Rotterdam, Alfa Laval's service engineers conduct regular visits to vessels to discuss how the company's equipment is performing and how it can be optimized – a form of assistance that is highly appreciated by those responsible for the vessel's operation.

Mediterranean Shipping Company (MSC) is the world's second largest shipping line for cargo ships, with 288 vessels crossing the world's oceans, plus 350 offices and a workforce of 28,000 employees worldwide.

MSC Hong Kong, a subsidiary of MSC in Geneva, operates 82 cargo vessels. MSC Hong Kong and Alfa Laval, who have worked with each other for many years, have now drawn up an extensive upgrade and service program to keep onboard equipment in the best shape. Alfa Laval's service engineers in Sydney, Dubai, Singapore and Antwerp look after the company's equipment on MSC Hong Kong's vessels. They maintain a continuous dialog with MSC concerning the vessel's operation, the state of the equipment and ongoing and future projects.

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 and the Process Technology Division). The two sales divisions are divided up into market segments, which means that the company's sales personnel work closely with customers in specific industries.

Equipment Division



The Division's customers impose well-defined, regular and recurring demands on Alfa Laval products. Sales are conducted mainly to customers other than end customers, that is system builders and contracting companies, but may also be dealers, agents and distributors.

Since it is strategically important that products are available worldwide, the Division is constantly 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 2006

- Sales increased 27 percent to SEK 10,934 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 for shipbuilding for the fourth consecutive year resulted in a continuing strong order intake for Marine & Diesel.
- 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.

SALES

Process Technology Division



The Division serves customers that require specially adapted solutions to boost the efficiency of their processes. Sales are conducted mainly through the Group's own sales companies. Alfa Laval combines expertise in its key technologies with solid know-how regarding the customers' processes, and offers package solutions that cover everything from individual products to systems, complete solutions and efficient customer service.

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

- Sales rose by 15 percent to SEK 8,828 M.
- Very robust growth in bioethanol, biodiesel and refineries for the entire heat exchanger area, including Packinox
- Robust growth in all energy-related sectors.
- Strong recovery in Food Technology segment.
- Divestment of the project section in the biotechnology industry.
- The aftermarket continued to show stable growth.

Operations Division

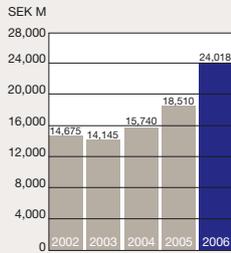


The Division is responsible for production purchases, manufacture and logistics. Centralization creates the optimum delivery reliability, increased productivity and reduced energy costs, meaning the utilization of economies of scale. With a global perspective and co-ordination of these functions, Alfa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

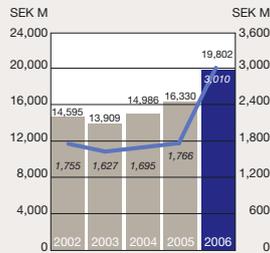
- Continuing investments in production as part of efforts to meet higher order intake.
- Expanded purchasing organization in China, India and Russia.
- Continuing focus on Lean Six Sigma.
- Separator manufacturing in Madrid in Spain was phased out and an assembly plant was built in Jiang Yin in China. Along with other measures, savings of at least SEK 50 M were achieved from mid-2006.
- Restructuring of separator production in Eskilstuna, and heat exchangers in Fontani in France to increase delivery reliability and reduce delivery times.

PURCHASING, PRODUCTION, DISTRIBUTION

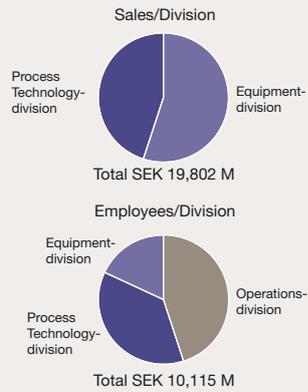
## ORDER INTAKE



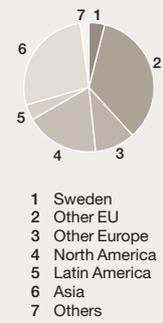
## NET SALES AND OPERATING RESULT



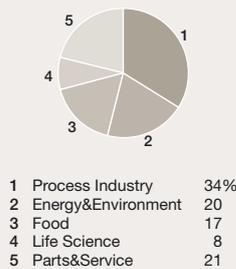
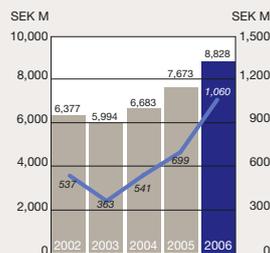
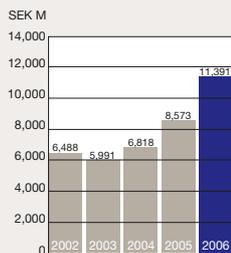
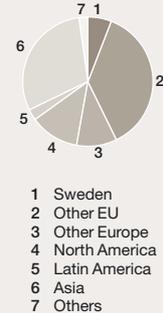
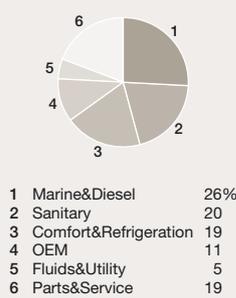
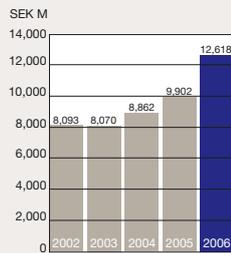
## SALES AND EMPLOYEES



## GEOGRAPHIC DISTRIBUTION



## NET SALES/ CUSTOMER SEGMENT



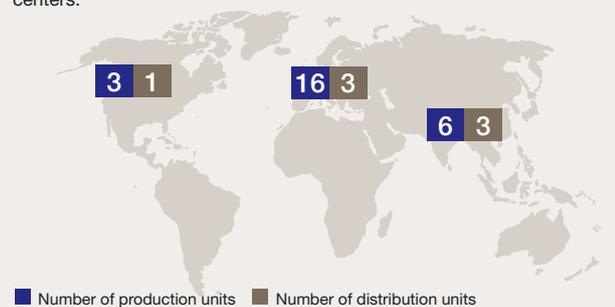
## Global purchasing organization

The global purchasing organization offers potential for continual savings at a significant level.



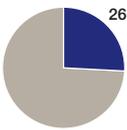
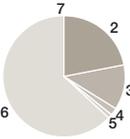
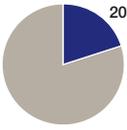
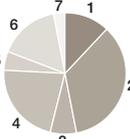
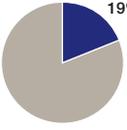
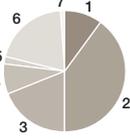
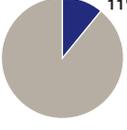
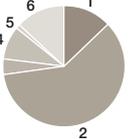
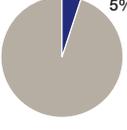
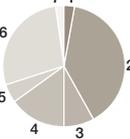
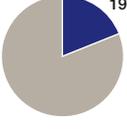
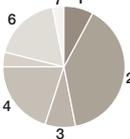
## Production and distribution

Production is distributed among 25 large manufacturing units. The trend is towards fewer plants with product specialization located on the basis of proximity to the market and cost advantages. Distribution has been concentrated to three centers.



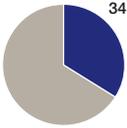
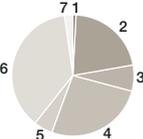
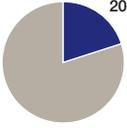
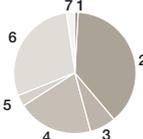
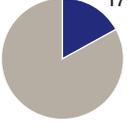
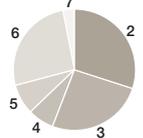
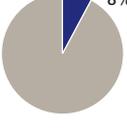
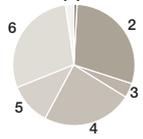
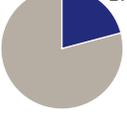
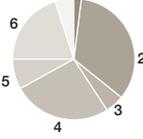
# Overview: The Equipment Division

Customer segment	Development in 2006	
<p><b>Marine &amp; Diesel</b></p> 	<p><b>High levels for the fourth consecutive year</b></p> <p>2006 was another favorable year for the shipbuilding industry. The number of contracted vessels remained at a very high level for the fourth consecutive year. Asia accounts for most of the marine market. Korea, Japan and China represent 70 percent of the world market. Alfa Laval is steadily moving the manufacture of marine products closer to the Asia market.</p> <p>During the year, a unit for the assembly of high-speed separators and one for the manufacture of tank cleaning</p>	<p>products was built up in China. Despite increasingly intense competition, order intake for the marine segment increased.</p> <p>Higher official environmental standards increase the demand for products that meet these requirements. One such area is ballast water. Alfa Laval has commenced cooperation with WALLENIUS Water and has developed a product that cleans ballast water onboard vessels. The total market is estimated to be worth millions and Alfa Laval's goal is to take the leading position.</p>
<p><b>Sanitary</b></p> 	<p><b>Continued strong positions</b></p> <p>The positive business climate resulted in strong growth in all market segments and geographical markets. A number of attractive projects have been secured from the dairy industry, in which Alfa Laval's strategic partners continue to strengthen their positions.</p> <p>The cosmetics and pharmaceutical industries have also displayed a sharp increase in order intake. The segment</p>	<p>continues to strengthen its position in key, rapid-growth markets such as China and India. The broadened presence worldwide is driving growth for all products for distributors, system builders and contractors.</p> <p>Alfa Laval recently launched a completely new range of unique valves. This has set a new global hygiene standard that will further support sales.</p>
<p><b>Comfort &amp; Refrigeration</b></p> 	<p><b>Continuing investments in construction in the Middle East</b></p> <p>The excellent order intake in the Middle East continued, driven by investments in infrastructure. Generally, a higher investment level in food drove up the sale of heat exchangers for cooling (refrigeration) applications.</p> <p>Market penetration in Eastern Europe by air heat exchangers continued during the year, resulting in highly favorable order growth.</p>	<p>Asia continued to grow, primarily as result of an even better Alfa Laval presence and a favorable business climate. Growth in India was particularly good, where Alfa Laval conducted a special effort.</p> <p>The heat exchanger product AlfaNova continued to open a number of new customer areas. Growth for this product is strong and it offers very positive future potential.</p>
<p><b>OEM (Original Equipment Manufacturer)</b></p> 	<p><b>Sales to heat pumps expand</b></p> <p>High energy prices generate favorable growth in heat exchangers for heat pumps. Heat pumps are no longer just a Nordic phenomenon, but are now also growing in the rest of Europe and Asia.</p> <p>High energy prices have also favored the growth of energy-efficient air-conditioning plants, which favors Alfa Laval's compact and efficient solutions. Combined with a hot summer, this created a strong demand for heat exchangers for air conditioning.</p>	<p>The broad product range for the engine industry continued to score successes. A number of strategic orders were placed in 2006 and growth remains high.</p> <p>The small and medium-sized customer segments are showing favorable growth, in line with Alfa Laval's increased focus on these customers.</p>
<p><b>Fluids &amp; Utility</b></p> 	<p><b>Continuing favorable trends in many markets</b></p> <p>The segment experienced good growth in most geographic markets in which the Nordic region, U.S., Germany, Japan and Italy in particular have developed even better than in the preceding year.</p> <p>In particular, the market for plate heat exchangers is driving growth, with high order intake from machinery and system builders.</p> <p>The segment's continuing focus on the hydraulic market has provided favorable results, thereby strengthening Alfa Laval's market positions.</p>	<p>As part of efforts aimed at supplying the metal processing industry's demands for new user-friendly separation systems, the launch of the new Alfa Pure range continued to be a key activity. The small separation systems, Alfie and Emmie, also have new generations on the market.</p> <p>The partner agreements that were previously concluded during the year showed good results.</p>
<p><b>Parts &amp; Service (Aftermarket)</b></p> 	<p><b>Attractive increase in Russia</b></p> <p>The aftermarket continued to grow in all segments and geographic regions. High growth countries displayed some interesting developments, with Russia growing particularly sharply.</p> <p>Alfa Laval's extended service network is a major competitive advantage that favors progress in new sales and in the aftermarket. The key marine segment progressed very well, thanks, among other factors, to a new product</p>	<p>"Harbor support," which involves a service engineer from Alfa Laval going onboard a vessel and inspecting the separators and heat exchangers as part of the preventive care program.</p> <p>Comfort &amp; Refrigeration also displayed good growth with maintenance of district heating and district cooling as particularly major products.</p>

Share of the Division's order intake	Order trend	Geographic distribution	Operations
 <p>26%</p>	 <p>2006</p>  <p>2005</p>  <p>2004</p>	 <ol style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ol>	<p>Alfa Laval's products are used for such applications as the cleaning of tanks, treatment of sludge and oily water, fuel and lube oils, engine cooling and production of fresh water. Customers are shipyards and manufacturers of diesel engines. About two thirds of the world's vessels carry some Alfa Laval products onboard.</p> <p>The customer list includes Hyundai, Mitsubishi Heavy Industry, Finccantieri, Wärtsilä and MAN/B&amp;W.</p>
 <p>20%</p>	 <p>2006</p>  <p>2005</p>  <p>2004</p>	 <ol style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ol>	<p>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.</p> <p>The largest customer is Tetra Pak, a leading supplier of process and packaging systems for the food industry.</p>
 <p>19%</p>	 <p>2006</p>  <p>2005</p>  <p>2004</p>	 <ol style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ol>	<p>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.</p> <p>Customers range from major multinational companies to small local installation companies. Examples of customers are Climespace, York, Mycom and Uppsala Energi. Eastern Europe, with its extensive district heating systems, is an important growth market.</p>
 <p>11%</p>	 <p>2006</p>  <p>2005</p>  <p>2004</p>	 <ol style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ol>	<p>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.</p> <p>Customers include Vaillant, Caterpillar and Carrier.</p>
 <p>5%</p>	 <p>2006</p>  <p>2005</p>  <p>2004</p>	 <ol style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ol>	<p>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.</p> <p>Customers – who are active primarily in the automotive, machine tooling and hydraulics industries – include Ford, Airbus, Michelin, Dacke PMC and Bosch Rexroth.</p>
 <p>19%</p>	 <p>2006</p>  <p>2005</p>  <p>2004</p>	 <ol style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ol>	<p>Customers are active in the Division's entire segment, in addition to OEMs.</p> <p>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 22-23.</p>

# Overview: The Process Technology Division

Customer segment	Development in 2006	
<p><b>Process Industry</b></p> 	<p><b>Hot energy market</b></p> <p>The increase in order intake in 2006 was very strong. Growth during the year derived primarily from a broad-based and high level of project activity, as well as from substantial progress in base business, meaning orders valued at less than EUR 0.5 M.</p> <p>The main driving forces were:</p> <ul style="list-style-type: none"> <li>Higher demand and increased investment in the metal and steel industries.</li> </ul>	<ul style="list-style-type: none"> <li>extensive investments in the petrochemical and refinery sectors in China, India and the Middle East.</li> <li>continuing increases in activity in the biofuel market, with high demand from the ethanol market in the U.S.</li> </ul> <p>Higher material and energy prices increase the general demand for compact and efficient solutions for heat transfer.</p>
<p><b>Energy &amp; Environment</b></p> 	<p><b>Accelerating gas market</b></p> <p>The positive investment trend in the market for oil and gas accelerated further. Record-high oil prices and the expansion of gas production resulted in very strong market conditions. In particular, major new investments in LNG (Liquefied Natural Gas) in the Middle East contributed to the high level of market activity. Gas is the energy form that is increasing most in a global perspective. It is also expected to have continued favorable development in the next 10-20 years.</p>	<p>Continual rising demand for electrical power, combined with the need to limit CO2 emissions, increases gas extraction and has revitalized the market for nuclear power worldwide.</p> <p>In addition, increased environmental awareness and stricter legislation are creating the basis for continuing stable market growth for wastewater and sludge treatment in Asia, as well as Central and Eastern Europe.</p>
<p><b>Food Technology</b></p> 	<p><b>Order intake reversed and rose steeply</b></p> <p>This positive development was mainly attributable to investments in vegetable oils, primarily the refining of palm oils – as well as the preprocessing stages for biodiesel. The most important investments in these areas were made in Russia and the Ukraine. Palm oil is set to account for a larger share of the global edible oils market. Alfa Laval has a strong position in this area, and has already established an excellence center in Kuala Lumpur, Malaysia.</p> <p>Investments in protein (fish and meat) accelerated and the order intake moved back to a favorable level. In addition,</p>	<p>the brewery sector showed sharp growth. Geographically, the main markets are Russia, the Ukraine and India.</p> <p>Beverages and liquid foodstuffs continued to advance, primarily in the case of applications involving vegetable proteins. Major orders were secured in China. In early 2006, Alfa Laval acquired the fruit concentrate business from Tetra Pak, an application that offers considerable potential.</p> <p>The market for olive oil is growing outside the traditional European countries, such as in the Middle East and the U.S.</p>
<p><b>Life Science</b></p> 	<p><b>Strong order intake for the third consecutive year</b></p> <p>The segment's order intake has risen sharply over three consecutive years. Despite the increase, the important U.S market continues to be marked by a low investment level in the biotechnology industry, although the number of inquiries has risen. Some major U.S. biotechnology companies are poised to make investments, while in Asia the Chinese market remains favorable, though it is marked by considerable pressure on prices.</p>	<p>The year was favorable for the segment's main products. High-speed separators, although heat exchangers and membrane-based products also developed well. In addition, the first orders in China for evaporation and condensing applications for the pharmaceuticals industry were secured in 2006.</p>
<p><b>Parts &amp; Service (Aftermarket)</b></p> 	<p><b>Higher revenue from rapid-growth markets</b></p> <p>All regions and segments showed favorable increases in order intake.</p> <p>Alfa Laval has secured many substantial upgrading orders in the process and energy segment (petrochemicals, oil &amp; gas, and power) driven primarily by capacity expansion.</p> <p>The strong recovery in new separator sales resulted</p>	<p>in an increase in the aftermarket for these products.</p> <p>Alfa Laval's consistent investment programs in the service and sales structure in the rapid-growth areas of the world – primarily China, Russia, India and the Middle East – have generated higher service revenue from the installed base.</p>

Share of the Division's order intake	Order trend	Geographic Distribution	Operations
	 2006  2005  2004	 <ul style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ul>	<p>Alfa Laval's products are used for manufacturing petrochemical products, plaster, polymers, metals, minerals, biofuels, starch, paper and sugar.</p> <p>Alfa Laval has many well-known customers in the process industry including BASF, Bayer and Dow.</p>
	 2006  2005  2004	 <ul style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ul>	<p>In the energy sector, Alfa Laval's products, modules and systems play a major role in the extraction of oil and gas and in the production of energy in power plants.</p> <p>In the waste treatment segment, Alfa Laval supplies systems that reduce sludge volumes so that they can be managed in a cost-efficient manner.</p> <p>Customers include Exxon Mobil, Technip, Chiyoda, Petrobras, Statoil, General Electric, China Nuclear Corp., Thames Water and City of Chicago.</p>
	 2006  2005  2004	 <ul style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ul>	<p>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 oils and vegetable, meat and fish proteins.</p> <p>Customers include global groups such as Cargil, ADM, Nestlé, Heineken and Anheuser-Busch.</p>
	 2006  2005  2004	 <ul style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ul>	<p>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.</p> <p>Customers include many major pharmaceutical groups such as Eli Lilly, GlaxoSmithKline and Genentech.</p>
	 2006  2005  2004	 <ul style="list-style-type: none"> <li>1 Sweden</li> <li>2 Other EU</li> <li>3 Other Europe</li> <li>4 North America</li> <li>5 Latin America</li> <li>6 Asia</li> <li>7 Others</li> </ul>	<p>Customers are active in all the division's segments.</p> <p>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 page 22-23.</p>

# Increased production in China and India



THE OPERATIONS DIVISION is responsible for purchasing, manufacturing and logistics.



The centralization of these functions has created the best possible delivery reliability, higher productivity and reduced operating expenses. With a global perspective and coordination of these functions, Alfa Laval strives to ensure access to the company's products worldwide.

## *Manufacturing*

### **Expansion to meet rising order intake**

Alfa Laval's production operations comprise about 4,300 employees (4,000) distributed among 25 major manufacturing units, of which 16 are located in Europe, six in China and three in the U.S. In recent years, production has been concentrated to fewer product-specific plants localized on the basis of proximity to the market and cost advantages. At the same time, the company's acquisitions added new units.

Recently, a number of plants have been expanded in an effort to prepare to meet rising order intake. During 2006, a major expansion of production of plate heat exchangers took place in Lund, Sweden. This is Alfa Laval's single largest production facility. This plant's output includes T 50 plate heat exchangers, the world's largest plate heat exchanger, which has been specially designed to handle large liquid flows.

Major investments were also carried out during 2006 in the U.S. and elsewhere to meet rising demand in the ethanol industry; at Alfa Laval Packinox, Chalon sur Saone in France, to meet rising investments in refineries; in Fontanil in France to satisfy demand for large compact heat exchangers; as well as in China to meet the continuing strong order intake in the marine industry for separators and other equipment.

High-value products requiring advanced technology skills are manufactured in production centers primarily

## Geographic distribution of the number of direct working hours in production, %



in Europe. In 2006, most of the production units continued to adjust and increase capacity for higher order intake, which is expected to continue during 2007

### Increased presence in Asia

During 2006, about 42 percent of the direct working hours were performed in low-cost countries in Asia. Alfa Laval's goal is to reach at least 45 percent by year-end 2007. This will primarily be achieved by small-scale and continual relocation measures.

During 2006, the manufacture of high-speed separators was phased out in Madrid in Spain. To retain and increase capacity, an assembly unit for high-speed separators has been built in China. This also creates competitive advantages as a result of a greater presence in the important Asian market. In this respect, Northeastern Asia has developed to become the leading market for the shipbuilding industry worldwide. Key components for the separators are produced in existing plants in Sweden and Poland. The measures resulted in savings of at least SEK 50 M annually from mid-2006.

Alfa Laval has substantial production operations in China and India. Since these large markets are growing sharply, Alfa Laval is reviewing its production presence in these countries.

Alfa Laval works continually with broadening the product range in production plants in order to be able to deliver the right products and service to customers as quickly and efficiently as possible in pace with growth.

### EU adjustment

Since November 1, 2006, regulations have been in force in the EU that govern traceability of all products relating to liquid foodstuffs. To meet these requirements, Alfa Laval has developed a system that registers all products to these industries.

### Quality

#### Focus on Lean SixSigma and ISO 4001

Lean SixSigma is an improvement program and a way of changing the attitude of employees towards change work. The program comprises two components: one that improves existing processes and another that develops new processes. During 2006, efforts involving Lean SixSigma continued at the production units in Lund and Ronneby, Sweden, Kolding in Denmark and at Alonte in Italy. During the second half of the year Lean SixSigma was introduced at the units in Kunshan, in China and at Eastbourne in the U.K.

Programs involved with certification according to ISO 14001 continued during the year. At year-end 2006, the units in Lund and Eskilstuna in Sweden, Alonte and Monza in Italy and Jiang Yin in China were certified in accordance with ISO 14001.

At year-end 2006, a full 47 percent of delivery value was from certified units.

### Purchasing

#### Russian purchasing organization set up

While the current Alfa Laval organization was being put in place in 2000, a number of bridgehead units for purchasing were established in China, India, Mexico and Poland. A decision was subsequently made to set up small purchasing organizations in China, India and Russia to develop long-term contacts with new suppliers in these regions. Using local buyers, Alfa Laval believes that there is good potential to achieve substantial savings.

The purchasing organizations in China and India were established in 2005. The purchasing organization in Russia was developed in 2006 and is expected to yield results in 2007.

### Raw materials

#### Continuing high prices for many raw materials

Stainless steel accounts for the major share of Alfa Laval's purchases. The price of stainless steel depends on two components: the base price for steel and the price of metal alloys. The base price rose during the latter part of the year and prices of key alloys – nickel and molybdenum – have been very high. Prices of copper and aluminum were high throughout 2006.

Titanium is also an important raw material for Alfa Laval. Over a number of years, there has been a shortage of titanium in the market. Alfa Laval believes that this shortage will prevail through 2007 and 2008 and thus the price will remain very high. Demand for titanium is controlled primarily by the production of aircraft – both military and commercial, although certain equipment for power production also uses a substantial amounts of titanium.

# Global range – local strength

ALFA LAVAL HAS EXCELLENT geographic coverage. About 50 percent of sales derive from Europe, 30 percent, from Asia and 20 percent from North and South America. The company conducts sales in more than 100 countries, and has its own local presence in more than half of these.

Sales in Asia have risen sharply in recent years, due largely to a favorable market presence over a protracted period in the major Asian markets. There are about 75 service centers worldwide, with more than 350 engineers to meet the needs of the important aftermarket.

## Development in 2006

### Western Europe

- MidEurope, France and Adriatic showed the best performances.
- Base orders, orders less than EUR 0.5 M, increased strongly in all regions.
- The Energy & Environment segment recorded the sharpest growth in order intake.

### Central and Eastern Europe

- A continuation of the excellent investment climate in many industries provided broad-based growth, with a large plus in all segments.
- Russia was the fastest growing market, although Ukraine and Turkey also performed well.
- Steep increase in the food industry.

### North America

- Base orders, meaning orders valued at less than EUR 0.5 M, progressed very well throughout the year.
- Both the U.S. and Canada reported sharp growth.
- The focus on bioethanol in the U.S. contributed strongly to growth.
- The acquisition of Tranter provided a substantial contribution to order bookings.

### Latin America

- The improved business climate boosted development in many countries and in most segments.
- In percentage terms, Argentina, Chile and Mexico saw the largest increase. The largest market in the region, Brazil, continued to make good progress.
- The aftermarket grew sharply, thanks to the installed base requiring more service.

### Asia

- Continuation of the very encouraging investment climate, notably in China and India, which favored Alfa Laval.
- Japan and Korea also showed solid progress.
- The segments Process Industry, Energy & Environment and Comfort & Refrigeration reported the best performances.
- The Middle East was favored by major investments in construction.



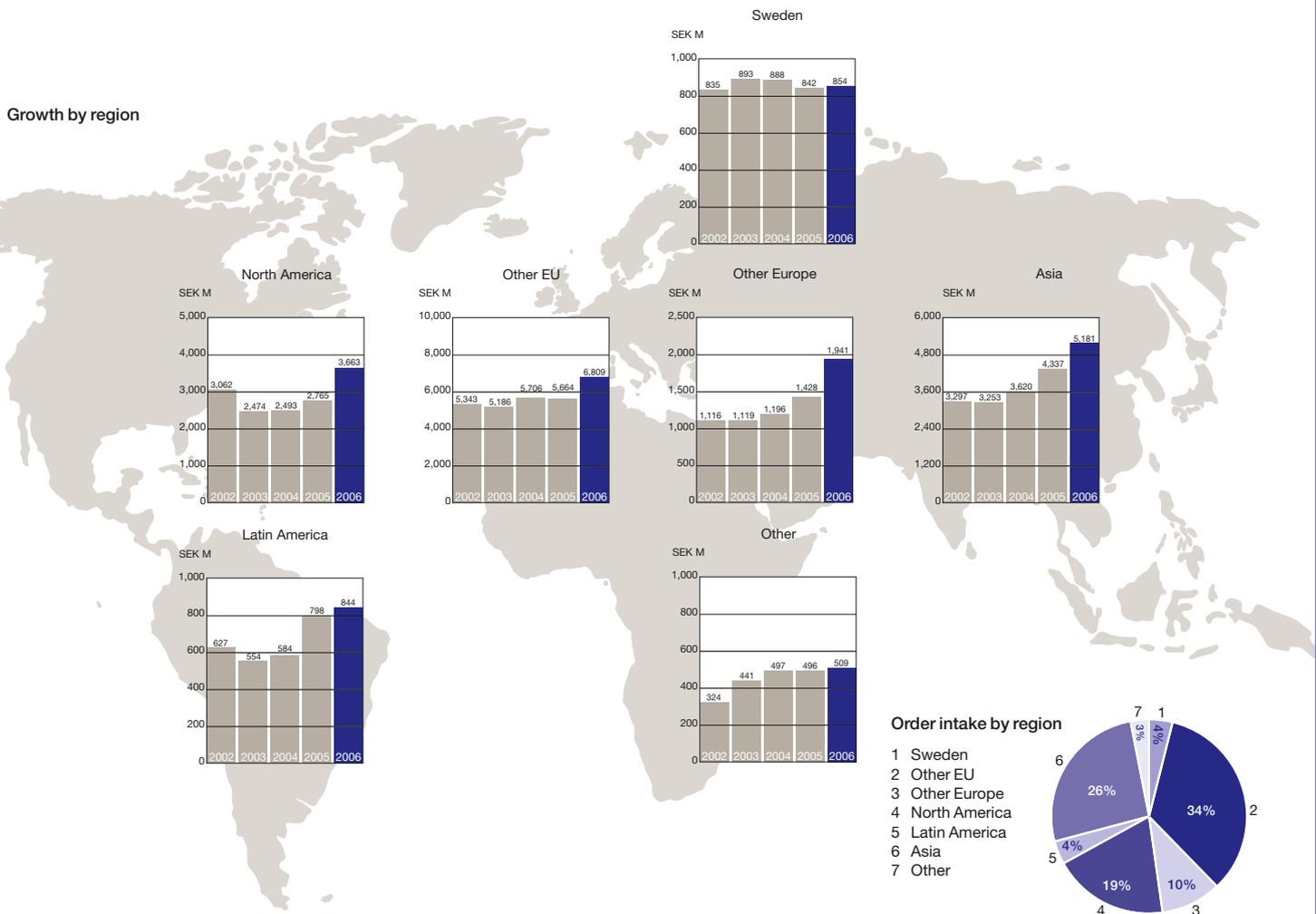
## Brewery pioneer in China

Guangzhou Zhujiang Brewery Co. Ltd. was the first in China to adopt foreign, advanced brewery technology, including solutions from Alfa Laval. As a result of these investments, the company became competitive on an international level and Zhujiang beer has become the most popular brand in China.

The brewery has cooperated with Alfa Laval since it began operations. The most recent cooperation project was the introduction in China of Alfa Laval's well-known cross-flow filtration. "The new technology provides major benefits. We avoid costly waste treatment, we gain better beer quality, operations and service are simpler and we eliminate health risks," says Chief Engineer Huiping Li.

# Regional sales trend, 2002-2006

## Growth by region



## Alfa Laval in France wins award

Alfa Laval's subsidiary in France was awarded the "Prix d'Excellence" for 2006 by the Swedish Chamber of Commerce in France. The prize was presented by Her Royal Highness, Crown Princess Victoria of Sweden. In its statement, the jury praised the successful Swedish-French cooperation and emphasized the company's innovative manner in conducting business, its holistic approach to the customer, its ability to adapt to market requirements and the company's exemplary personnel policy.

Since 2004, Alfa Laval in France has reported a volume growth of more than 30 percent and a rise in earnings of nearly 20 percent. Order intake in 2006 exceeded EUR 100 M for the first time.

Alfa Laval's operations in France are of considerable significance for the Group, especially in terms of welded heat exchangers, which are key products, notably in the energy sector.

Alfa Laval was established in France in 1907 and currently has some 750 employees. The company's headquarters are in Paris, with five production units nationwide.

Alfa Laval's French subsidiary was awarded the "Prix d'Excellence" for 2006 by the Swedish Chamber of Commerce in France. The prize was presented by Her Royal Highness, Crown Princess Victoria of Sweden. The prize was accepted by Alfa Laval's President and CEO Lars Renström (left) and Stéphane Ronteix, President, Alfa Laval, France.

# Development of employees ensures tomorrow's success

ALFA LAVAL'S TRANSFORMATION from an organization based on business areas to a customer-oriented focus has changed the company with great success. Alfa Laval has grown and become more profitable.

As part of the continued development of the company, three important areas of focus with the potential to further strengthen Alfa Laval.

- Price management
- Products and time-to-market
- The aftermarket

During 2006, Alfa Laval's management group decided to further strengthen the company's focus on the aforementioned three areas through an extensive training program. The training has been in progress during the closing months of 2006 and will continue through the first half of 2007, in cooperation with the Ashridge Business School in England.

## Focus on Alfa Laval's opportunities

Alfa Laval places great emphasis on the development of its employees. The Alfa Laval University selects the Group's training programs to meet the company's needs and to sustain and develop its business.

In order to obtain an external perspective on the company's training programs, three of the seven members of the Board of Directors of Alfa Laval University are not employed by the company. These are Sören Kjellander, Professor at Chalmers University of Technology, Carl-Henrik Nilsson, Assistant Professor at the University of Lund and Mike Malmgren, the Ashridge Business School.

During 2006, more than 700 employees from 43 countries participated in some form of internal training. The overall objective is to create a long-term understanding of the position and the developmental opportunities that Alfa Laval's products have on the market, and to ensure that such opportunities are pursued in a judicious manner so that the company's present positive course of development is sustained.

## Equal Career Opportunities

Within a global company such as Alfa Laval, there is a wide diversity of people. It is important for the company to develop this diversity. This makes for dynamic work teams and positive values that even have ramifications for customers. In keeping with this basic outlook, it is the company's deliberate ambition to attract, develop

and keep the best individuals regardless of nationality or gender.

This also implies that Alfa Laval should be an attractive company with which to have a career. The program is called "Equal Career Opportunities" which entails, among other effects, that the number of women in management in the Group should be increased to better reflect the proportion of women in the company. A step in this process is the goal that at least 25 percent of the participants in the Challenger program described below should be women.

At present, the percentage of women in management is 14 (7) percent compared with a percentage of women in the total workforce of about 20 (20) percent.

## Focus on the Group's adepts

AdePT, is a mandatory internal training concept for newly employed marketing and sales personnel in the entire Group. All who are employed with the Group and who are in some way involved with the sales process must complete the training program, which has a high priority within the company.

Training begins with a local introductory stage in which the key industries an individual will be working with are presented.

Stage two takes place in Lund, Sweden. In a training section common to all participants, Alfa Laval's three key technologies and the company's products are reviewed. Participants also receive sales training. Subsequently, participants deepen their familiarity with the internal customer segments in which they will work. All members of Alfa Laval's management group are involved in the training and hold presentations based on their respective areas and about core values and the business principles.

In this manner, Alfa Laval ensures that all sales personnel have a common base on which to stand and a common view of products and the sales process. During 2006, more than 250 persons completed all three stages of the adePT training program.

Most of the training is local and is complemented with central activities.

## Focus on 50 future leaders

The Challenger program is an internal continuing education program, primarily for engineers and economists, that focuses on 50 individuals who have the

potential to be the Group's future leaders. The overarching selection criterion concerns individuals' capacities to rise at least two levels in the company organization from their current positions.

The goal is to improve strategic thinking and leadership abilities in an ever more global and complex business world. Growth is the driving force in all companies and the Challenger program helps participants to understand the potential of the organization and its products. Accordingly, the program enhances understanding of the company's business and facilitates the step from specialist to a general leadership role. In addition, the training acquaints participants with important external perspectives, for example, the role of the stock market and its expectations regarding Alfa Laval.

### The Intellectual Potential

Alfa Laval has developed The Intellectual Potential system in cooperation with the University of Lund. The system is a tool for improving management's understanding of the business and how it can be improved and provides a way of ensuring that the company's business strategy is put into practice.

The fundamental insight is that the trend for industry is toward being knowledge-based. The value of a company and its competitive advantages do not simply reside in its products and equipment, but increasingly depend on the abilities of its personnel to develop and implement new concepts and ideas that translate into customer value.

The Intellectual Potential measures potential according to four value categories and links them to every business entity as follows:

- **The human potential**  
The right person in the right place? The right abilities to promote future success?
- **Leadership potential**  
Are knowledge, systems and processes disseminated to ensure that success can be repeated while maintaining high quality?
- **Relationship potential**  
How can the company improve its relations with customers, suppliers and strategic partners?
- **Financial potential**  
How can Alfa Laval improve its sales and delivery capacities?

During 2006, Alfa Laval employed The Intellectual Potential system within the Fluids & Utility and OEM segments.

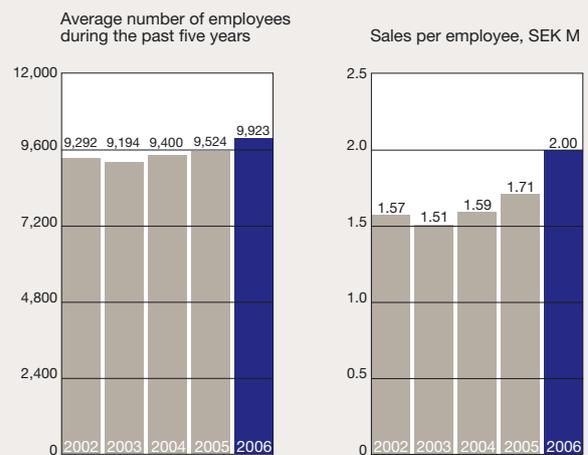
### Number of Employees

The Alfa Laval Group had a total of 10,115 (9,429) employees at December 31, 2006.



## Significant events in 2006

- Extensive training activity to strengthen the company's future focus around three strategic areas.
- More than 700 participants from 43 countries received internal training.
- Equal Career Opportunities develops diversity within the company.
- The Intellectual Potential continues to put theory into practice.



### Average number of employees during 2006 The top ten countries

1	Sweden	2,091
2	India	1,154
3	Denmark	1,076
4	US	934
5	France	749
6	China	623
7	Italy	570
8	UK	312
9	Russia	265
10	Germany	231
	All others	1,918
	<b>Total</b>	<b>9,923</b>

# Sustainable growth based on Business Principles

“For Alfa Laval, long-term sustainable development is the balance between supplying strong financial results and the company’s goal to economize on natural resources, protect the environment and contribute to our external environment.

While it is fairly simple to measure strong financial results, it is complicated to quantify how the company contributes positively to the external environment. Alfa Laval’s Business Principles are fundamental in this effort.

Consequently, it is important that we develop tools for controlling as well as measuring to show the world that our Business Principles work in everyday life.”

Lars Renström, President and CEO, Alfa Laval

ALFA LAVAL’S BUSINESS PRINCIPLES were published in 2003. For many years, these principles were an integral and natural part of Alfa Laval’s company culture and for the first time were compiled into one document. Business builds confidence and this is where the Business Principles come in. Together with Alfa Laval’s Core Values, they define the way the company should act. To create long-term development, it is fundamental that the principles are integrated into everyday work.

Corporate Management attaches significant importance to compliance with the principles, and follow-ups are carried out through the internal audit function and other Group-wide initiatives.

The Business Principles have been very valuable in the effort to identify areas in which the company can measure and subsequently improve work within social,

environmental and ethical areas. This is a brief description on Alfa Laval’s efforts within these areas in 2006 with regard to the company’s products, suppliers and ethical conduct.

## Products to assist in environmental protection

Alfa Laval’s products are frequently used in many applications for environmental protection, to produce renewable energy and to assist customers to reduce their impact on the environment.

Since 2004, the Group has been involved in a project to improve the internal ECO management and audit scheme. At the end of 2006, 47 percent of production value was implemented in plants that were ISO 14001 certified. The current goal is that 80 percent of the value shall be implemented in ISO 14001 approved plants by



## Cleaner cleaning liquid

The French company Francaise de Mécanique manufactures engines for Peugeot, Citroën and Renault. Due to a new cleaning system from Alfa Laval, cleaning liquids used in the process now last approximately seven months, a significant increase compared with the prior system when the liquids only lasted between two and 10 days.

The company is one of the world’s largest engine manufacturers, with a production of more than 10,000 engines per day.

The company has installed a central unit, which includes three separators from Alfa Laval, which works around the clock and cleans a significant flow of liquids from five connected tanks. A central system means lower costs, simpler process and higher capacity.



the end of 2007. The plants' impact on the external environment is also included in the goal.

To show how Alfa Laval's products reduce customers' environmental impact, detailed documentation was carried out regarding the reasoning used by a number of customers in choosing their products.

This resulted in a comprehensive growarchive comprising articles on various customers' viewpoints on their choice of products from an environmental viewpoint. This resulted in a comprehensive, expanding archive comprising articles on various customers' viewpoints on their choice of products from an environmental viewpoint. The articles are available on [www.alfalaval.com](http://www.alfalaval.com), under Corporate Business Principles. The material is only available in English.

 [read more at www.alfalaval.com](http://www.alfalaval.com)

### Plan to reduce carbon dioxide emissions

A complete environmental survey, including energy use is under way in the Group.

During 2007, a plan to reduce carbon dioxide emissions will be introduced.

### Develop suppliers in fast-growing countries

Globalization is an opportunity for all companies, and rapid economic development provides the possibility of improved living conditions to the world's population. It also gives Alfa Laval new business opportunities in terms of increased sales as well as low costs for manufacturing the products.

But when parts of the supply chain move to countries with lower costs, the company is frequently confronted by ethical issues in a distinct manner. Health, safety and working conditions for employees of the company's suppliers are important areas to monitor.

When Alfa Laval purchases products from such fast-growing economies as China and India, it is important that the company ensures that the possibility of cost reductions will not be made at the expense of those doing the work. Alfa Laval regards it as an obligation to ensure that conditions at its suppliers rapidly improve to acceptable levels in terms of work, health and safety conditions.

### Ethical business practices

All business transactions by Alfa Laval are based on honesty and sincerity. In the global environment in which Alfa Laval operates, from time to time the company's sales personnel and purchasers are faced with new or current customers or supplier making requests that exceed the limits of ethical or legal business practice. The fundamental question is where is the limit?

During 2006, Alfa Laval has had this area under special surveillance and also worked on the issue internally. A few of the company's most experienced sales personnel and purchasing managers, including those who work in high-risk countries, have participated in this effort. This has resulted in a training program based on these and similar issues for the purchasing and sales organization throughout the Group. The program is being systematically implemented in the entire Group.



## Natural heating

Stiebel Eltron is in the forefront in terms of developing more efficient heating and hot-water systems, which save natural resources. A new product from Alfa Laval assisted the company to develop a very competitive water-to-water heat pump.

German Stiebel Eltron and Alfa Laval have cooperated for many years and Stiebel Eltron has now incorporated AlfaNova, the innovative, 100% stainless steel heat exchanger, into its heat pumps. AlfaNova eliminates problems with corrosion that the groundwater caused in earlier heat pumps. With AlfaNova, Stiebel Eltron can offer its customers a much more effective heat pump.

## 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 to 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 supplies its 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](http://www.alfalaval.com).

Alfa Laval AB (publ) Annual report 2006

# Board of Directors' Report



## **The place: Dubai in the United Arab Emirates.**

The location: beside the Persian Gulf, with the vast Rub al-Khali desert as the nearest neighbour. In other words, the outdoor climate is tropical. But inside the huge and rather improbable Ski Dubai building there is a well-pisted ski run 400 metres long, laid on 6000 tons of genuine snow. It's not for the extreme skier, naturally. But it's a great place to relax for anyone who wants a cool break from the idle life of the beach. Every night it snows – to order. A fine rain of pure water is rapidly converted into powder snow. To achieve this the indoor temperature must be kept below freezing point. Two heat exchangers from Alfa Laval that cool the glycol in the pipe system play a major part in this process. They ensure that the snow has the right consistency – and thus create conditions suitable for skiing in this wintry oasis in the middle of the desert.

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# The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2006 to December 31, 2006.

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

## Financial statements

The following parts of the annual report are financial statements: the Board of Directors Report, the ten-year overview, the 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 12,178 (10,964) shareholders on December 31, 2006. 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 10.1 to 1.5 percent. These ten largest owners own 51.2 (50.7) 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 devel-

opment and availability of strategic metals, the depreciation of the US dollar 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.

## Public offer to purchase an additional 26 percent of Alfa Laval (India) Ltd

In a press release on February 26, 2007 Alfa Laval announced a public offer to increase its share of Alfa Laval (India) Ltd. Alfa Laval currently holds 64 percent of the shares in Alfa Laval (India) Ltd, which is listed on the stock exchange in Mumbai and has some 11,000 shareholders. Five financial investors hold approximately 16 percent of the total number of shares. Through a public offer of 875 rupees per share Alfa Laval intends to increase its share to 90 percent of the company. The offer concerns approximately 4.7 million shares and represents a total value of approximately SEK 700 million. The whole process is estimated to be finalized during June this year.

Alfa Laval has been present in India since 1937. During 2006 Alfa Laval (India) Ltd. had an order intake of SEK 900 million and approximately 1,000 employees. During recent years Alfa Laval also has established a wholly owned engineering company in India that supports the Group.

## Purchase of businesses

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. After adjustment for changes in operating capital the purchase price is USD 150.4 million in cash. The costs directly linked to the acquisition of Tranter (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to USD 3.2 million. After deducting acquired cash and bank the impact on the cash

flow was SEK -1,216.5 million. Out of the difference between the purchase price paid and the net assets acquired SEK 16.7 million was allocated to properties, SEK 179.8 million was allocated to patents and un-patented know-how, SEK 265.5 million to the Tranter trademark and SEK 6.4 million to accrued gross margin in work in progress, while the residual SEK 551.4 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. 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 is 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 981.0 million and SEK 148.1 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141.2 million and SEK 171.1 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10.2 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 542.3 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 9.0 million. After deducting acquired cash and bank the impact on the cash flow was

SEK -504.7 million. Out of the difference between the purchase price paid and the net assets acquired SEK 103.6 million was allocated to patents and un-patented know-how, SEK 192.1 million to the Packinox trademark and SEK 6.8 million to accrued gross margin in work in progress, while the residual SEK 264.7 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 495.5 million, an adjusted EBITA of SEK 114.1 million and 152 employees within R&D, manufacturing and sales.

For all of these acquisitions the acquired assets and liabilities are presented in Note 24 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 has taken the strategic decision to divest its engineering activity for the biopharm industry. The company is divesting this activity through a purchase agreement with the Management of this activity. The primary reason for divesting the engineering activity for the biopharm industry, which comprises the offering of engineering and validation services, is the limited connection to Alfa Laval's core business of process solutions and heat transfer, separation and fluid handling products. The divestment is not anticipated to have any negative impact on Alfa Laval's Life Science activity. The turnover of the divested activity is slightly more than SEK 100 million and it employs approximately 110 people. The transaction was finalized at December 29, 2006. The divestment has caused a non-recurring charge to the profit and loss statement in the fourth quarter 2006 of SEK -125.5 million.

On December 5, 2003 an asset purchase agreement was signed between the subsidiary Tri-Lad Inc in Canada and local management of the company whereby all non-financial assets were sold to local management. The closing date was January 30, 2004. Tri-Lad Inc is selling equipment to the oil & gas industry and was a non-core activity within Alfa Laval. It had been up for sale since several years.

The Tri-Lad property was sold effective on May 12, 2004. The divestment of the Tri-Lad operations generated a loss of SEK -15.0 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 bio-Kinetics plant in Toronto of SEK -125.0 million were charged to the income statement, as comparison distortion items.

### Sale of real estate

During 2006 a piece of land in India has been sold for SEK 2.1 million with a realised gain of SEK 1.2 million, two minor properties in France have been sold for SEK 2.8 million with a realised gain of SEK 0.9 million, one flat in Denmark has been sold for SEK 4.2 million with a realised gain of SEK 3.1 million and a property in Germany has been sold for SEK 3.5 million with a realised gain of SEK 0.4 million. Other properties in Belgium, Brazil, Finland and France are also planned for sale. The fair value of these properties exceeds the book value by approximately SEK 126.3 million. With the exception of the property in Finland Alfa Laval is using all of these properties for its operations. The Finnish property is situated in Tuusula in an industrial area for small companies close to the Helsinki airport and covers slightly more than 20,000 m<sup>2</sup> land and the buildings comprise offices (746 m<sup>2</sup>), workshop (4,328 m<sup>2</sup>) and warehouse (600 m<sup>2</sup>). The buildings are basically empty. An active sales work is being performed concerning the Finnish property and it is expected to be sold within the next year. This means that only this property has been re-classified as a current assets held for sale.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58.0 million with a realised gain of SEK 47.8 million. In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million and some minor properties in India were divested for SEK 1.3 million with a realised gain of SEK 0.6 million.

During September 2004 the property in Kenosha, USA, was divested for SEK 45.3 million with a realised loss of SEK -1.7 million. On July 7, 2004, the property in Madrid, Spain, was divested for SEK 265.1 million with a realised gain of SEK 47.5 million. The sale of some minor properties in Brazil and India resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark resulted in a realised loss of SEK -0.5 million.

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

### Orders received

Orders received amounted to SEK 6,671.6 (5,019.9) million for the fourth quarter. Excluding exchange rate variations, the order intake for the Group was 40.5 percent higher than the fourth quarter last year. Excluding the acquisition of Tranter, the corresponding figure is 30.6 percent.

Orders received amounted to SEK 24,018.1 (18,516.3) (15,740.0) million during 2006. Excluding exchange rate variations, the order intake for the Group was 29.9 percent higher than last year. Excluding the acquisition of Tranter, the corresponding figure is 22.5 percent.

Orders received from the after market "Parts & Service" has continued to develop positively during 2006 and increased by 14.4 percent compared to last year excluding exchange rate variations. Its relative share of the Group's total orders received was 20.1 (22.8) percent.

### Order backlog

The order backlog at December 31, 2006 was SEK 12,359.5 (7,496.9) million. Excluding exchange rate variations, the order backlog was 64.9 percent higher than the order backlog at the end of 2005. Excluding the acquisition of Tranter, the corresponding figure is 50.0 percent.

### Net sales

Net sales of the Alfa Laval Group amounted to SEK 6,040.0 (4,683.8) million for the fourth quarter of this year. Excluding exchange rate variations, the invoicing was 35.7 percent higher than the fourth quarter last year. Excluding the acquisition of Tranter, the corresponding figure is 28.8 percent.

Net sales amounted to SEK 19,801.5 (16,330.4) (14,985.8) million during 2006. Excluding exchange rate variations, the invoicing was 21.4 percent higher than last year. Excluding the acquisition of Tranter, the corresponding figure is 15.4 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.

## Divisional reporting

### 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.

#### Orders received and net sales

*(all comments are after adjustment for exchange rate fluctuations)*

Orders received increased by 27.7 percent and net sales increased by 26.9 percent during 2006 compared to last year. Excluding the acquisition of Tranter, the corresponding figures are 16.4 percent and 17.2 percent.

All segments in the Equipment division have developed positively. The most significant growth is found within the OEM segment followed by the Fluids & Utility Equipment segment.

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

Operating income was SEK 2,072.0 (1,162.5) (1,100.4) million in 2006. The increase in operating income during 2006 compared to last year is mainly explained by a higher gross profit due to a favourable product mix, productivity improvements and high capacity utilization, marginally offset by increased R&D costs.

### 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 33.1 percent and net sales increased by 15.2 percent during 2006 compared to last year. Excluding the acquisition of Tranter, the corresponding figures are 30.0 percent and 13.3 percent.

All segments in the Process Technology division have reported large increases in orders received compared to 2005. The growth has been largest within the Process Industry segment followed by the Food Technology and Energy & Environment segments.

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

Operating income increased to SEK 1,060.2 (698.8) (634.3) million in 2006. The increase in operating income during 2006 compared to last year is foremost due to a

higher gross profit, marginally reduced by increased R&D costs.

### 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 -460.4 (-410.8) (-333.0) million in 2006.

#### Reporting by geographical markets

The Group's secondary segments are geographical markets. All comments are after considering exchange rate variations.

#### Orders received

During 2006 orders received increased most in North America and Central and Eastern Europe followed by Asia compared to last year.

#### Net sales

During 2006 net sales increased most in North America and Central and Eastern Europe followed by Western Europe and Asia, while Latin America only reported a marginal increase in invoicing compared to last year.

#### Personnel

The parent company does not have any employees.

The Group has on average had 9,923 (9,524) (9,400) employees. At the end of December 2006 the Group had 10,115 (9,429) employees. The employee turnover rate for 2006 is 10.2 (13.2) percent and mainly relates to employees within manufacturing units, internal shared service centres and the sales organisation.

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.

### 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 526.1 (447.8) (403.9) million, corresponding to 2.7 (2.7) (2.7) percent of net sales. Excluding exchange rate variations and the acquisition of Tranter, the costs for research and development have increased by 14.5 percent compared to last year. This underlines Alfa Laval's efforts to further strengthen its position.

### 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 2006 43 percent of the production value was created in facilities with ISO 14001 certification. The current goal is that 80 percent of the value should be created in ISO 14001 approved facilities at the end of 2007. 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, 2006, named as a co-defendant in a total of 210 asbestos-related lawsuits with a total of approximately 348 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 has enabled Alfa Laval to release SEK 40 million in provisions for expected costs related to the lawsuits, which has improved the result for 2006 correspondingly.

### Result for the parent company

The parent company's result after financial items was SEK 1,993.2 (-16.3) (-2.6) million, out of which net interests were SEK 7.0 (-5.7) (2.8) million, realised and unrealised exchange rate gains and losses SEK -1.9 (0.3) (-) million, dividends from subsidiaries SEK 2,000.0 (-) (-) million, costs related to the listing SEK -1.1 (-2.3) (-0.7) million, fees to the Board SEK -3.7 (-2.7) (-3.8) million, cost for annual report and annual general meeting SEK -3.4 (-4.0) (-) million (not taken in parent company before 2005) and other administration costs the remaining SEK -3.7 (-1.9) (-0.9) million. Appropriation to tax allocation reserve has been made with SEK -254.4 (-25.0) (-80.4) million. Income taxes amount to SEK -213.7 (-21.0) (-67.6) million. Tax on received Group contribution was SEK 286.3 (31.9) (95.3) million and deferred tax on unused tax losses SEK (-) (-) (-4.5) million. Net income for the year was SEK 1,811.4 (-30.4) (-59.8) million.

### Unrestricted equity capital for the parent company

The unrestricted equity capital of Alfa Laval AB (publ) was SEK 3,806.9 (1,828.8) (807.5) million. SEK 1,500.0 million of the increase in 2005 was due to the transfer from restricted to unrestricted equity decided at the Annual General Meeting in 2005 and approved by the court during 2005.

### Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 6.25 (5.10) (4.75) per share corresponding to SEK 697.9 (569.5) (530.4) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 3,109.0 (1,259.3) (277.1)

million be carried forward, see page 97.

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.

### Proposal on repurchase of shares

Alfa Laval's financial position is 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 mandate the Board to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate will refer to repurchase of up to 10 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's Stock Exchange. The company does currently not own any Alfa Laval shares.

### 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 23, 2007.

### Outlook for the near future

In the fourth quarter and full year 2006 report issued on February 7, 2007, the President and Chief Executive Officer Lars Renström stated:

"In most of the markets, geographical as well as customer segments that Alfa Laval serves, a continued very strong demand is expected."

*(The outlook for the near future has remained unchanged since the outlook in the fourth quarter and full year 2005 report issued on February 9, 2006.)*

### Date for the next financial reports during 2007

Alfa Laval will publish interim reports during 2007 at the following dates:

Interim report for the first quarter	April 23
Interim report for the second quarter	July 19
Interim report for the third quarter	October 23

# Consolidated cash-flow statements

Amounts in SEK millions	Note	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005	Jan 1 - Dec 31 2004
<b>Cash flow from operating activities</b>				
Operating income		2,551.9	1,377.2	1,438.4
Adjustment for depreciation		601.4	579.5	554.3
Adjustment for other non-cash items		206.4	-44.1	15.4
		3,359.7	1,912.6	2,008.1
Taxes paid		-548.6	-429.2	-335.6
		2,811.1	1,483.4	1,672.5
<b>Changes in working capital:</b>				
(Increase)/decrease of current receivables		-1,308.3	49.0	-389.4
(Increase)/decrease of inventories		-724.7	-282.1	-297.0
Increase/(decrease) of liabilities		1,418.2	482.6	131.9
Increase/(decrease) of provisions		422.5	-116.4	85.3
		-192.3	133.1	-469.2
<b>Cash flow from operating activities</b>		<b>2,618.8</b>	<b>1,616.5</b>	<b>1,203.3</b>
<b>Cash flow from investing activities</b>				
Investments in fixed assets		-373.1	-323.7	-387.5
Divestment of fixed assets		18.6	163.8	361.5
Additional purchase price		-	-	-9.4
Acquisition of businesses	24	-1,226.7	-504.7	-
Reduction of purchase price	24	-	-	61.2
Divestment of businesses	24	3.7	-	10.0
<b>Cash flow from investing activities</b>		<b>-1,577.5</b>	<b>-664.6</b>	<b>35.8</b>
<b>Cash flow from financing activities</b>				
Financial net, paid		-114.8	-351.3	-201.4
Dividends to owners of parent company		-569.5	-530.4	-446.7
Dividends to minority owner in subsidiary		-29.0	-26.3	-
(Increase)/decrease of other financial assets		80.4	-31.0	472.4
Capitalised financing costs, acquisition loans		-4.1	-4.4	-7.3
Increase/(decrease) of liabilities to credit institutions	27	-298.4	-29.3	-1,170.2
<b>Cash flow from financing activities</b>		<b>-935.4</b>	<b>-972.7</b>	<b>-1,353.2</b>
<b>Net increase (decrease) in cash and bank</b>		<b>105.9</b>	<b>-20.8</b>	<b>-114.1</b>
Cash and bank at the beginning of the year		478.8	414.8	554.6
Translation difference in cash and bank		-38.7	84.8	-25.7
<b>Cash and bank at the end of the period</b>	23	<b>546.0</b>	<b>478.8</b>	<b>414.8</b>
Free cash flow per share (SEK) *		9.32	8.52	11.10
Average number of shares		111,671,993	111,671,993	111,671,993

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

# Comments to the consolidated cash-flow statements

For further comments on certain individual lines in the cash-flow statements, reference is made to Notes 23, 24 and 27.

## Cash flow

Cash flow from operating and investing activities amounted to SEK 1,041.3 (951.9) (1,239.1) million during 2006. Out of this, acquisitions of businesses were SEK -1,226.7 (-504.7) (51.8) million whereas divestments generated cash of SEK 22.3 (163.8) (371.5) million. Cash flow from operations has primarily been influenced by the higher operating income in comparison with last year.

## 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 192.3 million during 2006, whereas the corresponding figures for 2005 and 2004 were a decrease by SEK 133.1 million and an increase by SEK 469.2 million respectively.

## Investments

Investments in property, plant and equipment amounted to SEK 373.1 (323.7) (387.5) million during 2006. Generally, further investments intended for most product groups have continued in both China and India, to support the overall growth in this region. Out of the figure for 2004, acquired product concessions were SEK 36.6 million.

The investments made for the individual product groups are as follows:

## Heat exchangers

During the last three years substantial investments have been made in the production facility for plate heat exchangers

in Lund in Sweden in order to increase capacity and enable a more efficient production. During the same period further capacity and productivity enhancing investments have been made in Ronneby and Lund in Sweden and in Alonte in Italy for brazed heat exchangers. In 2005 and 2004 investments were made in Ronneby for the newly introduced Alfa Nova heat exchanger.

## Decanters

In 2005 a large investment was made in lathe capacity for large decanters in Söborg in Denmark and a decanter assembly unit was started in China.

## High speed separators

As a consequence of the decision to close the separator factory in Madrid in Spain investments have been made in 2006 and 2005 for a completely new set up for production of separators in Sweden, China, Poland and India.

## Depreciations

Depreciation, excluding allocated step-up values, amounted to SEK 262.7 (264.3) (260.9) million during the year.

## Additional purchase price

In 2004 an additional purchase price of SEK 7.9 million was paid for Danish Separation Systems and SEK 1.5 million for Toftejorg.

## Acquisitions and disposals

For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 24.

## Purchase price reimbursement

In 2004 Alfa Laval received a purchase price reimbursement of SEK 61.2 million related to the acquisition of bioKinetics.

## Free cash flow per share

The free cash flow per share is SEK 9.32 (8.52) (11.10).

# Consolidated income statement

Amounts in SEK millions	Note	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005	Jan 1 - Dec 31 2004
Net sales	1	19,801.5	16,330.4	14,985.8
Cost of goods sold	7	-12,598.0	-10,800.4	-9,937.0
Gross profit	1	7,203.5	5,530.0	5,048.8
Sales costs	2, 3, 5	-2,606.9	-2,365.3	-2,132.4
Administration costs	2, 3, 4, 7	-948.4	-993.7	-929.5
Research and development costs		-526.1	-447.8	-403.9
Other operating income *	6	281.4	323.8	325.2
Other operating costs *	6, 7	-851.6	-669.8	-469.8
<b>Operating income</b>		<b>2,551.9</b>	<b>1,377.2</b>	<b>1,438.4</b>
Dividends	9	2.6	4.9	3.1
Interest income	10	174.2	173.6	166.4
Interest expense *	6, 10	-353.4	-456.7	-346.3
<b>Result after financial items</b>		<b>2,375.3</b>	<b>1,099.0</b>	<b>1,261.6</b>
Taxes on this year's result	14	-613.5	-160.1	-391.9
Other taxes	14	-36.8	-10.9	-29.6
<b>Net income for the year</b>		<b>1,725.0</b>	<b>928.0</b>	<b>840.1</b>
Attributable to:				
Equity holders of the parent		1,686.8	884.8	794.7
Minority interests		38.2	43.2	45.4
Earnings per share (SEK)		15.10	7.92	7.12
Average number of shares		111,671,993	111,671,993	111,671,993

\* The line has been affected by comparison distortion items, see specification in Note 6.

# 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 27. 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 2006	Oct 1 - Dec 31 2005	Oct 1 - Dec 31 2004	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005	Jan 1 - Dec 31 2004
Net sales	6,040.0	4,683.8	4,166.1	19,801.5	16,330.4	14,985.8
Adjusted gross profit	2,349.5	1,641.2	1,392.4	7,542.2	5,845.2	5,342.2
- in % of net sales	38.9	35.0	33.4	38.1	35.8	35.6
Expenses *	-1,254.3	-1,028.0	-856.4	-4,269.0	-3,815.2	-3,386.2
- in % of net sales	20.8	21.9	20.6	21.6	23.4	22.6
Adjusted EBITDA	1,095.2	613.2	536.0	3,273.2	2,030.0	1,956.0
- in % of net sales	18.1	13.1	12.9	16.5	12.4	13.1
Depreciation	-77.0	-78.7	-70.0	-262.7	-264.3	-260.9
<b>Adjusted EBITA</b>	<b>1,018.2</b>	<b>534.5</b>	<b>466.0</b>	<b>3,010.5</b>	<b>1,765.7</b>	<b>1,695.1</b>
<b>- in % of net sales</b>	<b>16.9</b>	<b>11.4</b>	<b>11.2</b>	<b>15.2</b>	<b>10.8</b>	<b>11.3</b>
Amortisation of step up values	-86.7	-95.2	-71.4	-338.7	-315.2	-293.4
Comparison distortion items	-125.1	4.3	2.7	-119.9	-73.3	36.7
EBIT	806.4	443.6	397.3	2,551.9	1,377.2	1,438.4

\* Excluding comparison distortion items.

The year generated a gross profit of SEK 7,203.5 (5,530.0) (5,048.8) million. Excluding the amortisation of SEK 338.7 (315.2) (293.4) million on step-up values, the adjusted gross profit is SEK 7,542.2 (5,845.2) (5,342.2) million. This corresponds to 38.1 (35.8) (35.6) percent of net sales.

Sales and administration expenses amounted to SEK 3,555.3 (3,359.0) (3,061.9) million. Excluding exchange rate variations and the acquisition of Tranter, sales and administration expenses were 3.6 percent higher than last year.

The costs for research and development have amounted to SEK 526.1 (447.8) (403.9) million, corresponding to 2.7 (2.7) (2.7) percent of net sales. Excluding exchange rate variations and the acquisition of Tranter, the costs for research and

development have increased by 14.5 percent compared to last year. This underlines Alfa Laval's efforts to further strengthen its position.

Adjusted EBITDA amounted to SEK 3,273.2 (2,030.0) (1,956.0) million for the year. The adjusted EBITA amounted to SEK 3,010.5 (1,765.7) (1,695.1) million. The adjusted EBITA margin was 15.2 (10.8) (11.3) percent. 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 17.23 (9.83) (8.67) per share.

Compared with last year Alfa Laval has been affected during 2006 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 calcu-

lated to totally about SEK 61 (-133) (-322) million for the full year 2006 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 353.0 (268.7) (292.0) 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 corresponding income statement analysis is shown for the last ten quarters below:

### Income statement analysis

SEK millions	2006				2005				2004	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net sales	6,040.0	4,810.0	4,875.7	4,075.8	4,683.8	4,277.4	4,101.6	3,267.6	4,166.1	3,837.5
Adjusted gross profit	2,349.5	1,790.7	1,816.8	1,585.2	1,641.2	1,508.9	1,487.3	1,207.8	1,392.4	1,348.7
- in % of net sales	38.9	37.2	37.3	38.9	35.0	35.3	36.3	37.0	33.4	35.1
Expenses *	-1,254.3	-969.8	-1,047.8	-997.1	-1,028.0	-967.0	-1,004.3	-815.9	-856.4	-863.5
- in % of net sales	20.8	20.2	21.5	24.5	21.9	22.6	24.5	25.0	20.6	22.5
Adjusted EBITDA	1,095.2	820.9	769.0	588.1	613.2	541.9	483.0	391.9	536.0	485.2
- in % of net sales	18.1	17.1	15.8	14.4	13.1	12.7	11.8	12.0	12.9	12.6
Depreciation	-77.0	-60.2	-62.6	-62.9	-78.7	-62.7	-61.0	-61.9	-70.0	-58.8
<b>Adjusted EBITA</b>	<b>1,018.2</b>	<b>760.7</b>	<b>706.4</b>	<b>525.2</b>	<b>534.5</b>	<b>479.2</b>	<b>422.0</b>	<b>330.0</b>	<b>466.0</b>	<b>426.4</b>
<b>- in % of net sales</b>	<b>16.9</b>	<b>15.8</b>	<b>14.5</b>	<b>12.9</b>	<b>11.4</b>	<b>11.2</b>	<b>10.3</b>	<b>10.1</b>	<b>11.2</b>	<b>11.1</b>
Amortisation of step up values	-86.7	-84.6	-85.2	-82.2	-95.2	-74.6	-73.6	-71.8	-71.4	-72.8
Comparison distortion items	-125.1	1.2	2.9	1.1	4.3	47.4	-	-125.0	2.7	47.5
<b>EBIT</b>	<b>806.4</b>	<b>677.3</b>	<b>624.1</b>	<b>444.1</b>	<b>443.6</b>	<b>452.0</b>	<b>348.4</b>	<b>133.2</b>	<b>397.3</b>	<b>401.1</b>

\* Excluding comparison distortion items.

The operating income has been affected by comparison distortion items of SEK -119.9 (-73.3) (36.7) 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.

In December 2006 the biopharm engineering activity has been sold for SEK 3.7 million with a realised loss of SEK -125.5 million. Out of this SEK 85.5 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 has been sold for SEK 2.1 million with a realised gain of SEK 1.2 million, two minor properties in France have been sold for SEK 2.8 million with a realised gain of SEK 0.9 million, one flat in Denmark has been sold for SEK 4.2 million with a realised gain of SEK 3.1 million and a property in Germany has been sold for SEK 3.5 million with a realised gain of SEK 0.4 million.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58.0 million with a realised gain of SEK 47.8 million. In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million and some minor properties in India were

divested for SEK 1.3 million with a realised gain of SEK 0.6 million. During 2005, costs for the closure of the separator factory in Madrid and the bioKinetics plant in Toronto of SEK -125.0 million were charged to the income statement.

During September 2004 the property in Kenosha, USA, was divested for SEK 45.3 million with a realised loss of SEK -1.7 million. On July 7, 2004, the property in Madrid, Spain, was divested for SEK 265.1 million with a realised gain of SEK 47.5 million. The divestment of the Tri-Lad operations in Canada generated a loss of SEK -15.0. The sale of some minor properties in Brazil and India resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark resulted in a realised loss of SEK -0.5 million.

The financial net has amounted to SEK -180.1 (-318.8) (-187.4) 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 -77.6 (-59.1) (-38.0) million, interest on the private placement and the bridge loan of SEK -33.3 (-) (-) million, interest on the bond loan of SEK - (-116.1) (-127.5) million and a net of dividends and other interest income and interest costs of SEK -69.2 (-55.1) (-21.9) 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 -67.5 million for the premium and SEK -21.0 million for the outstanding capitalised transaction costs, totalling SEK -88.5 million. These costs were reported as comparison distortion items, see Note 6.

The net of realised and unrealised exchange rate differences amounts to SEK 3.5 (40.6) (10.6) million, out of which SEK -3.2 (-19.3) (7.4) million in the fourth quarter.

The result after financial items was SEK 2,375.3 (1,099.0) (1,261.6) million.

Income taxes were SEK -613.5 (-160.1) (-391.9) million. The difference between 2006 and 2005 is primarily due to the increased result before tax. The difference between 2005 and 2004 was primarily due to utilisation of loss carry forwards and the recognition of a deferred tax asset of SEK 89.7 million related to remaining loss carry forwards in the US in 2005.

# Consolidated balance sheet

## ASSETS

Amounts in SEK millions	Note	2006	2005
<b>Non-current assets</b>			
<b>Intangible assets</b>			
	15, 16		
Concessions, patents, licenses, trademarks and similar rights		1,188.4	1,065.1
Renting and similar rights		2.2	2.4
Goodwill		3,706.3	3,530.6
		4,896.9	4,598.1
<b>Property, plant and equipment</b>			
	15, 17		
Real estate		951.9	1,006.2
Machinery and other technical installations		875.8	798.2
Equipment, tools and installations		529.9	624.5
Construction in progress and advances to suppliers concerning property, plant and equipment		156.7	123.9
		2,514.3	2,552.8
<b>Other non-current assets</b>			
Other long-term securities	12, 13, 18	4.3	4.8
Pension assets	25	54.7	49.2
Capitalised financing costs, acquisition loans		13.9	17.9
Deferred tax asset	14	711.4	604.6
		784.3	676.5
<b>Total non-current assets</b>		<b>8,195.5</b>	<b>7,827.4</b>
<b>Current assets</b>			
Inventories	19	3,792.4	3,090.7
Assets held for sale			
Real estate		0.9	-
<b>Current receivables</b>			
Accounts receivable	12, 20	3,972.4	2,991.6
Other receivables	12, 21	1,661.4	1,328.1
Prepaid costs and accrued income	12	73.9	84.4
Derivative assets	12, 13	269.9	55.6
Capitalised financing costs, acquisition loans		7.8	7.4
		5,985.4	4,467.1
<b>Current deposits</b>			
Other current deposits	12, 22	229.4	342.4
<b>Cash and bank</b>			
	12, 23	546.0	478.8
<b>Total current assets</b>		<b>10,554.1</b>	<b>8,379.0</b>
<b>TOTAL ASSETS</b>		<b>18,749.6</b>	<b>16,206.4</b>

**EQUITY CAPITAL AND LIABILITIES**

Amounts in SEK millions	Note	2006	2005
<b>Equity capital</b>			
<b>Attributable to the equity holders of the parent</b>			
Share capital, 111,671,993 shares		1,116.7	1,116.7
Other contributed capital		2,769.8	2,769.8
Other reserves		-228.8	-144.4
Retained earnings		3,054.9	1,937.6
		6,712.6	5,679.7
<b>Attributable to minority interest</b>	11	118.2	131.7
<b>Total equity</b>		<b>6,830.8</b>	<b>5,811.4</b>
<b>Non-current liabilities</b>			
Liabilities to credit institutions	27	1,250.9	2,701.8
Private placement	27	755.4	-
Provisions for pensions and similar commitments	25	940.5	902.8
Provision for deferred tax	14	949.5	766.8
Other provisions	26	317.5	307.1
<b>Total non-current liabilities</b>		<b>4,213.8</b>	<b>4,678.5</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	27	219.8	99.8
Advances from customers		1,751.1	969.7
Accounts payable		1,968.2	1,406.2
Notes payable		175.4	154.5
Tax liabilities		950.4	669.1
Other liabilities	28	668.2	608.3
Other provisions	26	963.3	650.3
Accrued costs and prepaid income	29	869.2	978.9
Derivative liabilities	12, 13	139.4	179.7
<b>Total current liabilities</b>		<b>7,705.0</b>	<b>5,716.5</b>
<b>Total liabilities</b>		<b>11,918.8</b>	<b>10,395.0</b>
<b>TOTAL EQUITY CAPITAL AND LIABILITIES</b>		<b>18,749.6</b>	<b>16,206.4</b>
<b>PLEDGED ASSETS AND CONTINGENT LIABILITIES</b>			
<b>Pledged assets</b>	30	27.2	68.4
<b>Contingent liabilities</b>	30	2,487.5	1,617.5

# Comments on the consolidated balance sheet

For comments on the individual lines in the balance sheet, reference is made to Notes 11 to 33. For comments on the segments, see Note 1.

## Capital employed

The capital employed including goodwill and step-up values amounted to SEK 8,061.9 (7,469.8) million at the end of the year.

The capital employed excluding goodwill and step-up values amounted to SEK 3,136.5 (2,957.5) million at the end of the year.

## Return on capital employed

The return on capital employed including goodwill and step-up values amounted to 35.9 (22.7) percent during 2006.

The return on capital employed excluding goodwill and step-up values amounted to 92.2 (57.2) percent during 2006.

## Capital turnover rate

The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 2.5 (2.2) times for the year.

The capital turnover rate calculated on the average capital employed excluding goodwill and step-up values amounted to 6.3 (5.5) times for the year.

## Return on equity capital

The net income for the year in relation to equity capital was 25.3 (16.0) percent.

## Solidity

The solidity, that is the equity capital in relation to total assets, was 36.4 (35.9) percent at the end of the year.

## Net debt

The net debt was SEK 1,477.6 (2,012.7) million at the end of the year.

## Net debt to EBITDA

Net debt in relation to EBITDA was 0.5 (1.0) times at the end of December.

## Debt ratio

The debt ratio, that is the net debt in relation to equity capital, was 0.22 (0.35) times at the end of December.

# Changes in consolidated equity capital

Attributable to:	Equity holders of the parent					Minority	Total
	Share capital	Other contributed capital	Other reserves	Retained earnings	Subtotal		
Amounts in SEK millions							
<b>As of December 31, 2003</b>	<b>1,116.7</b>	<b>2,769.8</b>	<b>-224.7</b>	<b>1,235.2</b>	<b>4,897.0</b>	-	<b>4,897.0</b>
Adjustment: changed accounting principles	-	-	-	-	-	104.2	104.2
<b>Adjusted opening balance</b>	<b>1,116.7</b>	<b>2,769.8</b>	<b>-224.7</b>	<b>1,235.2</b>	<b>4,897.0</b>	<b>104.2</b>	<b>5,001.2</b>
<b>2004</b>							
Translation difference	-	-	-95.0	-	-95.0	-8.0	-103.0
<b>Net income</b>							
Net income for 2004	-	-	-	794.7	794.7	45.4	840.1
Sum of income and costs	-	-	-95.0	794.7	699.7	37.4	737.1
<b>Transactions with shareholders</b>							
Dividends to owners of parent company	-	-	-	-446.7	-446.7	-	-446.7
Dividends to minority owner in subsidiary	-	-	-	-	-	-22.4	-22.4
<b>As of December 31, 2004</b>	<b>1,116.7</b>	<b>2,769.8</b>	<b>-319.7</b>	<b>1,583.2</b>	<b>5,150.0</b>	<b>119.2</b>	<b>5,269.2</b>
Adjustment: changed accounting principles	-	-	159.3	-	159.3	-	159.3
Deferred tax on adjustment	-	-	-52.6	-	-52.6	-	-52.6
<b>Adjusted opening balance</b>	<b>1,116.7</b>	<b>2,769.8</b>	<b>-213.0</b>	<b>1,583.2</b>	<b>5,256.7</b>	<b>119.2</b>	<b>5,375.9</b>
<b>2005</b>							
<b>Result items booked directly to equity</b>							
Cash flow hedges	-	-	-290.5	-	-290.5	-	-290.5
Translation difference	-	-	268.3	-	268.3	-4.4	263.9
Deferred tax	-	-	90.8	-	90.8	-	90.8
Net of items booked directly against equity	-	-	68.6	-	68.6	-4.4	64.2
<b>Net income</b>							
Net income for 2005	-	-	-	884.8	884.8	43.2	928.0
Sum of income and costs	-	-	68.6	884.8	953.4	38.8	992.2
<b>Transactions with shareholders</b>							
Dividends to owners of parent company	-	-	-	-530.4	-530.4	-	-530.4
Dividends to minority owner in subsidiary	-	-	-	-	-	-26.3	-26.3
<b>As of December 31, 2005</b>	<b>1,116.7</b>	<b>2,769.8</b>	<b>-144.4</b>	<b>1,937.6</b>	<b>5,679.7</b>	<b>131.7</b>	<b>5,811.4</b>
<b>2006</b>							
<b>Result items booked directly to equity</b>							
Cash flow hedges	-	-	227.5	-	227.5	-	227.5
Translation difference	-	-	-246.8	-	-246.8	-22.7	-269.5
Deferred tax	-	-	-65.1	-	-65.1	-	-65.1
Net of items booked directly against equity	-	-	-84.4	-	-84.4	-22.7	-107.1
<b>Net income</b>							
Net income for 2006	-	-	-	1,686.8	1,686.8	38.2	1,725.0
Sum of income and costs	-	-	-84.4	1,686.8	1,602.4	15.5	1,617.9
<b>Transactions with shareholders</b>							
Dividends to owners of parent company	-	-	-	-569.5	-569.5	-	-569.5
Dividends to minority owner in subsidiary	-	-	-	-	-	-29.0	-29.0
<b>As of December 31, 2006</b>	<b>1,116.7</b>	<b>2,769.8</b>	<b>-228.8</b>	<b>3,054.9</b>	<b>6,712.6</b>	<b>118.2</b>	<b>6,830.8</b>

### Specification of changes in number of shares and share capital

Year	Event	Date	Change in number of shares	Total number of shares	Change in equity capital	Total equity capital
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	0.7
	Bonus issue of shares	May 16, 2002	-	-	749.2	749.9
	New issue of shares	May 16, 2002	3,712,310	78,704,960	37.1	787.0
	New issue of shares	May 17, 2002	32,967,033	111,671,993	329.7	1,116.7

### 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	-94.0	-94.0	The EUR was appreciated by 6 %, which affected the EUR based acquisition loans	-312.5
2001	96.7	2.7	The USD was appreciated by 10.7 %	-105.5
2002	-189.6	-186.9	The USD was depreciated by 16.7 %	164.9
2003	-37.8	-224.7	The USD was depreciated by 17.5 %	140.3
2004	-103.0	-327.7	The USD was depreciated by 9.0 %	-13.8
2005	263.9	-63.8	The USD was appreciated by 20.3 % and the EUR was appreciated by 4.8 %	-46.5
2006	-269.5	-333.3	The USD was depreciated by 13.5 % and the EUR was depreciated by 4.0 %	40.0

## Comments on changes in consolidated equity capital

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 111,671,993 (111,671,993) shares.

The possibilities to distribute un-appropriated 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 2006	Jan 1 - Dec 31 2005	Jan 1 - Dec 31 2004
<b>Cash flow from operating activities</b>			
Operating income	-11.9	-10.9	-5.4
Taxes paid	-69.3	-67.6	-
Cash flow from operations before changes in working capital	-81.2	-78.5	-5.4
Changes in working capital			
(Increase)/decrease of current receivables	-1,013.8	116.9	-158.3
Increase/(decrease) of liabilities	-248.4	157.4	-5.8
	-1,262.2	274.3	-164.1
<b>Cash flow from operating activities</b>	<b>-1,343.4</b>	<b>195.8</b>	<b>-169.5</b>
<b>Cash flow from investing activities</b>			
Shares in subsidiaries	-207.8	-	-
<b>Cash flow from investing activities</b>	<b>-207.8</b>	<b>-</b>	<b>-</b>
<b>Cash flow from financing activities</b>			
Financial net, paid	6.7	-5.7	2.8
Received dividends from subsidiaries	2,000.0	-	-
Paid dividends	-569.5	-530.4	-446.7
Received group contribution	114.0	340.3	613.4
<b>Cash flow from financing activities</b>	<b>1,551.2</b>	<b>-195.8</b>	<b>169.5</b>
<b>Net increase (decrease) in cash and bank</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash and bank at the beginning of the year	-	-	-
<b>Cash and bank at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>

## PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	Note	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005	Jan 1 - Dec 31 2004
Administration costs		-10.8	-9.0	-4.6
Other operating costs		-1.1	-1.9	-0.8
Operating income/loss		-11.9	-10.9	-5.4
Dividends		2,000.0	-	-
Interest income and similar result items	10	15.0	2.2	3.1
Interest costs and similar result items	10	-9.9	-7.6	-0.3
Result after financial items		1,993.2	-16.3	-2.6
Appropriation to tax allocation reserve		-254.4	-25.0	-80.4
Income tax		-213.7	-21.0	-67.6
Tax on received Group contribution		286.3	31.9	95.3
Deferred tax		-	-	-4.5
<b>Net result for the year</b>		<b>1,811.4</b>	<b>-30.4</b>	<b>-59.8</b>

# Parent company balance sheet

Amounts in SEK millions	Note	2006	2005
<b>ASSETS</b>			
<b>Long-term assets</b>			
<b>Financial long-term assets</b>			
Shares in group companies	18	4,668.7	4,460.9
<b>Current assets</b>			
<b>Current receivables</b>			
Receivables on group companies		2,080.5	158.4
Other receivables		2.4	2.2
Accrued income and prepaid costs		0.3	0.3
		2,083.2	160.9
<b>Cash and bank</b>			
		-	-
<b>Total current assets</b>		<b>2,083.2</b>	<b>160.9</b>
<b>TOTAL ASSETS</b>		<b>6,751.9</b>	<b>4,621.8</b>
<b>EQUITY CAPITAL AND LIABILITIES</b>			
<b>Equity capital</b>			
<b>Restricted equity capital</b>			
Share capital, 111,671,993 shares		1,116.7	1,116.7
Statutory reserve		1,269.8	1,269.8
		2,386.5	2,386.5
<b>Unrestricted equity capital</b>			
Profit brought forward		1,995.5	1,859.2
Net income for the year		1,811.4	-30.4
		3,806.9	1,828.8
<b>Total equity capital</b>		<b>6,193.4</b>	<b>4,215.3</b>
<b>Untaxed reserves</b>			
Tax allocation reserve, taxation 2005		80.4	80.4
Tax allocation reserve, taxation 2006		25.0	25.0
Tax allocation reserve, taxation 2007		254.4	-
		359.8	105.4
<b>Current liabilities</b>			
Liabilities to group companies		32.7	279.2
Accounts payable		0.6	0.7
Tax liabilities		165.4	21.0
Other liabilities	28	-	0.2
Accrued costs and prepaid income		-	0.0
		198.7	301.1
<b>TOTAL EQUITY CAPITAL AND LIABILITIES</b>		<b>6,751.9</b>	<b>4,621.8</b>
<b>Pledged assets and contingent liabilities</b>			
<b>PLEDGED ASSETS</b>			
CONTINGENT LIABILITIES (for subsidiaries)		None	None
Performance guarantees		12.3	13.4

# Changes in Parent Company's equity capital

Parent company Alfa Laval AB (publ)	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total
<b>As of December 31, 2003</b>	<b>1,116.7</b>	<b>2,769.8</b>	-	<b>1,069.0</b>	<b>4,955.5</b>
<b>2004</b>					
Dividends	-	-	-	-446.7	-446.7
Group contribution	-	-	-	340.3	340.3
Tax on received Group contribution	-	-	-	-95.3	-95.3
Net result 2004	-	-	-	-59.8	-59.8
<b>As of December 31, 2004</b>	<b>1,116.7</b>	<b>2,769.8</b>	-	<b>807.5</b>	<b>4,694.0</b>
<b>2005</b>					
Reduction of share premium reserve	-	-1,500.0	-	1,500.0	-
Transfer to statutory reserve	-	-1,269.8	1,269.8	-	-
Dividends	-	-	-	-530.4	-530.4
Group contribution	-	-	-	114.0	114.0
Tax on received Group contribution	-	-	-	-31.9	-31.9
Net result 2005	-	-	-	-30.4	-30.4
<b>As of December 31, 2005</b>	<b>1,116.7</b>	-	<b>1,269.8</b>	<b>1,828.8</b>	<b>4,215.3</b>
<b>2006</b>					
Dividends	-	-	-	-569.5	-569.5
Group contribution	-	-	-	1,022.5	1,022.5
Tax on received Group contribution	-	-	-	-286.3	-286.3
Net result 2006	-	-	-	1,811.4	1,811.4
<b>As of December 31, 2006</b>	<b>1,116.7</b>	-	<b>1,269.8</b>	<b>3,806.9</b>	<b>6,193.4</b>

The share capital of SEK 1,116,719,930 (1,116,719,930) is divided among 111,671,993 (111,671,993) shares.

The 2005 Annual General Meeting decided to reduce the then existing share premium reserve within the restricted equity capital of Alfa Laval AB (publ) by SEK 1,500.0 million and that the amount would be transferred to an unrestricted fund. The reduction has been approved by the court.

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.

# 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, with one decimal, 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 30:05 "Supplementary accounting principles for consolidated groups" is applied. These differ in certain respects from US GAAP, see Note 34.

The accounting and valuation principles of the parent company comply with the Swedish Annual Report's Act and the recommendation RR 32:05 "Accounting for legal entities" issued by the Financial Accounting Standards Council in Sweden.

Previously Alfa Laval followed the recommendations issued by the Financial Accounting Standards Council in Sweden and has strived for early implementation of the recommendations, that is prior to when they must be applied. To the extent that recommendations from the Council had not yet been issued corresponding to already issued International Accounting Standards, the IAS statement has been applied instead.

### Implementation of International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB). IFRS 1 covers the transitional provisions for the implementation of IFRS. All listed companies within the European Union were obliged to change to IFRS as of January 1, 2005.

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 has never claimed to be following IAS until now. Technically this meant that Alfa Laval was a first time applicant under IFRS 1 in 2005. 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 test-

ed 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.

If IFRS had been implemented already in 2004 it would have had the following effects on the consolidated income statement and equity.

#### Impact on income if IFRS had been implemented in 2004

Consolidated SEK in millions	Adjusted EBITA	Operating income	Net income
Income statement Jan 1 - Dec 31, 2004	1,695.1	1,246.9	603.2
Adjustments for:			
Amortisation of goodwill	-	191.5	191.5
Minority share in subsidiaries' income	-	-	45.4
Adjusted income Jan 1 - Dec 31, 2004	1,695.1	1,438.4	840.1
Adjusted earnings per share (SEK) *			7,12

\* After deduction for the minority share in net income

#### Impact on equity if IFRS had been implemented in 2004

Consolidated SEK in millions	Equity
Equity at December 31, 2003	4,897.0
Adjustments for:	
Minority interests	104.2
Equity at January 1, 2004 according to IFRS	5,001.2
Equity at December 31, 2004	4,967.0
Adjustments for:	
Amortisation of goodwill	191.5
Minority interests	119.2
Translation difference	-8.5
Equity at December 31, 2004 according to IFRS	5,269.2
Adjustments for:	
Financial instruments	159.3
Deferred tax	-52.6
Equity at January 1, 2005 according to IFRS	5,375.9

### **Changed/implemented accounting principles**

During 2006 the latest changes in the Swedish Annual Accounts Act 1995:1554 were implemented. These mean that the Board of Directors' Report is 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. RR 30:05 and RR 32:05 were also implemented but did not mean any change.

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 3,706.3 (3,530.6) 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 1,280.8 (957.4) million is reported as other provisions. This constitutes 6.8 (5.9) 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.

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.

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, 2006 of 143.1 (128.5) 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 does not exist any 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.

Financial assets are classified into four different portfolios: Financial assets at fair value through profit or loss, Held to maturity investments, Loans and receivables and Available for sale. Financial liabilities are classified into two portfolios: Financial liabilities at fair value through profit or

loss and Loans. 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.

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, interest-forward contracts and metal forward contracts 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.

Alfa Laval has implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

The effect of the fair market valuation 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.

The Group uses a limited number of financial instruments to hedge currency rates or interests. These include currency forward contracts, currency options, interest-rate swaps and interest-forward contracts. To demonstrate the exposure, the outstanding contracts are presented in the financial risk section. If possible, loans are raised in the currencies that match the net investment in each currency.

Prior to the application of IAS 39, financial instruments were valued at acquisition value. If a derivative instrument had been used to fix the exchange rate to be used for settling a commercial or financial receivable or liability, the balance sheet item was valued at the forward rate. The accrued interest rate for loans was valued including the effect of interest rate swaps. Derivative instruments covering projected flows were not reported until maturity and this is the area where the effect of IAS 39 became most apparent.

### 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 no 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 three different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Hynetics Inc with Hyclone Inc as partner and Alfdex AB with Haldex 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 recog-

nised 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	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 Report's Acts (ÅRL) 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 if the loans act as a hedge to the acquired net assets. 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 2006 Colombia, 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 accounting pronouncements, which are effective for fiscal years beginning on or after January 1, 2007.

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. Alfa Laval will evaluate the effects of the application of IAS 1 paragraphs 124 A-C during 2007.

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. Alfa Laval will evaluate the effects of the application of IFRS 7 during 2007.

# 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. These include currency forward contracts, currency options, interest-rate swaps, interest-forward contracts and metal forward contracts.

## 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

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

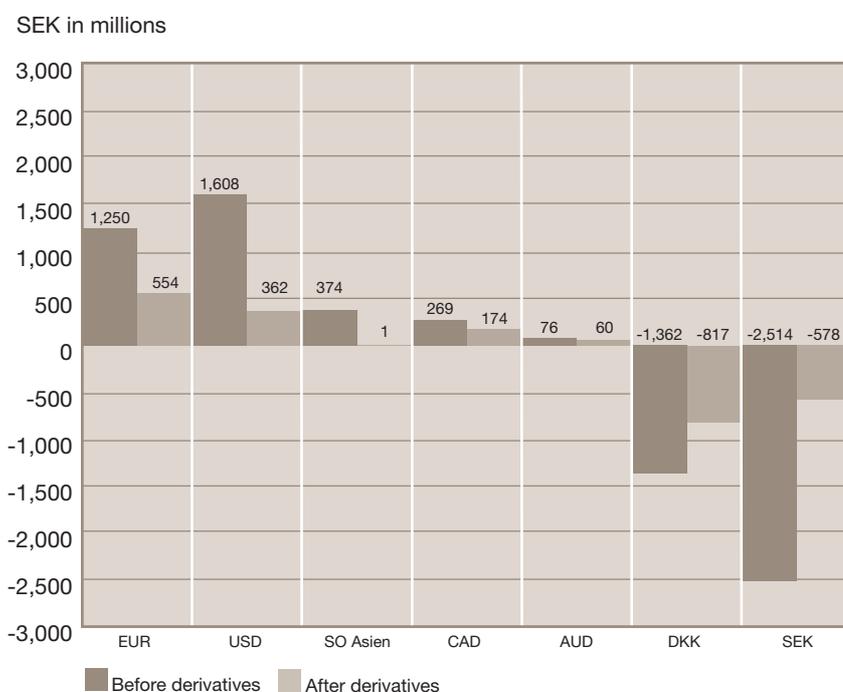
total hedging initiated by the local companies in the currencies that Alfa Laval has commercial exposure up to but not exceeding 100 percent of one year's commercial exposure for each currency.

The Group's net exposure in different currencies before and after derivatives during 2006 has amounted to:

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

Net exposure per currency during 2006



Currency contracts for projected flows are entered into continuously during the year with 12 months maximum duration. For

changed by +/- 10 % it has the following effect on operating income, if no hedging measures are taken:

## Exchange rate change against SEK

In SEK millions	2006		2005		2004	
	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
Effect on operating income without hedging measure						
USD	161	-161	132	-132	113	-113
EUR	125	-125	105	-105	159	-159
DKK	-136	136	-124	124	-120	120
Other USD related currencies	37	-37	47	-47	15	-15
Other	64	-64	61	-61	45	-45
<b>Total</b>	<b>251</b>	<b>-251</b>	<b>221</b>	<b>-221</b>	<b>212</b>	<b>-212</b>

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

In millions	2006		2005		2004	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
<b>Outflows</b>						
EUR	-117.8	-1,064.9	-281.2	-2,647.6	-159.3	-1,431.9
USD	-593.0	-4,072.3	-281.7	-2,235.1	-285.6	-1,884.4
DKK	-684.5	-829.9	-609.0	-768.8	-817.1	-988.1
CAD	-7.0	-41.2	-28.5	-194.6	-17.0	-92.6
NOK	-39.6	-43.4	-42.8	-50.3	-136.2	-148.5
GBP	-	-	-	-	-16.4	-207.7
Other		-70.4		-105.0		-109.8
<b>Total</b>		<b>-6,122.1</b>		<b>-6,001.4</b>		<b>-4,863.0</b>

In millions	2006		2005		2004	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
<b>Inflows</b>						
SEK	5,444.0	5,444.0	5,485.4	5,485.4	4,984.6	4,984.6
JPY	14,310.9	827.5	4,108.9	277.8	1,499.0	95.4
SGD	17.9	80.1	10.8	51.7	-	-
GBP	1.8	24.5	-	-	-	-
Other		2.5		7.4		-
<b>Total</b>		<b>6,378.6</b>		<b>5,822.3</b>		<b>5,080.0</b>

### 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.

### 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 loan with the banking syndicate accrues interest at floating rate. The Group has chosen to hedge 44 (68) (26) percent of the loan, with a duration of 23 months. This means that the Group has a comparably low interest risk.

Calculated on an overall increase of market rates by 100 interest points (1 percentage unit), the interest costs of the

Group would increase by about SEK 7 (12) (9) million.

### Market risk

Market risk is defined as the risk for changes in the value of a financial instrument due to changed market prices. For the bond loan there was a market risk. For all other financial instruments, the price risk only consists of currency risk and interest risk.

### Liquidity risk

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

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 226.0 million. The loan matures in December 2013 and has a fixed interest of 3.582 percent until November 2009.

On April 12, 2005 Alfa Laval signed a new senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 4,806.5 million. The credit facility replaced the previous syndicated loan and was in addition used for the redemption of the Group's senior notes. The new facility provides increased flexibility, extended maturity and reduced costs. At December 31, 2006, SEK 1,065.6 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.

### **Refinancing risk**

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.

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### **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.

# 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 60.7 (38.4) (75.4) million.

## **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 492.5 (199.4) (160.5) 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 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 waste disposal, to obtain prolonged or new concessions etc. The Group has an ambition to be well within the boundaries that local legislation sets, which should reduce the risks. The operations of the Group are not considered to have a significant environmental impact.

## **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 fully provided for.

#### ***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 has enabled Alfa Laval to release SEK 40 million in provisions for expected costs related to the lawsuits, which has improved the result in the third quarter correspondingly.

#### ***Asbestos-related lawsuits***

The Alfa Laval Group was as of December 31, 2006, named as a co-defendant in a total of 210 asbestos-related lawsuits with a total of approximately 348 plaintiffs.

Alfa Laval strongly believes the claims against the Group are without merit and intends to vigorously contest each lawsuit.

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

#### **Risk for technically related damages**

This risk refers to the costs Alfa Laval may incur in connection with a product delivered by the Group breaking down and causing damages to life and property. The main risk in this context concerns high-

speed separators, due to the large forces that are involved when the bowl in the separator spins with a very high number of revolutions. In a breakdown the damages can be extensive. Alfa Laval addresses these risks through extensive testing and an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically.

#### **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	2006	2005	2004
Equipment	12,617.6	9,902.4	8,862.3
Process Technology	11,390.9	8,572.8	6,818.0
Operations and other	9.6	41.1	59.7
<b>Total</b>	<b>24,018.1</b>	<b>18,516.3</b>	<b>15,740.0</b>

### Order backlog

Consolidated, SEK in millions	2006	2005	2004
Equipment	5,721.5	3,382.5	2,097.3
Process Technology	6,630.2	4,072.9	2,640.6
Operations and other	7.8	41.5	25.5
<b>Total</b>	<b>12,359.5</b>	<b>7,496.9</b>	<b>4,763.4</b>

### Net sales

Consolidated, SEK in millions	2006	2005	2004
Equipment	10,933.8	8,631.5	8,250.4
Process Technology	8,828.4	7,672.8	6,683.3
Operations and other	39.3	26.1	52.1
<b>Total</b>	<b>19,801.5</b>	<b>16,330.4</b>	<b>14,985.8</b>

### Operating income

Consolidated, SEK in millions	2006	2005	2004
Equipment	2,072.0	1,162.5	1,100.4
Process Technology	1,060.2	698.8	634.3
Operations and other	-460.4	-410.8	-333.0
Subtotal	2,671.8	1,450.5	1,401.7
Comparison distortion items	-119.9	-73.3	36.7
<b>Total</b>	<b>2,551.9</b>	<b>1,377.2</b>	<b>1,438.4</b>

## Assets

Consolidated, SEK in millions	2006	2005
Equipment	5,670.9	5,450.7
Process Technology	5,886.9	4,222.9
Operations and other	4,762.3	4,476.2
Subtotal	16,320.1	14,149.8
Corporate	2,429.5	2,056.6
<b>Total</b>	<b>18,749.6</b>	<b>16,206.4</b>

## Liabilities

Consolidated, SEK in millions	2006	2005
Equipment	1,088.5	1,766.5
Process Technology	3,320.8	1,182.7
Operations and other	3,018.2	2,071.0
Subtotal	7,427.5	5,020.2
Corporate	4,491.3	5,374.8
<b>Total</b>	<b>11,918.8</b>	<b>10,395.0</b>

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

## Investments

Consolidated, SEK in millions	2006	2005	2004
Equipment	33.7	23.7	31.8
Process Technology	74.6	48.4	85.1
Operations and other	264.8	251.6	270.6
<b>Total</b>	<b>373.1</b>	<b>323.7</b>	<b>387.5</b>

## Depreciation

Consolidated, SEK in millions	2006	2005	2004
Equipment	156.6	130.6	128.3
Process Technology	156.4	151.2	130.3
Operations and other	288.4	297.7	295.7
<b>Total</b>	<b>601.4</b>	<b>579.5</b>	<b>554.3</b>

## 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	2006		2005		2004	
	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	854.6	4.3	842.4	5.2	887.6	5.9
Other EU	6,808.7	34.3	5,664.3	34.5	5,706.5	38.0
Other Europe	1,940.8	9.8	1,428.1	8.7	1,196.5	8.0
USA	3,052.6	15.4	2,327.9	14.3	2,197.4	14.7
Other North America	609.8	3.1	436.8	2.7	296.2	2.0
Latin America	844.3	4.3	798.5	4.9	583.9	3.9
Africa	213.2	1.1	223.6	1.4	177.3	1.2
Asia	5,181.0	26.2	4,336.6	26.6	3,619.9	24.2
Oceania	296.5	1.5	272.2	1.7	320.5	2.1
<b>Total</b>	<b>19,801.5</b>	<b>100.0</b>	<b>16,330.4</b>	<b>100.0</b>	<b>14,985.8</b>	<b>100.0</b>

### Assets

Consolidated	2006		2005		2004	
	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	4,043.2	21.5	2,642.2	16.3	2,542.8	18.1
Denmark	1,607.8	8.6	1,528.3	9.4	1,571.8	11.2
Other EU	4,962.1	26.5	4,662.6	28.8	3,828.4	27.1
Other Europe	354.4	1.9	362.5	2.2	293.1	2.1
USA	2,211.3	11.8	1,888.1	11.7	1,617.8	11.5
Other North America	223.4	1.2	291.5	1.8	211.9	1.5
Latin America	411.1	2.2	290.8	1.8	246.3	1.7
Africa	16.9	0.1	24.1	0.1	23.7	0.2
Asia	2,346.3	12.5	2,285.0	14.1	1,903.3	13.5
Oceania	143.6	0.8	174.7	1.1	153.9	1.1
Subtotal	16,320.1	87.1	14,149.8	87.3	12,393.0	88.0
Corporate	2,429.5	12.9	2,056.6	12.7	1,691.0	12.0
<b>Total</b>	<b>18,749.6</b>	<b>100.0</b>	<b>16,206.4</b>	<b>100.0</b>	<b>14,084.0</b>	<b>100.0</b>

### Investments

Consolidated	2006		2005		2004	
	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	136.2	36.5	146.9	45.4	166.2	42.8
Denmark	49.6	13.3	14.1	4.4	34.9	9.0
France	48.2	12.9	17.5	5.4	26.7	6.9
Other EU	52.4	14.0	37.4	11.6	70.2	18.1
Other Europe	4.7	1.3	18.3	5.7	4.2	1.1
USA	28.6	7.7	15.3	4.7	19.6	5.1
Other North America	0.8	0.2	0.7	0.2	1.6	0.4
Latin America	5.1	1.4	4.0	1.2	3.7	1.0
Africa	0.5	0.1	0.4	0.1	0.2	0.1
India	22.7	6.1	35.9	11.1	23.6	6.1
Other Asia	23.5	6.3	32.5	10.0	35.8	9.2
Oceania	0.8	0.2	0.7	0.2	0.8	0.2
<b>Total</b>	<b>373.1</b>	<b>100.0</b>	<b>323.7</b>	<b>100.0</b>	<b>387.5</b>	<b>100.0</b>

## Note 2. Average number of employees - total

Consolidated	Number of female employees			Total number of employees		
	2006	2005	2004	2006	2005	2004
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (7)	440	396	353	2,091	1,938	1,899
Total in Sweden (7)	440	396	353	2,091	1,938	1,899
Total abroad (81)	1,616	1,544	1,499	7,832	7,586	7,501
<b>Total for the group (88)</b>	<b>2,056</b>	<b>1,940</b>	<b>1,852</b>	<b>9,923</b>	<b>9,524</b>	<b>9,400</b>

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2006.

### Average number of employees - in Sweden by municipality

Employees in Sweden	2006	2005	2004
Botkyrka	433	445	462
Eskilstuna	196	193	185
Göteborg	-	2	2
Lund	1,001	994	967
Ronneby	287	254	242
Stockholm	11	-	4
Vänersborg	104	-	-
Other municipalities < 10 employees *	59	50	37
<b>Total</b>	<b>2,091</b>	<b>1,938</b>	<b>1,899</b>

\* "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	2006	2005	2004
Sick leave for:			
all employees	3.9	3.7	4.5
all employees during 60 consecutive days or more	1.8	2.0	2.8
female employees	4.3	3.7	5.8
male employees	3.7	3.7	4.2
employees at the age of 29 or younger	2.1	2.9	3.4
employees between 30 and 49 years of age	3.5	3.2	3.6
employees at the age of 50 or more	5.3	4.9	6.3

### Average number of employees - by country

Consolidated	Number of female employees			Total number of employees		
	2006	2005	2004	2006	2005	2004
Argentina	14	12	11	42	43	42
Australia	14	15	17	61	61	63
Belgium	11	25	27	74	102	127
Brazil	28	24	20	116	107	104
Bulgaria	3	4	4	12	12	12
Canada	20	21	41	73	73	228
Chile	7	6	5	27	25	23
Colombia	2	3	5	10	11	12
Denmark	279	285	281	1,076	1,113	1,126
Estonia	1	1	2	2	2	3
Philippines	3	3	3	17	20	20
Finland	22	28	28	64	99	111
France	153	144	118	749	717	583
United Arab Emirates	9	10	7	63	58	55
Greece	-	-	-	1	1	1
Hong Kong	7	7	7	25	19	17
India	38	32	32	1,154	1,063	1,045
Indonesia	12	15	13	66	72	68
Iran	3	3	3	12	11	12
Ireland	-	-	-	1	-	-
Italy	102	85	79	570	529	506
Japan	36	35	39	194	186	164
China	138	121	100	623	573	479
Korea	25	24	18	86	84	77
Latvia	3	4	4	8	9	9
Lithuania	2	2	4	4	4	4
Malaysia	22	24	26	60	66	70
Mexico	5	4	5	33	30	35
Netherlands	32	19	15	120	111	106
Norway	11	14	15	46	50	53
New Zealand	3	3	5	22	24	24
Peru	7	7	7	26	25	24
Poland	28	24	23	147	124	118
Portugal	4	4	4	13	13	13
Romania	4	4	4	14	12	13
Russia	115	110	97	265	256	236
Switzerland	3	3	3	16	16	16
Singapore	19	20	21	48	46	46
Slovakia	2	2	1	9	9	8
Spain	26	38	36	125	200	202
UK	50	56	55	312	312	320
Sweden	440	396	353	2,091	1,938	1,899
South Africa	10	9	8	37	34	36
Taiwan	12	12	12	30	31	31
Thailand	18	18	12	49	44	38
Czech Republic	13	13	13	68	66	60
Turkey	8	8	8	33	33	32
Germany	68	64	66	231	231	242
Hungary	7	7	5	19	22	23
USA	208	162	180	934	799	826
Venezuela	4	4	4	16	16	17
Austria	5	6	6	29	22	21
<b>Total for the group</b>	<b>2,056</b>	<b>1,940</b>	<b>1,852</b>	<b>9,923</b>	<b>9,524</b>	<b>9,400</b>

## Note 2. Distribution of men/women among managers

Consolidated	2006			2005			2004		
	Number	Male	Female	Number	Male%	Female%	Number	Male%	Female%
Board members (excluding deputies)	12	75.0	25.0	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	242	83.1	16.9	242	82.6	17.4	241	85.0	15.0
Managers outside Sweden	781	86.0	14.0	775	86.7	13.3	731	87.3	12.7
Managers total	1,023	85.3	14.7	1,017	85.7	14.3	972	86.7	13.3
Employees in Sweden	2,091	79.0	21.0	1,938	79.6	20.4	1,899	81.4	18.6
Employees outside Sweden	7,832	79.4	20.6	7,586	79.6	20.4	7,501	80.0	20.0
<b>Employees total</b>	<b>9,923</b>	<b>79.3</b>	<b>20.7</b>	<b>9,524</b>	<b>79.6</b>	<b>20.4</b>	<b>9,400</b>	<b>80.3</b>	<b>19.7</b>

## Note 3. Salaries and remunerations - total

Consolidated, SEK in millions	2006	2005	2004
Board of Directors, Presidents and Vice Presidents	133.9	131.5	123.3
of which, bonus	26.2	31.3	18.1
Other	3,361.8	3,095.0	2,995.9
Total salaries and remunerations	3,495.7	3,226.5	3,119.2
Social security costs	630.9	577.8	559.0
Pension costs, defined benefit plans	145.7	147.1	145.1
Pension costs, defined contribution plans	241.9	229.8	237.6
<b>Total costs of personnel</b>	<b>4,514.2</b>	<b>4,181.2</b>	<b>4,060.9</b>

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 39.5 (31.8) (32.5) million and SEK 277.1 (282.5) (300.9) million respectively. SEK 174.2 (178.6) (186.2) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

### Equity compensation benefits

During the period 2004 to 2006 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 6,670,445 (4,979,514) (1,624,501), of which bonus was 1,456,000 (403,851) (-). The former Chief Executive Officer and Managing Director Sigge Haraldsson received a remuneration of SEK - (-) (7,189,029), of which bonus was SEK - (-) (2,500,000). The bonus refers to bonus paid during the year.

Lars Renström currently has a base salary of SEK 5,000,000 (4,400,000) per annum. He has a bonus opportunity with an un-guaranteed target bonus of 30 (25) percent of the base salary and with a maximum opportunity of 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 3.7 (3.6) (1.2) million.

The former Chief Executive Officer and Managing Director Sigge Haraldsson had an agreement on early retirement that gave him the option to enter into early retirement at his request from the age of 60. Sigge Haraldsson retired in accordance with the agreement on September 30, 2004. The agreement provided a pension level of 70 percent of the salary at the time of retirement. At early retirement, the company maintains the payments of pension premiums as if the employment had lasted until the age of 65. In connection with the early retirement in 2004 Alfa Laval paid premiums related to the period up to age 65 of SEK 12.9 million. Out of this SEK 12.6 million had been provided for in prior years, which means that the cost in 2004 was SEK 0.3 million. For the part of the salary that is above the ITP plan's 30 base amounts, the old age pension after 65 is paid with 52.5 percent of the salary up to 80 base amounts and above that with 32.5 per-

cent and family pension with 16.25 percent of the salary. He had a special family pension that represents a life long supplement between the old age pension and the family pension according to ITP. During the year, Alfa Laval has recorded costs for ordinary pension premiums of SEK - (-) (4.1) million, of which SEK - (-) (1.4) million relates to premiums for early retirement that are paid during a short period of time. He did not have a separate agreement on severance pay.

### Board of Directors

The Chairman of the Board receives a remuneration of SEK 725,000 (675,000) (600,000) per year. He does not have any agreement on future retirement or severance pay with Alfa Laval.

For 2006, the Board of Directors receive a total fee of SEK 2,825,000 (2,625,000) (2,475,000), which is distributed among the members elected at the Annual General Meeting that are not employed by the company.

### Other executive officers

Other executive officers are the ten members of Group Management in addition to the Chief Executive Officer. Their remunerations were SEK 21.9 (21.1) (19.1) million, of which bonuses were SEK 3.2 (2.4) (2.2) 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. The commitments were previously defined benefits and gave a pension level of normally 75 percent of the salary at the time of retirement up to 30 base amounts and above that 50 percent of the salary. From 2006 a defined contribution early retirement solution is instead 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. Old age pension after 65 and family pension according to ITP do also include the part of the salary above the ITP plan's 30 base amounts. Also this previously defined benefit solution has during 2006 been replaced by a defined contribution solution with a premium of 30 percent of the pensionable salary above 30 base amounts. 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.

### 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 (30) 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. Any changes of these principles until the Annual General Meeting 2008 are not proposed by the Board of Directors.

### Note 3. Salaries and remunerations - by country

Consolidated SEK in millions	Board of Directors, Presidents and Vice Presidents			Other employees		
	2006	2005	2004	2006	2005	2004
Argentina	0.7	0.9	0.6	5.3	3.1	3.1
Australia	3.5	3.0	2.9	24.1	21.9	20.6
Belgium	4.8	3.7	3.5	38.8	52.5	55.1
Brazil	3.0	1.9	1.3	24.1	17.5	13.1
Bulgaria	0.0	0.3	0.3	1.3	1.3	1.2
Canada	1.6	1.2	2.0	35.9	38.8	71.9
Chile	0.0	0.0	0.0	6.0	5.0	3.6
Colombia	0.8	0.7	0.6	2.4	2.2	1.6
Denmark	10.0	10.2	9.1	612.3	577.9	566.2
Estonia	0.1	0.1	0.1	0.1	0.1	0.3
Philippines	0.4	0.4	0.3	1.4	1.7	1.3
Finland	1.3	1.8	2.4	28.8	41.6	41.3
France	0.0	1.9	1.9	240.8	182.4	181.1
United Arab Emirates	5.4	0.8	1.5	12.0	14.1	10.6
Greece	0.0	0.0	0.0	0.7	0.6	0.6
Hong Kong	1.5	1.5	2.1	19.3	18.9	14.8
India	4.3	2.5	1.7	66.6	47.7	38.4
Indonesia	1.0	1.0	1.0	6.2	5.1	4.1
Iran	0.3	0.3	0.0	1.2	1.1	1.3
Ireland	0.0	-	-	0.8	-	-
Italy	0.6	2.6	2.5	180.9	159.4	149.2
Japan	10.1	11.6	10.5	80.8	87.3	80.4
China	0.8	1.2	0.2	51.2	41.6	37.2
Korea	0.5	1.4	1.3	26.7	23.5	20.3
Latvia	0.4	0.2	0.5	1.3	1.4	1.3
Lithuania	0.3	0.3	0.0	0.4	0.5	0.8
Malaysia	0.8	0.7	1.0	9.3	10.1	9.4
Mexico	1.5	1.7	1.5	8.1	6.7	7.6
Netherlands	0.5	5.4	3.1	58.0	47.9	48.7
Norway	1.4	1.4	1.3	30.3	30.9	30.6
New Zealand	1.0	0.9	0.9	5.3	6.7	6.7
Peru	0.0	0.0	0.0	3.9	3.8	3.0
Poland	1.6	2.0	1.7	19.8	15.6	12.6
Portugal	0.0	0.0	0.0	3.7	3.6	4.2
Romania	2.0	0.8	0.4	0.8	1.3	1.5
Russia	0.0	0.0	0.0	46.6	36.8	29.1
Switzerland	1.9	1.9	1.5	11.7	11.6	10.9
Singapore	1.5	1.3	1.3	13.6	11.2	10.1
Slovakia	0.0	0.0	0.0	1.7	1.7	1.1
Spain	2.3	1.7	1.8	55.0	81.1	68.8
UK	0.9	0.0	2.3	138.7	128.8	124.0
Sweden	26.7	24.4	20.7	845.4	757.6	732.5
South Africa	0.0	1.6	1.6	7.0	10.5	6.8
Taiwan	0.8	0.8	0.8	7.2	7.5	6.5
Thailand	0.6	0.6	1.1	5.5	4.5	3.8
Czech Republic	1.9	1.9	2.2	11.0	9.3	7.5
Turkey	2.1	1.7	1.4	8.4	8.5	6.9
Germany	8.6	5.2	5.9	99.3	108.2	105.9
Hungary	0.6	0.6	0.9	3.9	4.4	3.9
USA	23.3	26.0	24.2	482.5	427.7	423.4
Venezuela	0.0	0.3	0.4	2.3	1.9	1.8
Austria	2.5	1.1	1.0	13.4	9.9	9.2
<b>Total for the group</b>	<b>133.9</b>	<b>131.5</b>	<b>123.3</b>	<b>3,361.8</b>	<b>3,095.0</b>	<b>2,995.9</b>

### Note 4. Information on auditors and auditors' fee

During 2004 quotations were taken in from four of the large international audit firms. After a selection process, Ernst & Young were re-assigned to be the Group's auditors as of year 2004 and four years ahead.

#### Fees and expense compensation

Consolidated, SEK in millions	2006	2005	2004
<i>Audit</i>			
Ernst & Young	16.6	14.7	13.5
Other audit firms	1.2	1.2	1.0
<b>Total</b>	<b>17.8</b>	<b>15.9</b>	<b>14.5</b>
<i>Other projects</i>			
Ernst & Young	4.8	4.4	5.4
Other audit firms	6.7	4.0	5.8
<b>Total</b>	<b>11.5</b>	<b>8.4</b>	<b>11.2</b>

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 59.3 (45.5) (49.0) 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 accounts for SEK 7.3 million.

#### Note 6. Comparison distortion items

Consolidated, SEK in millions	2006	2005	2004
<b>Operational</b>			
Other operating income	275.8	272.1	271.3
Comparison distortion income	5.6	51.7	53.9
<b>Total other operating income</b>	<b>281.4</b>	<b>323.8</b>	<b>325.2</b>
Other operating costs	-726.1	-544.8	-452.6
Comparison distortion costs	-125.5	-125.0	-17.2
<b>Total other operating costs</b>	<b>-851.6</b>	<b>-669.8</b>	<b>-469.8</b>
<b>Financial</b>			
Interest expense	-353.4	-368.2	-346.3
Comparison distortion costs	-	-88.5	-
<b>Total interest expense</b>	<b>-353.4</b>	<b>-456.7</b>	<b>-346.3</b>

#### Specification of operational gains and losses

Consolidated, SEK in millions	2006	2005	2004
Gain on:			
Sale of real estate	5.6	51.7	53.9
Subtotal gains	5.6	51.7	53.9
Loss on:			
Closure of factories and plants	-	-125.0	-
Sale of biopharm engineering activity	-125.5	-	-
Sale of real estate	-	-	-2.2
Sale of Tri-Lad	-	-	-15.0
Subtotal losses	-125.5	-125.0	-17.2
<b>Net total</b>	<b>-119.9</b>	<b>-73.3</b>	<b>36.7</b>

In December 2006 the biopharm engineering activity has been sold for SEK 3.7 million with a realised loss of SEK -125.5 million. Out of this SEK 85.5 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 has been sold for SEK 2.1 million with a realised gain of SEK 1.2 million, two minor properties in France have been sold for SEK 2.8 million with a realised gain of SEK 0.9 million, one flat in Denmark has been sold for SEK 4.2 million with a realised gain of SEK 3.1 million and a property in Germany has been sold for SEK 3.5 million with a realised gain of SEK 0.4 million.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58.0 million with a realised gain of SEK 47.8 million. In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million and some minor properties in India were divested for SEK 1.3 million with a realised gain of SEK 0.6 million. During 2005, costs for the closure of the separator factory in Madrid and the bioKinetics plant in Toronto of SEK -125.0 million have been charged to the income statement.

During September 2004 the property in Kenosha, USA, was divested for SEK 45.3 million with a realised loss of SEK -1.7 million. On July 7, 2004, the property in Madrid, Spain, was divested for SEK 265.1 million with a realised gain of SEK 47.5 million. The divestment of the Tri-Lad operations in Canada generated a loss of SEK -15.0 million. The sale of some minor properties in Brazil and India resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark resulted in a realised loss of SEK -0.5 million.

### Specification of financial costs

Consolidated, SEK in millions	2006	2005	2004
Costs for redemption of senior notes:			
Premium	-	-67.5	-
Capitalised transaction costs	-	-21.0	-
<b>Total</b>	<b>-</b>	<b>-88.5</b>	<b>-</b>

Alfa Laval redeemed the outstanding senior notes on November 15, 2005. This incurred an additional interest cost during 2005 of SEK 67.5 million for the premium and SEK 21.0 million for the outstanding capitalised transaction costs.

### Note 7. Depreciation by function

Consolidated, SEK in millions	2006	2005	2004
Cost of goods sold	-463.9	-456.8	-423.5
Sales	-62.7	-45.5	-51.8
Administration	-60.8	-60.5	-67.8
Research and development	-5.8	-10.3	-6.1
Other income and costs	-8.2	-6.4	-5.1
<b>Total</b>	<b>-601.4</b>	<b>-579.5</b>	<b>-554.3</b>

### Note 8. Depreciation by type of assets

Consolidated, SEK in millions	2006	2005	2004
Patents, trademarks, etc.	-243.5	-220.9	-194.9
Machinery and equipment	-293.0	-288.6	-287.4
Financial leasing machinery and equipment	-3.1	-2.4	-3.3
Buildings and ground installations	-61.3	-67.4	-68.7
Financial leasing buildings	-0.5	-0.2	-
<b>Total</b>	<b>-601.4</b>	<b>-579.5</b>	<b>-554.3</b>

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

Consolidated, SEK in millions	2006	2005	2004
Dividends from other	2.9	2.9	3.1
Fair value adjustment of securities	-0.3	2.0	-
<b>Total</b>	<b>2.6</b>	<b>4.9</b>	<b>3.1</b>

### Note 10. Interest income/costs and exchange rate differences

Consolidated, SEK in millions	2006	2005	2004
<i>Interest income</i>			
Financial leasing	0.7	0.6	0.3
Other interest	38.8	49.0	91.1
<i>Exchange gains</i>			
Unrealised	85.2	107.5	45.1
Realised	49.5	16.5	29.9
<b>Total</b>	<b>174.2</b>	<b>173.6</b>	<b>166.4</b>
<i>Interest costs</i>			
Financial leasing	-0.3	-0.1	-0.8
Other interest	-221.9	-284.7	-281.1
Comparison distortion items	-	-88.5	-
<i>Exchange losses</i>			
Unrealised	-113.3	-55.4	-11.4
Realised	-17.9	-28.0	-53.0
<b>Total</b>	<b>-353.4</b>	<b>-456.7</b>	<b>-346.3</b>

In the Group, reported net exchange differences of SEK 55.5 (-64.6) (-19.2) 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 40.0 (-46.5) (-13.8) million.

Parent company, SEK in millions	2006	2005	2004
<i>Interest income</i>			
External companies	0.0	-	-
Subsidiaries	14.1	1.0	3.1
<i>Exchange gains</i>			
Unrealised	0.9	1.2	-
<b>Total</b>	<b>15.0</b>	<b>2.2</b>	<b>3.1</b>
<i>Interest costs</i>			
External companies	0.0	0.0	-
Subsidiaries	-7.1	-6.7	-0.3
<i>Exchange losses</i>			
Unrealised	-2.5	-0.9	0.0
Realised	-0.3	0.0	-
<b>Total</b>	<b>-9.9</b>	<b>-7.6</b>	<b>-0.3</b>

### Note 11. Minority interest

The minority share in subsidiaries' result and equity relates to five subsidiaries in China, France, India, Russia and Taiwan where minority owners exist.

## Note 12. Classification of financial assets and liabilities

Financial assets Consolidated, SEK in millions	Financial assets at fair value through profit or loss		Loans and receivables	
	2006	2005	2006	2005
<b>Non-current assets</b>				
<b>Other non-current assets</b>				
Other long-term securities	4.3	4.8	-	-
<b>Current assets</b>				
<b>Current receivables</b>				
Accounts receivable	-	-	3,972.4	2,991.6
Notes receivable	-	-	254.2	339.8
Other receivables	-	-	809.3	492.3
Prepaid costs and accrued income	-	-	73.9	84.4
Derivative assets	269.9	55.6	-	-
<b>Current deposits</b>				
Loan receivables	-	-	169.8	254.3
Bonds and other securities	53.4	80.6	-	-
Other deposits	-	-	6.2	7.5
<b>Cash and bank</b>	-	-	546.0	478.8
<b>Total financial assets</b>	<b>327.6</b>	<b>141.0</b>	<b>5,831.8</b>	<b>4,648.7</b>

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

Financial liabilities Consolidated, SEK in millions	Financial liabilities at fair value through profit or loss		Loans	
	2006	2005	2006	2005
<b>Non-current liabilities</b>				
Liabilities to credit institutions	-	-	1,250.9	2,701.8
<b>Current liabilities</b>				
Liabilities to credit institutions	-	-	219.8	99.8
Advances from customers	-	-	1,751.1	969.7
Accounts payable	-	-	1,968.2	1,406.2
Notes payable	-	-	175.4	154.5
Other liabilities	-	-	643.4	578.9
Accrued costs and prepaid income	-	-	869.2	978.9
Derivative liabilities	139.4	179.7	-	-
<b>Total financial liabilities</b>	<b>139.4</b>	<b>179.7</b>	<b>6,878.0</b>	<b>6,889.8</b>

## Note 13. Fair value adjustments of financial instruments

### Fair value adjustment of securities

Consolidated, SEK in millions	Book value		Market value		Adjustment	
	2006	2005	2006	2005	2006	2005
Other long-term securities						
Shares in external companies	3.0	3.0	4.3	4.8	1.3	1.8
Bonds and other securities						
Marketable securities	53.0	80.4	53.4	80.6	0.4	0.2
<b>Total</b>	<b>56.0</b>	<b>83.4</b>	<b>57.7</b>	<b>85.4</b>	<b>1.7</b>	<b>2.0</b>

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	
		2006	2005
Derivative assets/liabilities			
Foreign exchange forward contracts:	EUR USD	28.4	-55.8
	EUR SEK	49.6	-23.2
	EUR AUD	-0.3	-0.5
	EUR CAD	3.4	-3.9
	EUR JPY	-10.0	5.1
	USD CAD	1.1	-1.0
	USD DKK	4.3	-3.9
	USD GBP	1.5	0.7
	USD SEK	66.5	-28.1
	USD JPY	-9.2	-1.4
	JPY USD	-21.5	-13.1
	DKK SEK	21.1	5.0
	Other Other	-15.7	-6.7
Subtotal		119.2	-126.8
Currency options		1.8	-
Forward Rate Agreements		-	1.4
Interest Rate Swaps		9.5	-0.4
Metal forward contacts		-	1.7
<b>Total, corresponding to a net derivative asset (+) or liability (-)</b>		<b>130.5</b>	<b>-124.1</b>

The fair value adjustments of derivatives are made over equity if the derivatives are effective and otherwise over the income statement. The corresponding entry is 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	2006	2005	2004
<b>The major components of the Group's tax costs</b>			
Current tax cost	-910.6	-371.0	-389.6
Adjustment for current taxes on prior periods	2.5	76.4	-8.2
Deferred tax costs/income on changes in temporary differences	279.5	46.5	-1.3
Deferred tax costs/income on changes in tax rates or new taxes	6.7	-5.0	-
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	39.8	8.0	10.2
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	-	89.8	-
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-31.4	-4.8	-3.0
Other taxes	-36.8	-10.9	-29.6
<b>Total tax cost</b>	<b>-650.3</b>	<b>-171.0</b>	<b>-421.5</b>

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	2006	2005	2004
Result before minority interests and tax	2,375.3	1,099.0	1,261.6
Tax according to applicable tax rates	-749.6	-299.4	-253.3
Tax effect of:			
Non-deductible costs	-140.0	-229.5	-224.7
Non-taxable income	48.1	168.7	86.1
Differences between reported official depreciation and depreciation according to tax rules	21.6	1.2	1.1
Differences between reported other official appropriations and other appropriations according to tax rules	-2.0	-19.8	-12.3
Tax losses and tax credits	205.9	142.3	19.4
Other	-36.8	-10.9	-29.6
Adjustment for current tax on prior periods	2.5	76.4	-8.2
<b>Total tax costs</b>	<b>-650.3</b>	<b>-171.0</b>	<b>-421.5</b>

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:

Koncernen, MSEK	2006		2005	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	40.9	338.1	27.2	329.3
Tangible assets	8.5	305.3	14.2	306.2
Inventory	97.9	16.6	70.3	22.5
Other current assets	1.1	4.4	41.4	7.8
Financial assets	0.1	38.8	-	0.1
Short term liabilities	596.2	104.9	381.9	29.2
Tax losses and tax credits *	7.9	-	98.7	-
Other	4.0	186.6	14.2	115.0
Subtotal	756.6	994.7	647.9	810.1
Possible to net	-45.2	-45.2	-43.3	-43.3
<b>Total deferred taxes</b>	<b>711.4</b>	<b>949.5</b>	<b>604.6</b>	<b>766.8</b>

\* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 17.8 (244.8) 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 748.5 (1,427.8) 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 2004 to 2006.

Consolidated	Tax rates in percentage		
	2006	2005	2004
Bulgaria	15	15	20
Colombia	38	38	35
Denmark	28	28	30
Philippines	35	32	32
Finland	26	26	29
Greece	29	35	35
Hong Kong	17	18	18
India	34	34	37
Iran	35	25	25
Japan	40	43	41
Canada	36	36	37
Korea	25	25	29
Mexico	29	39	43
Netherlands	30	32	35
Pakistan	37	39	41
Portugal	25	25	35
Romania	16	25	25
South Africa	29	29	30
Turkey	20	30	30
Czech Republic	24	26	28
USA	40	40	35

The Group's normal effective tax rate is approximately 32 (32) (33) 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 below table. 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, 2006 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.

	2000	2002	2003	2003	2005	2006	Accumulated during the period			2006
Consolidated SEK in millions	Alfa Laval Holding	Danish Separation Systems	Toftejorg	bioKinetics	Packinox	Tranter	Realised	Planned amortisation	Translation difference	Closing balance
Buildings	1,058.5	-	0.9	-	-	16.7	-494.4	-165.7	-18.2	397.8
Land and land improvements	-228.4	-	-	-	-	-	94.4	-	60.2	-73.8
Machinery	548.3	-	-	-	-	-	13.0	-361.5	0.7	200.5
Equipment	452.1	-	-	-	-	-	-24.1	-191.0	-13.5	223.5
Construction in progress	15.9	-	-	-	-	-	-16.3	-	0.4	-
Inventory	340.2	-	-	-	6.8	6.4	-353.0	-	-0.4	-
Patent and trademarks	461.3	-	-	27.4	295.7	445.3	-22.7	-208.0	-78.8	920.2
Technology	1,279.8	-	-	-	-	-	-	-1,082.1	-9.5	188.2
Research and development	53.6	-	-	-	-	-	-53.6	-	-	-
Capital gain (Industrial Flow)	41.8	-	-	-	-	-	-41.8	-	-	-
<b>Total step-up values</b>	<b>4,023.1</b>	<b>-</b>	<b>0.9</b>	<b>27.4</b>	<b>302.5</b>	<b>468.4</b>	<b>-898.5</b>	<b>-2,008.3</b>	<b>-59.1</b>	<b>1,856.4</b>
Goodwill	3,683.3	117.9	34.5	84.3	264.7	551.4	-85.5	-611.6	-332.7	3,706.3
<b>Total</b>	<b>7,706.4</b>	<b>117.9</b>	<b>35.4</b>	<b>111.7</b>	<b>567.2</b>	<b>1,019.8</b>	<b>-984.0</b>	<b>-2,619.9</b>	<b>-391.8</b>	<b>5,562.7</b>

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 has been sold for SEK 3.7 million with a realised loss of SEK -125.5 million. Out of this SEK 85.5 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".

Consolidated, SEK in millions	Opening balance 2006	Acquired	Realised	Planned amortisation	Translation difference	Closing balance 2006
Buildings	425.4	16.7	-	-21.6	-22.7	397.8
Land and land improvements	-91.5	-	-	-	17.7	-73.8
Machinery	267.2	-	-	-55.8	-10.9	200.5
Equipment	266.9	-	-	-29.0	-14.4	223.5
Inventory	-	6.4	-6.1	-	-0.3	-
Patent and trademarks	634.3	445.3	-22.7	-66.5	-70.2	920.2
Technology	368.4	-	-	-165.8	-14.4	188.2
Subtotal step-up values	1,870.7	468.4	-28.8	-338.7	-115.2	1,856.4
Goodwill	3,530.6	551.4	-85.5	-	-290.2	3,706.3
<b>Total</b>	<b>5,401.3</b>	<b>1,019.8</b>	<b>-114.3</b>	<b>-338.7</b>	<b>-405.4</b>	<b>5,562.7</b>

The Group has not recorded any impairment losses related to neither goodwill nor any other step up values in 2006 or prior years.

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. After adjustment for changes in operating capital the purchase price is USD 150.4 million in cash. The costs directly linked to the acquisition of Tranter (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to USD 3.2 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,216.5 million. Out of the difference between the purchase price paid and the net assets acquired SEK 16.7 million was allocated to properties, SEK 179.8 million was allocated to patents and un-patented know-how, SEK 265.5 million to the Tranter trademark and SEK 6.4 million to accrued gross margin in work in progress, while the residual SEK 551.4 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. 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 is 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 981.0 million and SEK 148.1 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141.2 million and SEK 171.1 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity from Tetra Pak for SEK 10.2 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 542.3 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 9.0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -504.7 million. Out of the difference between the purchase price paid and the net assets acquired SEK 103.6 million was allocated to patents and un-patented know-how, SEK 192.1 million to the Packinox trademark and SEK 6.8 million to accrued gross margin in work in progress, while the residual SEK 264.7 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 495.5 million, an adjusted EBITA of SEK 114.1 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 521.6 (587.9) million.

### Impairment testing

An impairment test has been performed at the end of 2006 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 2007 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 2008 and 2009 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 2010 to 2026 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 10.59 (9.09) (10.25) percent.

The two cash-generating units have been allocated the following amounts of goodwill:

Consolidated, SEK in millions	Goodwill		
	2006	2005	2004
Equipment	2,000.5	1,686.1	1,539.7
Process Technology	1,705.8	1,844.5	1,437.9
<b>Total</b>	<b>3,706.3</b>	<b>3,530.6</b>	<b>2,977.6</b>

Alfa Laval does not have any intangible assets with indefinite useful lives other than goodwill.

### Note 16. Intangible non-current assets

Consolidated, SEK in millions	2006	2005
<b>Concessions, patents, licenses, trademarks and similar rights</b>		
Opening balance, accumulated acquisition values	2,492.1	2,067.0
Purchases	1.0	6.0
Acquisition of businesses	-	22.7
Sales/disposals	-27.9	-0.8
Reclassifications	7.2	-
Step-up values, patents and trademarks	445.3	295.7
Translation difference for the year	-133.0	101.5
<b>Closing balance, accumulated acquisition values</b>	<b>2,784.7</b>	<b>2,492.1</b>
Opening balance, accumulated depreciation	-1,427.0	-1,143.9
Acquisition of businesses	-	-10.4
Sales/disposals	5.0	0.2
Reclassifications	1.9	-
Depreciation of step-up value, patent & trademarks	-66.5	-41.7
Depreciation of step-up value, technology	-165.8	-166.7
Depreciation for the year	-10.9	-12.2
Translation difference for the year	71.6	-52.3
<b>Closing balance, accumulated depreciation</b>	<b>-1,591.7</b>	<b>-1,427.0</b>
Opening balance, accumulated revaluations, net	-	-
Revaluation for the year	-4.6	-
<b>Closing balance, accumulated revaluations, net</b>	<b>-4.6</b>	<b>-</b>
<b>Closing balance, net book value</b>	<b>1,188.4</b>	<b>1,065.1</b>
<b>Goodwill</b>		
Opening balance, accumulated acquisition values	4,117.0	3,513.0
Goodwill in connection with acquisition of businesses	551.4	264.7
Realisation of goodwill due to sale	-88.1	-
Translation difference for the year	-333.9	339.3
<b>Closing balance, accumulated acquisition values</b>	<b>4,246.4</b>	<b>4,117.0</b>
Opening balance, accumulated depreciation	-586.4	-535.4
Realisation of goodwill due to sale	2.6	-
Translation difference for the year	43.7	-51.0
<b>Closing balance, accumulated depreciation</b>	<b>-540.1</b>	<b>-586.4</b>
<b>Closing balance, net book value</b>	<b>3,706.3</b>	<b>3,530.6</b>
<b>Renting rights and similar rights</b>		
Opening balance, accumulated acquisition values	3.3	1.4
Purchases	0.2	1.9
Translation difference for the year	-0.1	0.0
<b>Closing balance, accumulated acquisition values</b>	<b>3.4</b>	<b>3.3</b>
Opening balance, accumulated depreciation	-0.9	-0.6
Depreciation for the year	-0.3	-0.3
Translation difference for the year	0.0	0.0
<b>Closing balance, accumulated depreciation</b>	<b>-1.2</b>	<b>-0.9</b>
<b>Closing balance, net book value</b>	<b>2.2</b>	<b>2.4</b>

## Note 17. Property, plant and equipment

Consolidated, SEK in millions	2006	2005
<b>Real estate</b>		
Opening balance, accumulated acquisition values	1,648.0	1,627.5
Purchases	12.1	96.9
Acquisition of businesses	31.8	13.8
Sold businesses	-1.4	-
Sales/disposal	-9.4	-146.7
Write-down	-0.7	-
Reclassifications	59.0	8.2
Reclassification to assets for sale	-0.9	-
Step-up values, real estate	16.7	-
Realisation of step-up values due to sale	-	-6.9
Translation difference for the year	-81.6	55.2
<b>Closing balance, accumulated acquisition values</b>	<b>1,673.6</b>	<b>1,648.0</b>
Opening balance, accumulated depreciation	-723.1	-741.5
Sales/disposals	3.1	44.9
Acquisition of businesses	-12.2	-1.2
Sold businesses	0.7	-
Reclassifications	2.8	0.2
Realisation of step-up values due to sale	-	1.4
Depreciation of step-up value	-21.6	-21.6
Depreciation for the year	-39.7	-45.1
Translation difference for the year	38.1	39.8
<b>Closing balance, accumulated depreciation</b>	<b>-751.9</b>	<b>-723.1</b>
Opening balance, accumulated revaluations, net	58.6	59.4
Reclassifications	-53.4	-0.2
Revaluation for the year	3.7	0.1
Depreciation for the year on revaluations	0.0	-0.7
<b>Closing balance, accumulated revaluations, net</b>	<b>8.9</b>	<b>58.6</b>
<b>Closing balance, net book value</b>	<b>930.6</b>	<b>983.5</b>

The tax assessment value of the Swedish real estate at December 31, 2006 amounted to SEK 143.7 (142.9) million, out of which SEK 49.9 (49.1) million referred to land and land improvements and SEK 93.8 (93.8) million buildings. The book values of the Swedish real estate amounted to SEK 135.6 (140.6) million, out of which land and land improvements were SEK 25.8 (26.2) million and buildings SEK 109.8 (114.4) million.

Consolidated, SEK in millions	2006	2005
<b>Machinery and other technical installations</b>		
Opening balance, accumulated acquisition values	2,680.0	2,424.5
Purchases	212.7	129.4
Acquisition of businesses	122.7	46.0
Sales/disposal	-117.0	-138.0
Write-down	-1.2	-
Reclassifications	35.0	24.5
Translation difference for the year	-132.6	193.6
<b>Closing balance, accumulated acquisition values</b>	<b>2,799.6</b>	<b>2,680.0</b>
Opening balance, accumulated depreciation	-1,883.4	-1,672.8
Sales/disposals	112.8	126.0
Acquisition of businesses	-92.0	-37.7
Reclassifications	9.4	4.8
Depreciation of step-up value	-55.8	-56.1
Depreciation for the year	-116.2	-112.5
Translation difference for the year	100.7	-135.1
<b>Closing balance, accumulated depreciation</b>	<b>-1,924.5</b>	<b>-1,883.4</b>
<b>Closing balance, net book value</b>	<b>875.1</b>	<b>796.6</b>
<b>Equipment, tools and installations</b>		
Opening balance, accumulated acquisition values	2,023.1	1,897.2
Purchases	80.7	88.2
Acquisition of businesses	95.3	17.8
Sold businesses	-1.2	-
Sales/disposal	-173.3	-124.7
Reclassifications	13.4	10.1
Translation difference for the year	-108.6	134.5
<b>Closing balance, accumulated acquisition values</b>	<b>1,929.4</b>	<b>2,023.1</b>

Consolidated, SEK in millions	2006	2005
Opening balance, accumulated depreciation	-1,418.8	-1,303.9
Sales/disposals	151.7	113.1
Acquisition of businesses	-83.9	-16.7
Sold businesses	0.3	-
Reclassifications	-12.1	-5.3
Depreciation of step-up value	-29.0	-29.1
Depreciation for the year	-92.0	-90.9
Translation difference for the year	76.6	-86.0
<b>Closing balance, accumulated depreciation</b>	<b>-1,407.2</b>	<b>-1,418.8</b>
Opening balance, accumulated revaluations, net	14.6	14.3
Reclassifications	-11.8	0.2
Revaluation for the year	0.0	0.1
<b>Closing balance, accumulated revaluations, net</b>	<b>2.8</b>	<b>14.6</b>
<b>Closing balance, net book value</b>	<b>525.0</b>	<b>618.9</b>
<b>Construction in progress and advances to suppliers concerning property, plant and equipment</b>		
Opening balance, accumulated acquisition values	123.9	171.9
Purchases	66.4	1.1
Acquisition of businesses	2.5	1.0
Sold businesses	-0.5	-
Reclassifications	-30.0	-58.9
Translation difference for the year	-5.6	8.8
<b>Closing balance, accumulated acquisition values</b>	<b>156.7</b>	<b>123.9</b>
<b>Closing balance, net book value</b>	<b>156.7</b>	<b>123.9</b>
<b>Leased real estate</b>		
Opening balance, accumulated acquisition values	23.0	-
Acquisition of businesses	-	23.0
Translation difference for the year	-0.9	0.0
<b>Closing balance, accumulated acquisition values</b>	<b>22.1</b>	<b>23.0</b>
Opening balance, accumulated depreciation	-0.3	-
Depreciation for the year	-0.5	-0.2
Translation difference for the year	0.0	-0.1
<b>Closing balance, accumulated depreciation</b>	<b>-0.8</b>	<b>-0.3</b>
<b>Closing balance, net book value</b>	<b>21.3</b>	<b>22.7</b>
<b>Leased machinery</b>		
Opening balance, accumulated acquisition values	8.6	8.2
Translation difference for the year	-0.3	0.4
<b>Closing balance, accumulated acquisition values</b>	<b>8.3</b>	<b>8.6</b>
Opening balance, accumulated depreciation	-7.0	-6.0
Depreciation for the year	-0.9	-0.7
Translation difference for the year	0.3	-0.3
<b>Closing balance, accumulated depreciation</b>	<b>-7.6</b>	<b>-7.0</b>
<b>Closing balance, net book value</b>	<b>0.7</b>	<b>1.6</b>
<b>Leased equipment, tools and installations</b>		
Opening balance, accumulated acquisition values	14.9	12.6
Purchases	0.4	2.1
Acquisition of businesses	1.1	-
Sales/disposal	-5.3	-4.8
Reclassifications	-	4.2
Translation difference for the year	-0.5	0.8
<b>Closing balance, accumulated acquisition values</b>	<b>10.6</b>	<b>14.9</b>
Opening balance, accumulated depreciation	-9.3	-11.1
Sales/disposals	5.3	4.5
Reclassifications	0.2	-0.3
Depreciation for the year	-2.2	-1.7
Translation difference for the year	0.3	-0.7
<b>Closing balance, accumulated depreciation</b>	<b>-5.7</b>	<b>-9.3</b>
<b>Closing balance, net book value</b>	<b>4.9</b>	<b>5.6</b>

Leased real estate, machinery and equipment relate to fixed assets which are leased and where the leasing agreement has been considered to be a financial lease. These financial leases are capitalised in the balance sheet.

### Non-current assets held for sale

Within Alfa Laval these assets are relating to real estate. Alfa Laval has decided to sell properties in Belgium, Brazil, Finland and France. With the exception of the property in Finland Alfa Laval is using all of these properties for its operations. The Finnish property is situated in Tuusula in an industrial area for small companies

close to the Helsinki airport and covers slightly more than 20,000 m<sup>2</sup> land and the buildings comprise offices (746 m<sup>2</sup>), workshop (4,328 m<sup>2</sup>) and warehouse (600 m<sup>2</sup>). The buildings are basically empty. An active sales work is performed concerning the property and it is expected to be sold within the next year. This means that only this property has been re-classified as a current assets held for sale.

### Note 18. Other non-current assets

SEK in millions	Consolidated		Parent company	
	2006	2005	2006	2005
Shares in subsidiaries	-	-	4,668.7	4,460.9
Shares in other companies	4.3	4.8	-	-
<b>Total</b>	<b>4.3</b>	<b>4.8</b>	<b>4,668.7</b>	<b>4,460.9</b>

### 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	4,460.9
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 (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	-
Alfa Laval Taiwan Ltd		Taipei	1,499,994	100	-
Alfa Laval (China) Ltd		Hong Kong	79,999	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 Denmark Holding A/S		Kolding		100	-
Alfa Laval Kolding A/S		Kolding	100,000	100	-
Alfa Laval Nordic A/S		Rødovre	1	100	-
Alfa Laval Copenhagen A/S		Søborg	1	100	-
Alfa Laval Nakskov A/S		Nakskov	242,713	100	-
Alfa Laval Tank Equipment A/S		Ishøj	61	100	-
Alfa Laval Nordic OY		Espoo	20,000	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	-
Alfa Laval Holding A/S		Oslo	520,000	100	-
PHE Holding AB	556306-2404	Lund	2,500	100	-
Tranter Indústria de Máquinas e Equipamentos Ltda		Sao Paulo		100	-
Tranter Heat Exchangers (Beijing) Co Ltd		Beijing		49	-
Tranter Heat Exchangers Inc		Taipei		24	-
Tranter Heat Exchangers (Beijing) Co Ltd		Beijing		51	-
Tranter International AB		Vänernsberg		100	-
Alfa Laval Nordic AB	556243-2061	Tumba	1,000	100	-
Cetetherm AB	556058-3162	Ronneby	20,000	100	-
Alfa Laval Corporate AB	556007-7785	Lund	13,920,000	100	-
Alfa Laval (India) Ltd		Poona	11,640,118	64	-
Tranter India Pvt Ltd		Poona		100	-
PT Alfa Laval Indonesia		Jakarta	1,000	100	-
Alfa Laval Korea Ltd		Seoul	364,000	100	-
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam	10,000	100	-
Alfa Laval S.E.E. D.O.O.		Ljubljana		100	-
Alfa Laval Nordic A/S		Oslo	10,000	100	-
Mosgormash Alfa Laval Moloko		Moscow		55	-
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	-

**Specification of shares in subsidiaries (continued)**

Company name	Registration number	Domicile	Number of shares	Share of capital %	Book value SEK in millions
Alfa Laval International Engineering AB	556039-8934	Lund	4,500	100	-
Alfa Laval Tumba AB	556021-3893	Tumba	1,000	100	-
Bitec Enterprise AG		Volketswil	97,900	100	-
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 SNC		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	-
Wytownia 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		Kenosha		100	-
Alfa Laval US Holding Inc		Kenosha	180	100	-
Alfa Laval Inc		Kenosha	44,000	100	-
Hynetics Inc		Logan	100	50	-
Alfa Laval US Treasury Inc		Kenosha	1,000	100	-
Tranter Inc.		Witchita Falls		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 SpA		Monza		1	-
Alfa Laval KK		Tokyo	1,200,000	100	207.8
Alfa Techno Service KK		Kanagawa	200	100	-
<b>Total</b>					<b>4,668.7</b>

## Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital %	Book value SEK in millions
Alfa Laval KK				
Chugairo	Japan	5,250		139.4
Orugano	Japan	769		54.6
Asahi Denka	Japan	11,830		895.9
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		11.5
Alfa Laval Nordic OY				
Master Golf Course OY	Finland	1		126.6
Suomen Talotekniikka KK	Finland			27.1
Helsinki Halli	Finland			126.6
Alfa Laval France SAS				
SEMACLA	France	10		9.0
Alfa Laval HES SA				
Thermothec	France	9,130		1,256.6
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		135.6
Alfa Laval NV				
Dalian Haven Automation Co Ltd	Hong Kong	102	42.5	804.6
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		710.3
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) N.V.	Curacao	36,129		0.0
Multiprogress	Hungary	100	3.18	0.0
Kurose Chemical Equipment Ltd	Japan	180,000	11.25	0.0
Poljopriveda	former Yugoslavia			0.0
Tecnica Argo-Industrial S.A.	Mexico	490	49.00	0.0
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0.30	0.0
Adela Investment Co S.A.	Luxembourg	1,911	0.30	0.0
Mas Dairies Ltd	Pakistan	125,000	5.00	0.0
<b>Total</b>				<b>4,297.8</b>

## Note 19. Inventories

Consolidated, SEK in millions	2006	2005
Raw materials and consumables	1,569.8	939.0
Work in progress	967.0	978.9
Finished goods & goods for resale, new sales	783.2	836.9
Finished goods & goods for resale, spare parts	433.7	293.1
Advance payments to suppliers	38.7	42.8
<b>Total</b>	<b>3,792.4</b>	<b>3,090.7</b>

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
2005	435.0	40.7	-	79.7	-99.5	-43.4	412.5
2006	412.5	-27.1	6.8	89.5	-54.6	-27.2	399.9

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 2006 amounts to SEK 287.5 (171.1) million.

## Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 143.1 (162.4) 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

Consolidated, 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
2005	231.4	22.2	-	75.9	-87.5	-37.5	0.7	205.2
2006	205.2	-12.9	5.8	86.6	-36.1	-25.9	0.6	223.3

## Note 21. Other short-term receivables

Consolidated, SEK in millions	2006	2005
Notes receivable	254.2	339.8
Tax receivable	592.1	487.6
Financial leasing receivables	5.9	8.4
Other receivables	809.3	492.3
<b>Total</b>	<b>1,661.4</b>	<b>1,328.1</b>
Of which, receivables not due within one year		
Notes receivable	5.2	10.6
Other receivables	106.9	24.2
<b>Total</b>	<b>112.0</b>	<b>34.8</b>

## Note 23. 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 32.0 (45.3) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 64.1 percent..

## Note 24. Impact on cash-flow due to acquisition and sale of businesses

### Acquisitions

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. After adjustment for changes in operating capital the purchase price is USD 150.4 million in cash. The costs directly linked to the acquisition of Tranter (fees to lawyers, due diligence and assisting counsel) come in addition to this and have amounted to USD 3.2 million. After deducting acquired cash and bank the impact on the cash flow was SEK -1,216.5 million. Out of the difference between the purchase price paid and the net assets acquired SEK 16.7 million was allocated to properties, SEK 179.8 million was allocated to patents and un-patented know-how, SEK 265.5 million to the Tranter trademark and SEK 6.4 million to accrued gross margin in work in progress, while the residual SEK 551.4 million was allocated to goodwill. The goodwill is relating to estimated synergies in procurement, logistics and corporate overheads. The value of the goodwill is still preliminary. 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 is 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 981.0 million and SEK 148.1 million respectively. If Tranter had been acquired at January 1, 2006 the corresponding figures would have been SEK 1,141.2 million and SEK 171.1 million respectively.

During the first quarter 2006 Alfa Laval acquired the fruit preparation activity

2006	Book value	Adjustment to fair value	Adjusted fair value
Consolidated, SEK in millions			
Property, plant and equipment	69.3	16.7	86.0
Intangible assets	-	455.5	455.5
Inventory	197.4	6.4	203.8
Accounts receivable	215.0	-	215.0
Other receivables	8.0	-	8.0
Liquid assets	7.2	-	7.2
Provisions for pensions and similar commitments	-43.8	-	-43.8
Other provisions	-19.1	-	-19.1
Accounts payable	-115.4	-	-115.4
Advance payments and other liabilities	-31.0	-	-31.0
Tax liabilities	-17.5	-	-17.5
Deferred tax	-2.4	-63.6	-66.0
Acquired net assets	267.5	415.0	682.5
Goodwill			551.4
Purchase price			-1,208.4
Costs directly linked to the acquisition			-25.5
Liquid assets in the acquired business			7.2
<b>Effect on the Group's liquid assets</b>			<b>-1,226.7</b>

## Note 22. Other current deposits

Consolidated, SEK in millions	2006	2005
Deposits with banks	169.8	254.3
Bonds and other securities	53.4	80.6
Other deposits	6.2	7.5
	229.4	342.4
Of which, deposits not due within one year		
Deposits with banks	38.3	39.3
Other deposits	4.7	4.9

from Tetra Pak for SEK 10.2 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 542.3 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 9.0 million. After deducting acquired cash and bank the impact on the cash flow was SEK -504.7 million. Out of the difference between the purchase price paid and the net assets acquired SEK 103.6 million was allocated to patents and un-patented know-how, SEK 192.1 million to the Packinox trademark and SEK 6.8 million to accrued gross margin in work in progress, while the residual SEK 264.7 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 495.5 million, an adjusted EBITA of SEK 114.1 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 for 2006 and 2005, 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.

### Additional purchase price

In 2004 an additional purchase price of SEK 7.9 million was paid for Danish Separation Systems and SEK 1.5 million for Toftebjerg, which were acquired during 2002 and 2003 respectively.

### Purchase price reimbursement

In 2004 Alfa Laval received a purchase price reimbursement of SEK 61.2 million related to the acquisition of bioKinetics in 2003.

2005 Consolidated , SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Property, plant and equipment	33.0	-	33.0
Intangible assets	6.8	295.7	302.5
Inventory	116.5	6.8	123.3
Accounts receivable	62.1	-	62.1
Other receivables	90.8	-	90.8
Liquid assets	46.6	-	46.6
Long-term liabilities	-17.9	-	-17.9
Accounts payable	-86.6	-	-86.6
Advance payments and other liabilities	-164.4	-	-164.4
Deferred tax	-	-102.8	-102.8
Acquired net assets	86.9	199.7	286.6
Goodwill			264.7
Purchase price			-542.3
Costs directly linked to the acquisition			-9.0
Liquid assets in the acquired business			46.6
<b>Effect on the Group's liquid assets</b>			<b>-504.7</b>

2004 Consolidated , SEK in millions	Book value	Adjustment to fair value	Adjusted fair value
Intangible assets	-	5.1	5.1
Advance payments and other liabilities	-43.9	-	-43.9
Deferred tax	14.6	-	14.6
Acquired net assets	-29.3	5.1	-24.2
Goodwill			-27.6
Purchase price			51.8
<b>Effect on the Group's liquid assets</b>			<b>51.8</b>

The 2004 table shows the combined effect of the additional purchase price for Danish Separation Systems and Toftebjerg and the purchase price reimbursement related to the acquisition of bioKinetics.

#### Divestments

In a press release on December 13, 2006, Alfa Laval announced that the company has taken the strategic decision to divest its engineering activity for the biopharm industry. The company is divesting this activity through a purchase agreement with the Management of this activity. The primary reason for divesting the engineering activity for the biopharm industry, which comprises the offering of engineering and validation services, is the limited connection to Alfa Laval's core business of process solutions and heat transfer, separation and fluid handling products. The divestment is not anticipated to have any negative impact on Alfa Laval's Life Science activity. The turnover of the divested activity is slightly more than SEK 100 million and it employs approximately 110 people. The transaction was finalized at December 29, 2006. The divestment has caused a non-recurring charge to the profit and loss statement in the fourth quarter 2006 of SEK -125.5 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.

On December 5, 2003 an asset purchase agreement was signed between the subsidiary Tri-Lad Inc in Canada and local management of the company whereby all non-financial assets were sold to local management. The closing date was January 30, 2004. Tri-Lad Inc is selling equipment to the oil & gas industry and was a non-core activity within Alfa Laval. It had been up for sale since several years. The Tri-Lad property was sold effective on May 12, 2004. The divestment of the Tri-Lad operations has generated a loss of SEK -15.0 million.

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	2006	2005	2004
Property, plant and equipment	2.2	-	12.1
Intangible assets	24.3	-	-
Goodwill	85.5	-	-
Inventory	1.5	-	21.4
Accounts receivable	20.6	-	5.0
Other receivables	9.8	-	0.3
Accounts payable	-3.7	-	-3.9
Other liabilities	-11.1	-	-9.9
Realised result	-125.5	-	-15.0
Purchase price	3.7	-	10.0
Liquid assets in the sold business	-	-	-
<b>Effect on the Group's liquid assets</b>	<b>3.7</b>	<b>-</b>	<b>10.0</b>

## Note 25. 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. Some 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.

Consolidated, SEK in millions	2006	2005	2004
<b>Net defined benefit liability</b>			
Present value of the defined benefit obligation, unfunded	-1,038.3	-1,098.5	-935.2
Present value of the defined benefit obligation, funded	-3,115.6	-3,031.8	-2,609.7
Present value of the defined benefit obligation at year end	-4,153.9	-4,130.3	-3,544.9
Unrecognised actuarial losses	990.2	1,101.9	1,045.9
Unrecognised past service cost	0.8	0.3	2.7
Fair value of plan assets	2,280.5	2,174.5	1,830.9
Defined benefit liability	-882.4	-853.6	-665.4
Less amount disallowed	-3.4	-	-
<b>(-) liability/(+) asset</b>	<b>-885.8</b>	<b>-853.6</b>	<b>-665.4</b>

The net plan cost for the defined benefit plans describes the different cost elements of the plans and the expected return on the plan assets. The net plan cost is reported in the 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	2006	2005	2004
<b>Net plan cost</b>			
Current service cost	-92.4	-76.3	-49.0
Interest cost	-241.0	-184.5	-174.7
Expected return on plan assets	169.9	135.9	121.0
Recognised actuarial losses	-123.2	-66.3	-63.1
Recognised past service cost	1.0	-0.6	-14.8
Effect of any curtailments or settlements	8.3	-10.3	18.5
<b>(-) cost/(+) income</b>	<b>-277.4</b>	<b>-202.1</b>	<b>-162.1</b>

The following table presents how the present value of the defined benefit liability has changed during the year and lists the different components of the change.

Consolidated, SEK in millions	2006	2005	2004
<b>Present value of defined benefit liability at December 31</b>			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1	-4,130.3	-3,544.9	-3,361.0
Acquired businesses	-34.1	-	-
Reclassification / prior year adjustments	-15.0	30.2	-187.7
Translation difference	286.6	-446.6	185.3
Current service cost	-92.4	-76.3	-49.0
Interest cost	-241.0	-184.5	-174.7
Employee contributions	-8.7	-4.9	-5.2
Current year change in actuarial losses	-137.7	-67.1	-142.9
Recognised past service cost	1.0	-0.6	-14.8
Effect of any curtailments or settlements	8.3	-10.3	18.5
Benefit payments	209.4	174.7	186.6
<b>(-) liability/(+) asset</b>	<b>-4,153.9</b>	<b>-4,130.3</b>	<b>-3,544.9</b>

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	2006	2005	2004
<b>Fair value of plan assets at December 31</b>			
Change in plan assets:			
Fair value of plan assets at January 1	2,174.5	1,830.9	1,761.5
Reclassification / prior year adjustments	5.0	-33.6	100.4
Translation difference	-139.9	233.3	-97.8
Employer contributions	149.5	111.1	149.0
Employee contributions	8.7	4.9	5.2
Actual return on plan assets	292.1	202.6	99.2
Benefit payments	-209.4	-174.7	-186.6
<b>(-) liability/(+) asset</b>	<b>2,280.5</b>	<b>2,174.5</b>	<b>1,830.9</b>

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

Consolidated, SEK in millions	2006	2005	2004
<b>Defined benefit liability/asset at December 31</b>			
Change in defined benefit liability/asset:			
Defined benefit liability/asset at January 1	-853.6	-665.4	-628.1
Acquired businesses	-34.1	-	-
Reclassification / prior year adjustments	-13.7	-43.1	-82.1
Translation difference	81.4	-84.1	41.9
Net plan cost	-277.4	-202.1	-162.1
Employer contributions	149.5	111.1	149.0
Change in unrecognised actuarial gains/losses	63.0	27.1	17.8
Change in unrecognised past service cost	-0.2	-0.8	-
Change in disallowed asset amount	-0.7	3.7	-1.8
<b>(-) liability/(+) asset</b>	<b>-885.8</b>	<b>-853.6</b>	<b>-665.4</b>

The gross plan assets and gross defined benefit liabilities of each plan are to be reported as a net amount. The following table shows how the net asset and the net liability are calculated.

Consolidated, SEK in millions	2006	2005	2004
<b>Assets</b>			
Fair value of plan assets	2,280.5	2,174.5	1,830.9
Less amount disallowed	-3.4	-	-
	2,277.1	2,174.5	1,830.9
Netting	-2,222.4	-2,125.3	-1,707.4
<b>Assets in balance sheet</b>	<b>54.7</b>	<b>49.2</b>	<b>123.5</b>
<b>Liabilities</b>			
Present value of the defined benefit obligation at year end	-4,153.9	-4,130.3	-3,544.9
Unrecognised actuarial gains (less losses)	990.2	1,101.9	1,045.9
Unrecognised past service costs	0.8	0.3	2.7
	-3,162.9	-3,028.1	-2,496.3
Netting	2,222.4	2,125.3	1,707.4
<b>Provision in balance sheet</b>	<b>-940.5</b>	<b>-902.8</b>	<b>-788.9</b>

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

Consolidated, %	2006	2005	2004
Discount rate	5	5	5
Expected return on investment	6	4	7
Expected wage increase	4	4	4
Change in health care costs	9	10	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	2006		2005	
	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-6.0	4.5	-6.1	4.6
Present value of the defined benefit obligation	-66.1	54.7	-69.7	57.5

## Note 26. Other provisions

Consolidated, SEK in millions

2005	January 1	Translation difference	Acquired	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	December 31
Claims & warranty	346.9	26.2	-	245.6	-202.1	-46.2	370.4
Deferred costs	89.2	4.0	-	28.7	-20.8	-11.4	89.7
Restructuring	190.8	1.1	-	163.6	-241.3	-15.8	98.4
Onerous contracts	31.7	0.4	-	64.3	-11.2	-	85.2
Environmental	0.8	0.1	-	-	-	-0.9	-
Litigations	112.9	5.0	-	13.1	-0.2	-12.4	118.4
Other	175.9	10.0	-	91.5	-80.0	-2.1	195.3
<b>Total</b>	<b>948.2</b>	<b>46.8</b>	<b>-</b>	<b>606.8</b>	<b>-555.6</b>	<b>-88.8</b>	<b>957.4</b>
<b>2006</b>							
Claims & warranty	370.4	-18.6	7.9	526.4	-191.1	-33.9	661.1
Deferred costs	89.7	-3.2	-	71.5	-25.3	-19.6	113.1
Restructuring	98.4	4.0	2.4	52.9	-56.7	-5.9	95.1
Onerous contracts	85.2	-0.6	-	88.8	-53.3	-21.3	98.8
Litigations	118.4	-0.8	3.4	50.4	-	-46.4	125.0
Other	195.3	-16.9	2.7	107.9	-72.1	-29.2	187.7
<b>Total</b>	<b>957.4</b>	<b>-36.1</b>	<b>16.4</b>	<b>897.9</b>	<b>-398.5</b>	<b>-156.3</b>	<b>1,280.8</b>

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 170 (165) employees.

## Note 27. Loans and net debt

Consolidated, SEK in millions	2006	2005
Credit institutions	1,470.7	2,801.6
Private placement	755.4	-
Capitalised financial leases	24.8	29.4
Interest-bearing pension liabilities	2.1	2.9
<b>Total debt</b>	<b>2,253.0</b>	<b>2,833.9</b>
Cash, bank and current deposits	-775.4	-821.2
<b>Net debt</b>	<b>1,477.6</b>	<b>2,012.7</b>

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 85.0 (125.7) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 64.1 percent

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

Consolidated, SEK in millions	Current		Non-current	
	2006	2005	2006	2005
CAD	-	10.9	-	-
DKK	-	-	7.2	7.9
EUR	68.8	82.1	840.5	1,273.8
INR	37.7	4.6	9.2	11.1
JPY	-	1.4	-	202.8
PLN	6.5	0.2	-	-
SEK	75.0	-	-	-
USD	7.3	-	1,142.2	1,206.2
Other	24.5	0.6	7.2	-
<b>Total</b>	<b>219.8</b>	<b>99.8</b>	<b>2,006.3</b>	<b>2,701.8</b>
Of which, not due within five years:			981.4	2,672.2

### Loan from credit institutions

On April 12, 2005 Alfa Laval signed a new senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 4,806.5 million. The credit facility replaced the previous syndicated loan and has in addition been used for the redemption of the Group's senior notes. The new facility provides increased flexibility, extended maturity and reduced costs. At December 31, 2006, SEK 1,065.6 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 13.3 (16.8)

months at the end of 2006. 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) (45) interest points. At the end of 2006 the loans are accruing interest in the range of 3.75 % - 5.66 % (0.32 % - 4.62 %) (0.49 % - 2.79 %). The average interest rate at the end of 2006 was 4.86 (3.36) (2.26) 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 226.0 million. The loan matures in December 2013 and has a fixed interest of 3.582 percent until November 2009.

At the end of December 2006, 44 (68) percent of the loans with credit institutions are hedged to a fixed interest rate.

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 18.2 (25.3) million. The current year's cost for the fee amortisation is SEK -7.5 (-7.2) (-6.5) 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 3.5 (-). The current year's cost for the fee amortisation is SEK -0.2 (-) (-) 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 67.5 million for the premium and SEK 21.0 million for the outstanding capitalised transaction costs, totalling SEK 88.5 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 - (-3.6) (-4.6) million.

Before the redemption, Alfa Laval re-purchased senior notes at the prevailing market rate for a total face value of SEK - (-) (11.4) million. The difference between the higher market value and the face value was SEK - (-) (1.8) million, which is reported as an interest cost.

## Note 28. Other current liabilities

SEK in millions	Consolidated		Parent company	
	2006	2005	2006	2005
Financial lessee payable	24.8	29.4	-	-
Other non-interest bearing liabilities	643.4	578.9	-	0.2
<b>Total</b>	<b>668.2</b>	<b>608.3</b>	<b>-</b>	<b>0.2</b>

## Note 29. Accrued costs and prepaid income

Consolidated, SEK in millions	2006	2005
Accruals for social security	201.9	181.9
Reserve for severance pay	181.1	168.8
Accrued interest expenses	16.0	25.5
Other accrued expenses and prepaid income	470.2	602.7
<b>Total</b>	<b>869.2</b>	<b>978.9</b>
Of which, not due within one year		
Accruals for social security	27.5	29.3
Reserve for severance pay	82.8	83.1
Other accrued expenses and prepaid income	10.3	6.9
<b>Total</b>	<b>120.6</b>	<b>119.3</b>

## Note 30. Pledged assets and contingent liabilities

Consolidated, SEK in millions	2006	2005
<i>Pledged assets</i>		
Other pledges and similar commitments	27.2	68.4
<b>Total</b>	<b>27.2</b>	<b>68.4</b>
<i>Contingent Liabilities</i>		
Discounted bills	78.3	104.2
Performance guarantees	910.1	676.1
Other contingent liabilities	1,499.1	837.2
<b>Total</b>	<b>2,487.5</b>	<b>1,617.5</b>

In the syndicate loan there are no pledges or restrictions. 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 raw materials suppliers.

## Note 31. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 4.5 (4.8) (5.4) percent of net sales. In June 1999, Tetra Pak entered into a purchasing agreement with Alfa Laval that governs the distribution, research and

development, market 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, 2005. 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 3.1 (3.3) (3.3) million. Alfa Laval rents premises to Tetra Pak and DeLaval in Russia and DeLaval in Germany for SEK 11.5 (12.1) (12.5) million. Tetra Pak moved to other premises and seized to be a tenant in Germany during 2004.

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	2006	2005
<b>Assets:</b>		
Accounts receivable	31.2	34.3
Other receivables	71.5	55.7
<b>Liabilities:</b>		
Accounts payable	3.1	17.2
Other liabilities	0.1	2.4

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

Consolidated, SEK in millions	2006	2005	2004
<b>Income statement:</b>			
Net sales	894.6	788.6	805.8
Other operating income	11.5	12.1	12.5
Other operating costs	-3.1	-3.3	-3.3

## Note 32. Work in progress on plant projects

Consolidated, SEK in millions	2006	2005	2004
<b>Income statement items</b>			
Amount of recognised project sales revenue	562.0	554.5	636.8
<b>Work performed on ongoing projects</b>			
Aggregate amount of costs incurred and recognised profits (less recognised losses)	865.8	788.2	769.2
<b>Assets</b>			
Retentions	55.8	57.4	34.4
Gross amount due from customers for work in progress	19.3	148.8	112.1
<b>Liabilities</b>			
Advances received	140.4	152.9	288.1
Gross amount due to customers for work in progress	31.4	0.0	0.0

### Note 33. 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 297.2 (235.8) (232.4) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 0.4 (2.1) million. In addition to that acquisitions of businesses during the year have contributed with a capitalised value for finance leases of SEK 1.1 (23.0) 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 Year	Operating leases		
	2006	2005	2004
2005	N/A	N/A	65.5
2006	N/A	84.5	51.5
2007	144.0	61.5	37.0
2008	129.0	50.1	25.6
2009	109.7	27.5	7.7
2010	91.7	16.5	N/A
2011	76.5	N/A	N/A
Later	114.2	70.0	26.5
<b>Total</b>	<b>665.1</b>	<b>310.1</b>	<b>213.8</b>

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

Consolidated, SEK in millions Year	Financial leases			Present value of financial leases		
	2006	2005	2004	2006	2005	2004
2005	N/A	N/A	1.2	N/A	N/A	1.2
2006	N/A	3.3	0.9	N/A	3.3	0.8
2007	3.9	2.6	0.9	3.8	2.5	0.8
2008	2.4	0.7	0.8	2.2	0.6	0.7
2009	1.5	-	0.4	1.4	-	0.3
2010	1.3	-	N/A	1.2	-	N/A
2011	1.4	N/A	N/A	1.2	N/A	N/A
Later	14.0	-	-	9.8	-	-
<b>Total</b>	<b>24.5</b>	<b>6.6</b>	<b>4.2</b>	<b>19.6</b>	<b>6.4</b>	<b>3.8</b>

### Note 34. Reconciliation to US GAAP

#### Consolidated income statement

SEK in millions	Note	2006	2005	2004
<b>Net income/(loss) under IFRS</b>				
<b>attributable to the equity holders of the parent</b>		<b>1,686.8</b>	<b>884.8</b>	<b>794.7</b>
<i>US GAAP adjustments:</i>				
Leveraged buy-out accounting	<i>b</i>	1.3	-4.1	15.9
Derivative instruments and hedge accounting	<i>c</i>	-	-154.6	37.4
Tooling costs	<i>d</i>	-4.7	0.2	-18.1
Capitalised software	<i>e</i>	-	-	-5.8
Sale and lease back	<i>g</i>	0.3	-3.0	-
Other	<i>i</i>	-0.2	-0.3	-0.3
Deferred taxes:				
Tax effect of US GAAP adjustments	<i>j</i>	-2.7	43.3	-2.8
<b>Sum of adjustments</b>		<b>-6.0</b>	<b>-118.5</b>	<b>26.3</b>
Net income under US GAAP		1,680.8	766.3	821.0
Earnings per share (SEK)		15.05	6.86	7.35
Average number of shares		111,671,993	111,671,993	111,671,993

#### Consolidated equity capital

SEK in millions	Note	2006	2005
<b>Equity capital under IFRS</b>		<b>6,830.8</b>	<b>5,811.4</b>
<i>US GAAP adjustments:</i>			
Goodwill and other intangibles with indefinite useful lives	<i>a</i>	348.2	393.3
Leveraged buy-out accounting	<i>b</i>	391.9	414.5
Tooling costs	<i>d</i>	69.5	74.1
Minority interest	<i>f</i>	-118.2	-131.7
Sale and lease back	<i>g</i>	-2.7	-3.0
Defined benefit obligations	<i>h</i>	-990.2	-
Other	<i>i</i>	3.9	4.2
Deferred taxes:			
Tax effect on defined benefit obligations	<i>h</i>	316.9	-
Tax effect of other US GAAP adjustments	<i>j</i>	-2.7	43.3
<b>Sum of adjustments</b>		<b>16.6</b>	<b>794.7</b>
<b>Shareholder's equity under US GAAP</b>		<b>6,847.4</b>	<b>6,606.1</b>

# Change in consolidated equity capital according to US GAAP

Consolidated, SEK in millions

<b>As per balance sheet on December 31, 2003</b>	<b>5,798.6</b>
<b>2004</b>	
Dividends	-446.7
Translation difference	-37.8
Net income for 2004 according to US GAAP	821.0
As per balance sheet on December 31, 2004	6,135.1
<b>2005</b>	
Dividends	-530.4
Translation difference	235.1
Net income for 2005 according to US GAAP	766.3
As per balance sheet on December 31, 2005	6,606.1
<b>2006</b>	
Defined benefit obligations, net after tax	-673.3
Dividends	-569.5
Translation difference	-196.7
Net income for 2006 according to US GAAP	1,680.8
<b>As per balance sheet on December 31, 2006</b>	<b>6,847.4</b>

# Comments to the US GAAP reconciliation

## a) Goodwill and other intangibles *Goodwill and other intangibles with indefinite useful lives*

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142) in July 2001. FAS 142 requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives not be amortised; these assets should be tested for impairment annually. Goodwill and intangible assets with indefinite useful lives are no longer tested for impairment under FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The Company has adopted the provisions of FAS 142 as of January 1, 2002.

Upon adoption of the new standard, goodwill of SEK 3,217.4 million (calculated in accordance with US GAAP as of December 31, 2001) ceased to be amortised, but is instead tested for impairment.

In addition, intangible assets totalling approximately SEK 594 million relating to in-place workforce calculated for US GAAP purposes, as well as approximately SEK 208 million of related deferred tax liabilities, have been reclassified as goodwill.

With the implementation of IFRS 3 Business Combinations as of January 1, 2004 this difference between IFRS and US GAAP disappears. The difference in equity capital relating to prior years is however still there.

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

## b) Leveraged buy-out accounting

In August 2000 Alfa Laval Holding AB and its subsidiaries (the predecessor) was acquired by a newly formed entity, resulting in a change in control. Prior to the transaction, the predecessor was owned 100 percent by Tetra Laval BV, part of the

Tetra Laval Group. Subsequent to the transaction, the predecessor ceased to exist and the newly formed company, Alfa Laval AB, was owned 36.8 percent by Tetra Laval BV, 62.5 percent by Industri Kapital and 0.7 percent by management. For US GAAP purposes, this transaction as described in the Board of Directors' report must be accounted for as a leveraged buy-out transaction in accordance with Emerging Issues Task Force (EITF) Abstract 88-16 because the transaction was carried out via a series of highly leveraged transactions through the creation of a newly formed entity that acquired 100 percent of the predecessor and resulting in the former shareholder maintaining a minority interest in the newly formed entity.

For US GAAP purposes, Alfa Laval AB's basis in the net assets of Alfa Laval Holding AB consists of 83.6 percent fair value and 16.4 percent predecessor basis calculated as shown below:

Consolidated, SEK in millions

Fair value of Alfa Laval Holding on August 23, 2000	10,087.0
Predecessor basis of Alfa Laval Holding on August 23, 2000	5,592.0
63.2% interest in fair value of Alfa Laval Holding of new investors in Alfa Laval AB	6,374.0
36.8% interest in predecessor basis of Alfa Laval Holding of old investors in Alfa Laval AB	2,058.0
	<b>8,432.0</b>
Percentage	83.6%

For US GAAP purposes, the assets acquired in the transaction were stepped up by 83.6 percent of the difference between book value and fair value. The difference between the fair value adjustments recorded and the purchase price was recorded as a debit directly to equity.

In its Swedish GAAP financial statements, Alfa Laval recorded the acquisition of Alfa Laval Holding as a purchase for cash consideration of SEK 8,214 million plus other consideration and transaction costs for an aggregate purchase price of SEK 8,286 million in exchange for 100 percent of Alfa Laval Holding. This purchase price excludes the value of the Alfa Laval AB shares issued to Tetra Laval BV because this was considered to be a transaction between shareholders which should not be reflected in the issuer's consolidated

financial statements in accordance with Swedish GAAP. For US GAAP purposes, Tetra Laval BV's carryover basis in Alfa Laval Holding through its 36.8 percent interest in Alfa Laval AB must be considered in purchase accounting. Accordingly, the purchase price for US GAAP purposes includes the SEK 1,800 million value of the Alfa Laval AB shares issued to Tetra Laval BV as part of the overall consideration paid in exchange for 100 percent of Alfa Laval Holding.

The result of applying leveraged buy-out accounting to the transaction in accordance with US GAAP is that the step-up in the value of the net assets acquired to fair value has been limited to the extent of the new owners' interest in Alfa Laval AB. In addition to the differences related to leveraged buy-out accounting, the val-

ues of the net assets acquired differ for US GAAP purposes because certain intangible assets including workforce and customer relationships must be valued separately in accordance with US GAAP, but such items did not meet the definition of intangible assets in accordance with Swedish GAAP and such value was thus recorded as goodwill under Swedish GAAP. In connection with the implementation of IFRS 1 Alfa Laval chose not to recalculate all prior acquisitions, whereby these differences remain.

The combined effect of the SEK 1,800 million higher purchase price for US GAAP purposes and the limitation of the fair value step-up in accordance with EITF 88-16 results in a net increase to equity on the acquisition date for US GAAP as compared to Swedish GAAP because the credit

to equity related to the higher purchase price more than offsets the debit to equity related to the EITF 88-16 limitations of the fair value step-up.

### c) Derivative instruments and hedge accounting

With the implementation of IAS 39 during 2005 any major differences between IFRS and US GAAP have been removed in all areas relevant to Alfa Laval. Alfa Laval has also implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

Under prior Swedish GAAP, unrealised gains and losses on forward exchange and other derivative contracts undertaken to hedge current and anticipated transactions were generally deferred and reported when they matured along with the underlying transactions or anticipated future cash flows to which they related.

In January 2001 Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133) as amended by FAS 137 and FAS 138, became effective for the Group. FAS 133 established a new model for accounting for derivatives and hedging activities and superseded and amended a number of previous standards. Upon initial application, all derivatives must be recognised in the balance sheet as either assets or liabilities and measured at fair value. In addition, all hedging relationships must be reassessed and documented pursuant to the provisions of FAS 133.

Under FAS 133, the accounting for changes in the fair value (i.e. gains and losses) of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further on the type of hedging relationship. Changes in fair value of derivatives not qualifying as hedges are reported in income.

As a result of adoption of Statement 133, the Group recognises all derivative financial instruments, such as interest-rate swap contracts and foreign exchange contracts, in the consolidated financial statements at fair values regardless of the purpose or intent for holding the instrument. Gains and losses recognised on derivative financial instruments subsequent to initial adoption of FAS 133 are

recognised in financial income or expense for purposes of presentation under US GAAP.

The Group has issued long-term debt in various currencies that for IFRS purposes are considered to be hedges of its net investment in certain foreign subsidiaries. Accordingly, the change in value of the long-term debt related to currency fluctuations has been reported directly in equity as a foreign currency translation adjustment as an offset to the translation adjustments resulting from the consolidation of its foreign subsidiaries. Upon adoption of FAS 133 for US GAAP purposes in 2001, the long-term debt used to hedge the net investment in foreign subsidiaries must meet strict documentation and effectiveness criteria in order to be accounted for as part of the foreign currency translation adjustment. Because such criteria had not been met, the change in value of the long-term debt because of currency fluctuations was reported in earnings for US GAAP purposes until 2004. With the implementation of IAS 39 in 2005, the documentation criteria are equivalent.

The profit and loss figures for 2005 concerning derivative instruments only related to reversals of prior year balances.

### d) Tooling costs

The Group generally expenses the cost of acquired replacement tools. Under US GAAP, significant tooling costs are capitalised as incurred and amortised on the straight-line basis over their estimated economic lives of 3 years.

### e) Capitalised software

Under prior Swedish GAAP, the cost to develop computer software for internal use is expensed as incurred. The Accounting Standards Executive Committee issued Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". For US GAAP purposes, the Group has adopted SOP 98-1 with effect from January 1, 1995 and has capitalised direct costs of developing software for internal use. Amortisation of these assets is calculated on the straight-line method over their estimated economic lives of 3 years.

### f) Minority interest

In US GAAP the minority interest is not reported as a part of equity. This means that a corresponding adjustment is made in order to arrive at the equity according to US GAAP.

### g) Sale and lease back

In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million. The sale was a sale and lease back with a 10 year renting period with a break after 7 years. US GAAP does not allow the recognition of a sale of a property if the seller retains any future obligations. Staying as tenant is such an obligation. In that case the realised gain must be phased over the remaining renting period.

### h) Defined benefit obligations

The IFRS framework IAS 19 "Employee Benefits" and the US GAAP frameworks FAS 87 "Employers' Accounting for Pensions", FAS 106 "Employers' Accounting for Postretirement Benefits Other than Pensions" and FAS 158 "Employers' Accounting for Defined Benefits Pension and Other Postretirement Plans" are similar in many respects, but Alfa Laval is affected by the following differences.

Until 2005 the following difference existed. If the accumulated benefit obligation exceeded the sum of the fair value of the plan assets and unrecognised past service costs, an additional minimum liability should be recognised under US GAAP. This amount equalled the unrecognised actuarial losses. IAS 19 does not have a corresponding rule. The additional minimum liability was reported as an adjustment net after tax to comprehensive income. This adjustment was made first in 2005 and prior years have been restated accordingly. FAS 158 was issued in September 2006 requiring the recognition of the funded status of defined benefits plans in the financial position. This means that the unrecognized actuarial losses have to be recognized in equity under US GAAP. There will be no change in the income statement.

The US GAAP reconciliation items can be summarized as follows.

Consolidated, SEK in millions	2006	2005	2004
Hedges of net investments in foreign subsidiaries under IFRS/Swedish GAAP not qualifying for hedging under FAS 133	-	-	-19.1
Change in fair market value of foreign exchange derivatives not recognized under IFRS/Swedish GAAP	-	-154.6	56.5
<b>Total</b>	<b>-</b>	<b>-154.6</b>	<b>37.4</b>

## i) Other

Under prior Swedish GAAP, certain real estate assets are stated at estimated fair value. The revalued amounts of depreciable assets are depreciated over their estimated useful lives. The revaluation of assets is not permitted under US GAAP. Upon the transaction described in b, the fixed assets were adjusted to their fair values, eliminating the effect of past revaluations. For US GAAP purposes, fixed asset values that have been revalued after the transaction have been restated at historical cost based on the purchase accounting adjustments, net of corresponding adjustments for accumulated depreciation. Adjustments to periodic depreciation charges have also been reflected.

Under prior Swedish GAAP, research and development expenses related to projects that are funded by a government affiliated body are deferred and recorded as an intangible asset. Under US GAAP, research and development costs are expensed as and when incurred.

Under prior Swedish GAAP interest related to long-term construction projects was not required to be capitalised. US GAAP requires that interest incurred during long-term construction projects must be capitalised and included as part of the cost of the asset.

Under IFRS, short-term loans for which management has the ability to refinance are classified as non-current liabilities. For US GAAP, such liabilities are classified as current.

Under IFRS, the proportionate consolidation method is an acceptable method of accounting for joint ventures. Under US GAAP, joint ventures must be accounted for using the equity method. This differ-

ence in accounting does not result in any adjustment to net shareholder's equity or net income. The effect of using the proportionate consolidation method does not have a material impact on any individual income statement or balance sheet item.

As of December 31, 2006 the Group had sold receivables with recourse totaling SEK 78.3 (104.2) million. These are disclosed as discounted bills in Note 30. Under US GAAP, the recourse provisions prevent the transaction from being reported as a sale. Accordingly, the receivables would be kept on the balance sheet, and a loan would be reported for the amount of cash received. The loss on the sale was not material, and this transaction results in no significant impact on US GAAP equity.

In 2000 Alfa Laval AB issued warrants to management to purchase common stock of Alfa Laval AB. Management paid fair market value in cash for the warrants based on a fair value calculation using the Black-Scholes option pricing model. The Group has elected to use the fair value method in accordance with Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (FAS 123) which requires the fair value of stock compensation grants to be recognized over the vesting period of the grants. Under the terms of the warrant agreement, management was required to pay the fair value determined for the warrants and accordingly there was no compensation expense associated with the warrants for either Swedish GAAP or US GAAP.

In August 2001 the US Financial Accounting Standards Board issued FAS 144, Accounting for the Impairment or Disposal of Long Lived Assets. The

standard supersedes FAS 121 and parts of Accounting Principles Board Opinion 30 regarding accounting for the impairment or disposal of long-lived assets. FAS 144 requires long-lived assets held for disposal to be measured at the lower of carrying amount or fair values less costs to sell and provides new guidance regarding presentation of assets to be disposed. Within Alfa Laval these assets are relating to real estate. Alfa Laval has decided to sell properties in Belgium, Brazil, Finland and France. With the exception of the property in Tuusula in Finland Alfa Laval is using all of these properties for its operations. An active sales work is performed concerning the Finnish property and it is expected to be sold within the next year. This means that only this property has been re-classified as a current assets held for sale.

Accounting under FAS 144 does not mean any difference compared to IFRS. US GAAP is however requiring a reporting of assets for sale according to the table below:

## j) Deferred taxes

As of January 1, 2000 the Group adopted IAS 12 with a view toward meeting both IAS and US GAAP requirements. Accordingly, the Group has applied the liability method and has recorded deferred taxes in accordance with both IAS 12 and FAS 109.

## Cash Flow Information

The definitions of "cash flows" differ between IFRS and US GAAP. Cash flow under IFRS represents increases or decreases in "cash," which is comprised of cash on hand and in banks. Under US GAAP, cash flow represents increases or decreases in "cash and cash equivalents," which

Accounting under FAS 144 does not mean any difference compared to IFRS. US GAAP is however requiring a reporting of assets for sale according to the below:

Consolidated, SEK in millions	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Real estate for sale	25.5	151.8	36.4	123.7

The components of income (loss) before taxes under US GAAP are as follows:

Consolidated, SEK in millions	2006	2005	2004
Swedish	982.7	223.6	593.3
Foreign	1,352.6	681.0	653.7
<b>Total</b>	<b>2,335.3</b>	<b>904.6</b>	<b>1,247.0</b>

The tax cost under US GAAP is composed of the following:

Consolidated, SEK in millions	2006	2005	2004
<i>Current:</i>			
Swedish	-227.8	-69.3	-82.4
Foreign	-637.4	-305.4	-335.0
<i>Deferred:</i>			
Swedish	-45.8	41.2	-84.1
Foreign	256.5	195.2	75.5
<b>Total</b>	<b>-654.5</b>	<b>-138.3</b>	<b>-426.0</b>

include short-term, highly liquid investments with remaining maturities of less than 90 days when acquired, and exclude overdrafts.

There are also certain differences in the classification of items within the cash flow statement between IFRS and US GAAP. Both IFRS and US GAAP segregate cash flows between operating activities, investing activities and financing activities, however, certain items are included in different categories for IFRS compared to US GAAP.

Cash flows from servicing of finance, and returns on investments would be, with the exception of any interest paid but capitalized, included as cash flows from operating activities under US GAAP. In addition, changes in assets and liabilities because of foreign currency transaction gains or losses would be included as cash flows from operating activities under US GAAP.

#### Other comprehensive income (loss)

FAS No. 130 "Reporting Comprehensive Income" establishes standards for reporting comprehensive loss and its components in financial statements. Comprehensive income and loss as defined, includes all changes in equity

(net assets) during each financial period from non-owner sources. On a US GAAP basis, the only items included in other comprehensive income and loss that are not part of net income, are the additional minimum liability for unrecognised actuarial losses and the currency translation adjustment. There is a tax effect relating to the first item but not to the latter. Comprehensive income is not a required disclosure under IFRS.

#### Recently issued accounting pronouncements

Financial Accounting Standards Board (FASB) has issued the following new accounting pronouncements, which are effective after January 1, 2007.

FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, creates a single model to address uncertainty in tax positions prescribing a minimum threshold for the recognition of tax positions. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will review the impact of

FIN 48 and disclose potential differences to IFRS in 2007.

FASB No. 157 Fair Value Measurements establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company will evaluate the effects of the application of FAS 157 during 2007.

FASB No. 158 Employers' Accounting for Defined Benefits Pension and Other Postretirement Plans, an amendment of FAS 87, 88, 106 and 132 (R) was issued in September 2006 and requires plan sponsors of defined benefit pension and other post retirement benefits plans to recognize the funded status of these plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of fiscal year end and provide additional disclosures. Alfa Laval has in its reporting under IAS 19 adopted the corridor approach. This will constitute a difference to US GAAP accounting under FASB 158. The effect on adoption of this statement on December 31, 2006 is explained under section h above.

Comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	Note	2006	2005	2004
<b>According to US GAAP:</b>				
Net income		1,680.8	766.3	821.0
Defined benefit obligations	<i>h</i>	76.0	-48.5	-49.9
Foreign currency translation		-196.7	235.1	-37.8
<b>Comprehensive income</b>		<b>1,560.1</b>	<b>952.9</b>	<b>733.3</b>

Accumulated comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	Note	2006	2005	2004
<b>According to US GAAP:</b>				
Accumulated net income		4,177.9	2,497.1	1,730.8
Defined benefit obligations	<i>h</i>	-673.3	-749.3	-700.8
Foreign currency translation		-582.9	-386.2	-621.3
<b>Accumulated comprehensive income</b>		<b>2,921.7</b>	<b>1,361.6</b>	<b>408.7</b>

# Proposed disposition of earnings

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

Unrestricted equity capital	1,259,253,798
Received Group contribution, net after tax	736,243,803
Net income for 2006	1,811,419,374
	<hr/>
	3,806,916,975

The Board of Directors propose a dividend of SEK 6.25 (5.10) per share corresponding to SEK 697,949,956 (569,527,164) and that the remaining income of SEK 3,108,967,019 (1,259,253,798) be carried forward.

## True and fair view

The Board of Directors and the Managing Director hereby confirm that, to the best of our knowledge, this Annual Report gives a true and fair view of the Group's financial position and results of operation, meaning that it is in accordance with International Financial Reporting Standards for publicly listed companies, that the supplied information agrees with the actual circumstances and that nothing of significance has been omitted that could have an impact on the perception of the Group that has been created by this Annual Report.

Lund, March 1, 2007

Anders Narvinger  
*Chairman*

Gunilla Berg

Björn Hägglund

Per Olov Jakobsson

Arne Kastö

Ulla Litzén

Jan Nilsson

Susanna Holmqvist Norrby

Finn Rausing

Jörn Rausing

Waldemar Schmidt

Lars Renström  
*Managing Director*

Our Auditors' Report concerning this Annual Report has been issued on March 1, 2007.

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 2006. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 38-98. 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 reason-

able 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 1, 2007

Ingvar Ganestam  
*Authorized Public Accountant*

Kerstin Mouchard  
*Authorized Public Accountant*

# Corporate Governance Report 2006



## **We tame the predators of the seas**

The zebra mussel: in its native waters, this mollusk, which is no larger than a fingernail, is entirely innocent. But as soon as it gains a foothold in other marine environments, it becomes an aggressive predator. This transplantation can occur via ballast water in ships. When the water is released, the ship also releases microorganisms of the mussel and other dangerous species into entirely new waters. There, they can increase and eventually destroy the local eco system. Alfa Laval has developed an innovative new concept – Pure Ballast – that eliminates this growing problem. This is a fully automatic system that eliminates dangerous organisms in ballast water using advanced oxidation technology. Without using chemicals. Fully satisfies the new marine environmental requirements that will come into effect in 2009. This is an ecological solution that is sure to have reverberations.

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# Corporate Governance Report for 2006

## Robust control systems underpin governance of Alfa Laval

This is the third year in which Alfa Laval is presenting a detailed report on the company's governance. It is a way of showing that the company fulfills the expected standards of good management and governance. This Corporate Governance Report enhances the company's transparency, making it easier for shareholders and other stakeholders to assess the degree to which the company's Board of Directors and senior management have lived up to the responsibility implied by the trust placed in them by the shareholders. It is also an appropriate way of demonstrating that the company's nomination procedures, Annual General Meeting and Board of Directors meet high quality standards. The Report shows that there are robust control systems in place to secure shareholder influence over the company and the Board, and the supervision by the Board of the company's most senior management.

During the year, Alfa Laval devoted further efforts to ensuring that its organization meets high ethical standards. In accordance with the Swedish Code of Corporate

Governance, it is the Board's duty to ensure that the necessary ethical guidelines for the Company's conduct are established. The Board has met this responsibility by ensuring that the company's business principles are further developed and it has articulated the overall values that Alfa Laval represents. The aim is that these principles and values will permeate the entire Alfa Laval organization, favorably influence its relationships with the principal stakeholders and help further strengthen confidence in Alfa Laval.

This Corporate Governance Report is based on the Swedish Code of Corporate Governance, according to which a corporate governance report must be included in the Annual Report.

Lund, March 2007  
Anders Narvinger  
Chairman of the Board

## Corporate Governance at Alfa Laval



The diagram gives a general picture of corporate governance at Alfa Laval. The Annual General Meeting is the highest decision-making organ 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](http://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, 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](http://www.alfalaval.com). Alfa Laval's current Articles of Association were adopted at the Annual General Meeting held on April 27, 2006. These Articles are an update of the Articles of Association adopted on April 8, 2002, particularly as regards the paragraphs concerning share capital and the procedures involved in the Annual General Meeting. The update was necessary as a result of amendments to the Companies Act made on January 1, 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 2005 was held

in Lund on April 27, 2006. Lawyer Bertil Villard was elected as the meeting chairman. Following the President's report, Board Chairman Anders Narvinger 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. All the persons nominated to the Alfa Laval Board, except Ulla Litzén, were present at the meeting. The company's auditors were represented by Ingvar Ganestam.

## Decisions made at the 2006 Annual General Meeting

The most important decisions made at the 2006 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 5.10 per share be paid for 2005 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 2,825,000.
- 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, Finn Rausing, Jörn Rausing, Lars Renström and Waldemar Schmidt. In accordance with the Nominating Committee's proposal, Ulla Litzén was elected, replacing Lena Olving who had declined reelection. The AGM elected Anders Narvinger as Chairman of the Board.
- The AGM decided to amend the Articles of Association in accordance with the Board's proposal. The decision was unanimous.
- The AGM adopted principles for compensation to, and other employment conditions for, company management.

- The AGM adopted criteria for appointing the Chairman and members of the Nominating Committee. 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.

## Extraordinary General Meetings

An Extraordinary General Meeting is held if the Board considers there is reason to do so. No Extraordinary General Meetings were held during 2006.

## Nominating Committee

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. 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, no more than the eight largest shareholders need be consulted, if this is required in order that the Nominating Committee consists of at least three members. 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. Individual shareholders shall be entitled to submit proposals for Board members to the Nominating Committee for further consideration within the framework of its work.

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.

The Nominating Committee has the right 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.

The Nominating Committee shall report on its activities at the AGM.

## Nominations for the 2007 Annual General Meeting

In accordance with a decision made at Alfa Laval AB's AGM on April 27, 2006, the five major shareholders in Alfa Laval appointed the following members to the Nominating Committee prior to the 2007 AGM: Jörn Rausing, Tetra Laval, Lars-Åke Bokenberger, AMF-Pension, Jan Andersson, Swedbank Robur Funds, Björn Franzon, Fourth AP-Fund and Kjell Norling, Handelsbanken. The chairman of the Nominating Committee is Jörn 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.

 read more at [www.alfalaval.com](http://www.alfalaval.com)

## Nomination process

The Nominating Committee meets as often as required to reach a consensus on proposals for the AGM. In advance of the 2007 AGM, the Nominating Committee met three 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 and its work

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. Four members and four deputies are appointed by the employees. Salaried employees within the company are invited to Board meetings as presenters and experts. The company's president and 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 108-109.

## 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 company's auditors. The Board appoints the president and defines 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, together 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.

## Present at Board meetings and committee meetings

	Main Board	Remuneration Committee	Audit Committee		
				Anders Narvinger	Elected at AGM
		-		Gunilla Berg	
		-	-	Björn Hägglund	
		-	-	Ulla Litzén*	
		-		Finn Rausing	
			-	Jörn Rausing	
		-	-	Lars Renström	
		-	-	Waldemar Schmidt	
		-	-	Per Olov Jacobsson	Employee representatives
		-	-	Susanna Norrby	
		-	-	Arne Kastö	
		-	-	Jan Nilsson	
	10	2	3	Number of meetings	

\* Elected at the company's Annual General Meeting on April 27 2006.

## Board Chairman

The Board Chairman directs the work in a manner that ensures its accordance 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 dialog 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, 2006, 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 2006

Ten Board meetings were held during 2006, of which six were regularly scheduled meetings. The meetings normally lasted four hours. Board meetings normally take place in Lund. In four 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 2006 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.

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

A special Audit Committee was appointed at the 2006 AGM. Members of the Audit Committee are appointed annually within the Board. During 2006, 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 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 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 2006, it comprised Anders Narvinger (chairman) and Jörn

Rausing. The Remuneration Committee held two meetings during 2006. 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 evaluates its work on an ongoing basis through open discussions and interviews between the Board Chairman and individual Board members. In addition, the Board Chairman ensures that the work of the Board is evaluated annually. The evaluation of the Board's work focuses on the Board's work forms, work climate and the availability of and need for special Board expertise. Among other purposes, the evaluation serves to aid 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 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 below summarizes the remuneration received by all Board members from Alfa Laval for the period from the 2006 AGM until the 2007 AGM.

## Remuneration to the Board

Compensation is fixed, with no variable element. There is no remuneration for Board members elected by the AGM who are employed in the company.

	Main Board	Remuneration Committee	Audit Committee
Anders Narvinger (Chairman)	725,000	50,000	50,000
Gunilla Berg	300,000	0	50,000
Björn Häggglund	300,000	0	0
Ulla Litzén	300,000	0	0
Finn Rausing	300,000	0	100,000
Jörn Rausing	300,000	50,000	0
Lars Renström	0	0	0
Waldemar Schmidt	300,000	0	0
Total	2,525,000	100,000	200,000

## 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 decisionmaking 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 110-111.

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 6 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 in addition, a variable remuneration in 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 such as the outcome of certain special projects.

Compensation paid to Group Management in 2006 and 2005 is shown in the table below (SEK 000s).

	2006		2005	
	Fixed	Variable	Fixed	Variable
Lars Renström, President	5,214	1,456	4,000	Max 50%
Other	18,700	3,200	18,700	Max 30%

For further information, see Note 3, page 73.

President and CEO Lars Renström currently has a base salary of SEK 5 M per year. He has a bonus provision with an upper limit of 60 percent.

Other senior executives comprise the ten members of Group Management other than the president. Their remuneration totals SEK 21.9 M (21.1), of which bonuses made up SEK 3.2 (2.4). 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 in order to 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.

New principles were adopted for future pension commitments for members of Alfa Laval's management group. In accordance with these principles, and depending on their position, these persons will receive 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 2006, Alfa Laval's expenses for pension premiums totaled SEK 387.6 M (376.9).

## 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.

## 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, finance policy and communication 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 meetings during 2006. In addition, the Board's Audit Committee received reports from the company's external auditors on three occasions.

On one occasion, the Board received reports 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 given 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 2006, 27 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 65-69 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 an 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 no. 4 on page 74)**

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 1, 2007, we have reviewed the Corporate Governance Report (pages 99-106, 108-111) for Alfa Laval AB for 2006 at the request of the Board of Directors. 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 1, 2007

Ingvar Ganestam  
*Authorized Public Accountant*

Kerstin Mouchard  
*Authorized Public Accountant*

### **Board of Directors' report on internal control for fiscal year 2006**

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 contain 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 includes efforts to continuously monitor the effectiveness of internal controls. Its work also

includes evaluations and discussions of important issues in the areas of financial accounting and 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 ensur-

ing 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 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 establishes 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.

In accordance with the recommendation regarding Board reporting on internal control for 2006 issued by the Swedish Corporate Governance Board on September 5, 2006, this report comprises only a description of how internal control is organized without expressing an opinion on how well it functions.

*Lund, March 2007  
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, Invest in Sweden Agency and Swedish Trade Council.  
 Board member of Volvo Car Corporation.  
 Independent of company and major shareholders.  
 Number of shares in Alfa Laval AB: 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 Worldwide Fund for Nature (WWF), Sweden.  
 Board member of Bergvik Skog AB, Karl Hedin AB, SweTree Technologies AB, the Knut and Alice Wallenberg Foundation and Mistra. Vice Chairman at IVA (Royal Academy of Engineering Science).  
 Independent of company and major shareholders.



**Ulla Litzén**  
**Board member since 2006.**  
 Born: 1956.  
 Previously President of W Capital Management and held various senior positions at Investor.  
 Education: BSc. Econ from the Stockholm School of Economics, MBA from the Massachusetts Institute of Technology.  
 Board member of 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\* (0\*\*).



**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 Swedship 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 and DeLaval Holding AB and Ocado Ltd.  
 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 major shareholders.  
 Number of shares in Alfa Laval AB: 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 Futtair Group LLC, Dubai.  
 Board Member of Enodis plc, Welzorg Group BV, Cicor S/A and Kwintett AB.  
 Independent of company and major shareholders.  
 Number of shares in Alfa Laval: 21,749\* (21,749\*\*).

\* Holding at December 31, 2006. \*\* Holding at December 31, 2005.

#### Employee representatives



**Per Olov Jacobsson**  
*Employee representative since 2003.*  
Born: 1942.  
Employed by Alfa Laval since 1959. Employee representative for the Association of Management and Professional Staff (Ledarna).



**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).

#### Deputy employee representatives



**Susanna Norrby**  
*Employee representative since 2003.*  
Born: 1967.  
Alfa Laval employee since 1992.  
Employee representative for the Swedish Association of Graduate Engineers (CF).

**Britt Ekman**  
*Deputy member since 2005.*  
Born: 1960.  
Employed by Alfa Laval since 1999.  
Deputy employee representative for the Swedish Association of Graduate Engineers (CF).

**Kalevi Ejendal**  
*Deputy member since 2000.*  
Born: 1951.  
Employed by Alfa Laval since 1973.  
Deputy employee representative for the Swedish Metal Workers' Union. (Metall).

**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).

**Stefan Sandell**  
*Deputy member since 2005.*  
Born: 1971.  
Employed at Alfa Laval since 1989. Deputy employee representative for the Association of Management and Professional Staff (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 Nolato AB, Strålfors AB and the IKEA Group.



**Kerstin Mouchard**  
*Authorized Public Accountant, Ernst & Young AB, Malmö.*  
Born: 1952.  
Auditor for Alfa Laval since 2004.  
Elected as auditor at the 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. and BSc. Econ.  
Number of shares: 10,100\* (10,100\*\*).

**Thomas Thuresson**  
*Executive Vice President, Chief Financial Officer.*

Born: 1957.  
Employed by Alfa Laval since 1988.  
CFO since 1995.  
Previous assignments include Controller of Flow business area and Group Controller of the Alfa Laval Group.  
Board member of Dynapac AB.  
Education: BSc. Econ. (IMD, BPSE)  
Number of shares: 40,000\* (45,000\*\*).

**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.  
Education: BSc. Eng.  
Number of shares: 5,647\* (8,647\*\*).

**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: 30,686\* (37,486\*\*).

**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.  
Board member of Exirgruppen AB.  
Education: BSc. Eng.  
Number of shares: 59,672\* (73,572\*\*).

**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: Bachelor of Laws, lic. spec., IMD (PED).  
Number of shares: 116,716\* (116,716\*\*).



Lars Renström



Thomas Thuresson



Svante Karlsson



Göran Mathiasson



Peter Leifland



Ulf Granstrand

\* Holding at December 31, 2006. \*\* Holding at December 31, 2005.

Lars Henriksson



Ray Field



**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: 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: 13,647\* (13,647\*\*).

Jesper Bulskov



**Jesper Bulskov**

**Senior Vice President, Human Resources.**

Born: 1956.

Employed by Alfa Laval since 2002.

Senior Vice President, Human Resources since January 1, 2005.

Previously responsible for personnel matters at Gate Gourmet Int. and Rockwool, among other companies.

Education: BSc. Econ.

Nils Olof Björk



**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 AB: 9,944\* (15,944\*\*).

Peter Torstensson



**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 AB: 19,000\* (24,000\*\*).

# Ten-year overview\*\*

SEK millions, unless otherwise stated	Successor Alfa Laval						Predecessor Alfa Laval Holding			
	2006	2005	2004 *	2003	2002	2001	pro forma 2000	1999	1998	1997
<b>Profit and loss information</b>										
Net sales	19,801.5	16,330.4	14,985.8	13,909.3	14,594.9	15,829.6	15,012.3	14,405.4	14,733.6	15,676.4
Comparison distortion items	-119.9	-73.3	36.7	5.6	-29.2	5.3	129.9	29.8	497.2	236.3
Operating income	2,551.9	1,377.2	1,438.4	1,138.5	1,219.5	1,231.4	810.1	248.9	772.4	562.5
Financial net	-176.6	-278.2	-176.8	-321.1	-542.6	-1,189.6	-1,106.6	-132.9	-204.8	-394.3
Result after financial items	2,375.3	1,099.0	1,261.6	817.4	372.1	41.8	-296.5	116.0	567.6	168.2
Minority share in income				-41.6	-33.6	-32.0	-47.6	-26.7	-15.6	4.0
Taxes	-650.3	-171.0	-421.5	-130.0	-218.3	26.3	-60.6	-333.3	39.7	-278.8
<b>NET INCOME FOR THE YEAR</b>	<b>1,725.0</b>	<b>928.0</b>	<b>840.1</b>	<b>645.8</b>	<b>120.2</b>	<b>36.1</b>	<b>-404.7</b>	<b>-244.0</b>	<b>591.6</b>	<b>-120.1</b>
<b>Balance sheet information</b>										
Goodwill	3,706.3	3,530.6	2,977.6	3,098.5	3,369.0	3,372.9	3,314.2	1,692.2	2,069.1	2,758.8
Other intangible assets	1,190.6	1,067.5	923.9	1,101.5	1,334.3	1,640.4	1,805.4	22.9	24.8	32.6
Property, plant and equipment	2,514.3	2,552.8	2,480.3	2,756.5	3,082.7	3,598.9	4,111.8	2,882.5	2,913.0	3,070.0
Financial long-term assets	784.3	676.5	601.4	670.7	751.9	1,102.4	1,094.5	324.4	635.1	135.9
Inventories	3,792.4	3,090.7	2,452.5	2,217.8	2,279.0	2,623.9	2,882.0	2,930.4	3,321.1	3,432.3
Current receivables	5,986.3	4,467.1	3,976.3	3,631.3	3,590.3	4,333.7	4,353.3	3,891.1	4,037.6	4,883.4
Current deposits	229.4	342.4	257.2	658.6	414.3	293.3	595.5	283.1	95.7	163.9
Cash and bank	546.0	478.8	414.8	554.6	605.9	666.4	634.5	677.0	550.7	506.2
<b>TOTAL ASSETS</b>	<b>18,749.6</b>	<b>16,206.4</b>	<b>14,084.0</b>	<b>14,689.5</b>	<b>15,427.3</b>	<b>17,631.8</b>	<b>18,791.2</b>	<b>12,703.5</b>	<b>13,647.1</b>	<b>14,983.1</b>
Equity capital	6,830.8	5,811.4	5,269.2	4,897.0	4,512.3	1,445.1	1,312.3	3,342.6	3,652.1	2,967.4
Minority interest				104.2	108.2	131.8	169.5	147.7	119.0	173.0
Provisions for pensions etc.	940.5	902.8	788.9	754.8	720.6	774.9	658.3	520.5	671.8	745.8
Provisions for taxes	949.5	766.8	760.3	817.0	990.3	1,143.6	1,413.1	199.1	182.0	240.0
Other provisions	1,280.8	957.4	948.2	891.2	989.3	1,063.2	1,179.1	949.7	0.0	0.0
Non-current liabilities	2,006.3	2,701.8	2,307.1	3,491.8	4,233.4	8,321.4	8,899.3	449.3	2,957.4	3,313.0
Current liabilities	6,741.7	5,066.2	4,010.3	3,733.5	3,873.3	4,751.6	5,159.6	7,094.7	6,064.8	7,543.9
<b>TOTAL EQUITY CAP. &amp; LIAB.</b>	<b>18,749.6</b>	<b>16,206.4</b>	<b>14,084.0</b>	<b>14,689.5</b>	<b>15,427.3</b>	<b>17,631.8</b>	<b>18,791.2</b>	<b>12,703.5</b>	<b>13,647.1</b>	<b>14,983.1</b>

\* Restated to IFRS. \*\* 2003 and earlier in accordance with Swedish GAAP

SEK millions, unless otherwise stated	2006	2005	2004 *	Successor Alfa Laval			pro forma 2000	Predecessor Alfa Laval Holding		
				2003	2002	2001		1999	1998	1997
<b>KEY RATIOS</b>										
Orders received	24,018.1	18,516.3	15,740.0	14,145.3	14,674.8	15,893.9	15,374.4	13,896.8	13,865.7	14,551.3
Order backlog at year end	12,359.5	7,496.9	4,763.4	4,021.1	4,340.1	4,313.5	4,063.0	3,532.0	3,906.7	4,362.9
EBITA	2,890.6	1,692.4	1,731.8	1,632.6	1,726.2	1,743.3	1,289.8	964.0	1,462.1	1,252.2
EBITDA	3,153.3	1,956.7	1,992.7	1,925.7	2,057.5	2,143.6	1,756.0	1,439.8	1,957.9	1,776.6
EBITA-margin %	14.6	10.4	11.6	11.7	11.8	11.0	8.6	6.7	9.9	8.0
EBITDA-margin %	15.9	12.0	13.3	13.8	14.1	13.5	11.7	10.0	13.3	11.3
Adjusted EBITA	3,010.5	1,765.7	1,695.1	1,627.0	1,755.4	1,738.0	1,159.9	934.2	964.9	1,015.9
Adjusted EBITDA	3,273.2	2,030.0	1,956.0	1,920.1	2,086.7	2,138.3	1,626.1	1,410.0	1,460.7	1,540.3
Adjusted EBITA-margin %	15.2	10.8	11.3	11.7	12.0	11.0	7.7	6.5	6.5	6.5
Adjusted EBITDA-margin %	16.5	12.4	13.1	13.8	14.3	13.5	10.8	9.8	9.9	9.8
Profit margin %	12.0	6.7	8.4	5.9	2.5	0.3	-2.0	0.8	3.9	1.1
<b>Excl. Goodwill and step-up values</b>										
Capital turnover rate, times	6.3	5.5	5.3	5.0	4.4	4.1	3.4	3.2	3.4	3.7
Capital employed	3,136.5	2,957.5	2,821.5	2,807.2	3,283.0	3,901.0	4,385.1	4,475.8	4,367.0	4,281.7
Return on capital employed %	92.2	57.2	61.4	58.2	52.6	44.7	29.4	21.5	33.5	29.2
<b>Incl. Goodwill and step-up values</b>										
Capital turnover rate, times	2.5	2.2	2.0	1.8	1.7	1.7	1.9	2.3	2.2	2.4
Capital employed	8,061.9	7,469.8	7,317.3	7,667.2	8,564.5	9,401.2	8,010.8	6,356.5	6,781.0	6,631.4
Return on capital employed %	35.9	22.7	23.7	21.3	20.2	18.5	16.1	15.2	21.6	18.9
Return on equity capital %	25.3	16.0	15.9	13.2	2.7	2.5	-30.8	-7.3	16.2	-4.0
Solidity %	36.4	35.9	37.4	33.3	29.2	8.2	7.0	26.3	26.8	19.8
Net debt	1,477.6	2,012.7	1,883.5	2,401.1	3,498.5	7,777.5	8,422.4	2,854.5	2,808.7	4,079.5
Net debt to EBITDA, times	0.5	1.0	0.9	1.2	1.7	3.6	4.8	2.0	1.4	2.3
Debt ratio, times	0.22	0.35	0.36	0.49	0.78	5.38	6.42	0.85	0.77	1.37
Interest coverage ratio, times	14.4	6.9	7.4	5.0	3.0	1.9	1.6	5.9	6.2	4.1
<b>Cash flow from:</b>										
operating activities	2,618.8	1,616.5	1,203.3	1,653.5	1,923.8	1,998.7	1,630.4	1,324.4	911.0	-83.0
investing activities	-1,577.5	-664.6	35.8	-457.4	-547.8	114.9	-8,284.0	-599.5	-256.4	-3,199.0
financing activities	-935.4	-972.7	-1,353.2	-1,167.2	-1,320.3	-2,095.0	6,617.9	-586.4	-625.7	3,042.1
Investments	373.1	323.7	387.5	258.5	276.7	274.9	311.7	431.2	438.4	485.9
Average number of employees	9,923	9,524	9,400	9,194	9,292	9,693	11,001	11,696	12,613	13,704
Earnings per share, SEK	15.10	7.92	7.12	5.78	1.41	0.96	-10.79	-19.52	47.30	-4.00
Free cash flow per share, SEK	9.32	8.52	11.10	10.71	16.10	56.37	-177.45	57.99	52.37	-109.40

\*Restated to IFRS. \*\*2003 and earlier in accordance with Swedish GAAP.

# 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, that is the cash flow generated by mainly the Group's divestments and acquisitions of businesses and divestments of real estate.

## Cash flow from financing activities

Shows the Group's cash flow from financing activities, that is mainly the cash flow impact of the Group's loans in terms of interest payments and amortisation.

## Investments

Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group.

## Average number of employees

The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives an indication of the cost rationalisation that is taking place.

## Earnings per share, 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.

# 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 at [www.alfalaval.com/investors](http://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](http://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. 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 "closed period" of three weeks. This implies that the President and Chief Financial Officer do not meet or speak to representatives for the financial markets during the three weeks prior to a quarterly report.

In accordance with the Company's Articles of Association, notice of the Annual General Meeting takes the form of 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.

## Financial information during 2007

First-quarter report 2007	April 23
Annual General Meeting in Lund	April 23
Second-quarter report 2007	July 19
Third-quarter report 2007	October 23
Capital markets day in Copenhagen	November 13

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## Annual General Meeting 2007

The Annual General Meeting of Alfa Laval AB will be held on Monday, April 23, 2007 at 4:00 p.m. Swedish time in the Scandic Star Hotel, Glimmervägen 5, Lund, Sweden. Light refreshments will be served after the Meeting.

### Meeting program

1:30 p.m.	Bus departs Star Hotel 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 Tuesday, April 17, 2007, and register their intention to participate — along with any assistants — not later than Tuesday, April 17, 2007 at 12:00 noon.

Shareholders whose shares are held in trust have to temporarily re-register their shares in their own names not later than April 17. The shareholder must inform the trustee about this in good time 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: [arstamma.lund@alfalaval.com](mailto:arstamma.lund@alfalaval.com). Website: [www.alfalaval.com](http://www.alfalaval.com)  
Telephone: +46-46-367222, +46-46-366526 or +46-46-366500.  
Fax: +46-46-367187.

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 6.25 per share be paid. The proposed record date for this dividend is Thursday, April 26, 2007. If the Meeting approves the proposal, the dividend will be distributed by VPC on Wednesday, May 2, 2007.

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 the Star Hotel 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](http://www.alfalaval.com)