



Alfa Laval AB (publ)

Fourth quarter and full year 2006

Another record quarter

“The fourth quarter was exceptionally strong. The orders received in the quarter increased with 33 percent and reached a record level of SEK 6.7 billion.

The operating margin in the quarter was exceptionally strong. It reached a record level of 16.9 percent, in absolute figures SEK 1,018 million. The very good volume leverage shows that our internal processes work efficiently. Our consistent focus on profitability continues to pay off.

All geographical regions performed very well. Orders received in North America increased with 90 percent and in Asia with 56 percent. In the US the growth was mainly driven by the acquisition of Tranter and the strong bioethanol market.

The strongest customer segments were Marine & Diesel and Process Industry.”

Lars Renström, President and CEO, Alfa Laval

Summary of the fourth quarter 2006:

- Order intake was SEK 6,672 (5,020) million, meaning an increase by 40.5 percent excluding exchange rate variations.
- Net sales was SEK 6,040 (4,684) million, meaning an increase by 35.7 percent excluding exchange rate variations.
- Adjusted EBITA was SEK 1,018 (535) million, including positive foreign exchange effects of SEK 5 million.
- Adjusted EBITA-margin was 16.9 (11.4) percent.
- The sale of the biopharm engineering activity has generated a realised loss of SEK -125 million.
- Result after financial items was SEK 751 (276) million.
- Cash flow from operating activities was SEK 995 (838) million.

Summary of the full year 2006:

- Order intake was SEK 24,018 (18,516) million, meaning an increase by 29.9 percent excluding exchange rate variations.
- Net sales was SEK 19,802 (16,330) million, meaning an increase by 21.4 percent excluding exchange rate variations.
- Adjusted EBITA was SEK 3,010 (1,766) million, including positive foreign exchange effects of SEK 61 million and reversal of provisions of SEK 40 million.
- Adjusted EBITA-margin was 15.2 (10.8) percent.
- Result after financial items was SEK 2,375 (1,099) million.
- Result after tax was SEK 1,725 (928) million.
- Earnings per share was SEK 15.10 (7.92).
- Cash flow from operating activities was SEK 2,619 (1,617) million.

- The Board of Directors will propose a dividend of SEK 6.25 (5.10) per share and a mandate for repurchase of up to 10 percent of the issued shares at the shareholders' meeting.

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."

(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.)

SEK millions, unless otherwise stated	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	2006	2005	2004
Order intake	6,672	5,020	24,018	18,516	15,740
Net sales	6,040	4,684	19,802	16,330	14,986
Adjusted EBITDA 1)	1,095	613	3,273	2,030	1,956
Adjusted EBITA 2)	1,018	535	3,010	1,766	1,695
Adjusted EBITA 2)- margin	16.9%	11.4%	15.2%	10.8%	11.3%
Result after financial items	751	276	2,375	1,099	1,262
Return on capital employed 3)			35.9%	22.7%	23.7%
Return on equity capital 3)			25.3%	16.0%	15.9%
Solidity			36.4%	35.9%	37.4%
Debt ratio, times			0.22	0.35	0.36
Cash flow from operations	995	838	2,619	1,617	1,203
Investments	181	119	373	324	388
No. of employees 4)			10,115	9,429	9,527

1) Adjusted EBITDA – "Earnings before interests, taxes, depreciation, amortisation of step up values and comparison distortion items."

2) Adjusted EBITA – "Earnings before interests, taxes, amortisation of step up values and comparison distortion items."

3) Calculated on a 12 months' revolving basis.

4) Number of employees at the end of the period.

The fourth quarter and full year report has been issued on February 7, 2007 by the President and Chief Executive Officer Lars Renström by proxy.

Lund, February 7, 2007,

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

Review report

Introduction

We have reviewed this fourth quarter 2006 interim report. Management is responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Report's Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Report's Act.

Lund, February 7, 2007,

Ingvar Ganestam
Authorised Public Accountant

Kerstin Mouchard
Authorised Public Accountant

Management's discussion and analysis

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) 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) 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.

Income statement analysis

SEK millions	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
Net sales	6,040.0	4,683.8	19,801.5	16,330.4
Adjusted gross profit	2,349.5	1,641.2	7,542.2	5,845.2
- in % of net sales	38.9	35.0	38.1	35.8
Expenses *	-1,254.3	-1,028.0	-4,269.0	-3,815.2
- in % of net sales	20.8	21.9	21.6	23.4
Adjusted EBITDA	1,095.2	613.2	3,273.2	2,030.0
- in % of net sales	18.1	13.1	16.5	12.4
Depreciation	-77.0	-78.7	-262.7	-264.3
Adjusted EBITA	1,018.2	534.5	3,010.5	1,765.7
- in % of net sales	16.9	11.4	15.2	10.8
Amortisation of step up values	-86.7	-95.2	-338.7	-315.2
Comparison distortion items	-125.1	4.3	-119.9	-73.3
EBIT	806.4	443.6	2,551.9	1,377.2

* Excluding comparison distortion items

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

Sales and administration expenses amounted to SEK 3,555.3 (3,359.0) 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) million, corresponding to 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) million for the year. The adjusted EBITA amounted to SEK 3,010.5 (1,765.7) million. The adjusted EBITA margin was 15.2 (10.8) percent. The adjusted result after tax and the minority's share of the result, excluding amortisation of step-up values and the corresponding tax, is SEK 17.23 (9.83) per share.

The operating income has been affected by comparison distortion items of SEK -119.9 (-73.3) million. In the income statement these are reported gross as a part of other operating income and other operating costs, see summary on page 14. 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. In 2006 a piece of land and some minor properties in India, France, Denmark and Germany have been sold for SEK 12.6 million with realised gains of SEK 5.6 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. In 2005 land and properties in Wales, the US and India were sold for SEK 154.9 million with realised gains of SEK 51.7 million.

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.

SEK millions	Oct 1- Dec 31 2006	Oct 1- Dec 31 2005	Jan 1- Dec 31 2006	Jan 1- Dec 31 2005
Orders received	3,438.6	2,517.5	12,617.6	9,902.4
Order backlog *			5,721.5	3,382.5
Net sales	3,173.7	2,351.5	10,933.8	8,631.5
Operating income	691.6	331.8	2,072.0	1,162.5

* At the end of the period.

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)

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.

	Oct 1- Dec 31 2006	Oct 1- Dec 31 2005	Jan 1- Dec 31 2006	Jan 1- Dec 31 2005
SEK millions				
Orders received	3,232.9	2,488.4	11,390.9	8,572.8
Order backlog *			6,630.2	4,072.9
Net sales	2,862.2	2,324.1	8,828.4	7,672.8
Operating income	376.9	215.2	1,060.2	698.8

* At the end of the period.

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)

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.

	Oct 1- Dec 31 2006	Oct 1- Dec 31 2005	Jan 1- Dec 31 2006	Jan 1- Dec 31 2005
SEK millions				
Orders received	0.1	14.0	9.6	41.1
Order backlog *			7.8	41.5
Net sales	4.1	8.2	39.3	26.1
Operating income	-137.0	-107.7	-460.4	-410.8

* At the end of the period.

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.

Order received				
Consolidated	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
SEK millions				
Customers in				
Sweden	190.6	217.8	941.9	846.3
Other EU	2,064.7	1,905.9	7,787.3	6,516.4
Other Europe	630.9	454.5	2,355.6	1,555.4
USA	1,226.4	594.3	3,746.6	2,354.3
Other North America	66.6	107.9	548.7	467.1
Latin America	296.5	216.5	1,047.3	832.9
Africa	40.3	73.1	213.8	259.2
Asia	2,077.7	1,376.7	7,072.5	5,388.1
Oceania	77.9	73.2	304.4	296.6
Total	6,671.6	5,019.9	24,018.1	18,516.3

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.

Net sales				
Consolidated	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
SEK millions				
Customers in				
Sweden	218.0	249.7	854.6	842.4
Other EU	2,129.0	1,597.6	6,808.7	5,664.3
Other Europe	646.6	419.3	1,940.8	1,428.1
USA	863.4	584.9	3,052.6	2,327.9
Other North America	114.3	150.4	609.8	436.8
Latin America	232.8	207.5	844.3	798.5
Africa	85.8	89.3	213.2	223.6
Asia	1,670.2	1,293.2	5,181.0	4,336.6
Oceania	79.9	91.9	296.5	272.2
Total	6,040.0	4,683.8	19,801.5	16,330.4

Consolidated financial result and net income

The financial net has amounted to SEK -180.1 (-318.8) 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) million, interest on the private placement and the bridge loan of SEK -33.3 (-) million, interest on the bond loan of SEK - (-116.1) million and a net of dividends and other interest income and interest

costs of SEK -69.2 (-55.1) 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 page 14.

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

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

Income taxes were SEK -613.5 (-160.1) million. The difference between 2006 and 2005 is primarily due to the increased result before tax.

The parent company's result after financial items was SEK 1,993.2 (-16.3) million, out of which net interests were SEK 7.0 (-5.7) 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) million, fees to the Board SEK -3.7 (-2.7) million, cost for annual report and annual general meeting SEK -3.4 (-4.0) million and other administration costs the remaining SEK -3.7 (-1.9) million. Appropriation to tax allocation reserve has been made with SEK -254.4 (-25.0) million. Income taxes amount to SEK -213.7 (-21.0) million. Tax on received Group contribution was SEK 286.3 (31.9) million. Net income for the year was SEK 1,811.4 (-30.4) million.

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".

The lawsuits claim damages in excess of USD 1 billion each and allege that equipment supplied by Alfa Laval's subsidiaries, among other companies, was used to create Iraqi weaponry.

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

In a press release on September 7, 2006 Alfa Laval announced that the District Court for Brazoria County now has decided 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.

Cash flow

Cash flow from operating and investing activities amounted to SEK 1,041.3 (951.9) million during 2006. Out of this, acquisitions of businesses were SEK -1,226.7 (-504.7) million whereas divestments generated cash of SEK 22.3 (163.8) million.

Working capital increased by SEK 192.3 million during 2006, whereas the corresponding figure for 2005 was a decrease by SEK 133.1.

Investments in property, plant and equipment amounted to SEK 373.1 (323.7) million during 2006. Depreciation, excluding allocated step-up values, amounted to SEK 262.7 (264.3) million during the year.

Cash and bank

The Group's cash and bank amounted to SEK 546.0 (478.8) million. The item cash and bank in the balance sheet and in the cash-flow statement is mainly relating to bank deposits.

Borrowings and net debt

Debt table

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
Total debt	2,253.0	2,833.9
Cash, bank and current deposits	-775.4	-821.2
Net debt	1,477.6	2,012.7

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.

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 maturity of the facility is five years.

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.

Alfa Laval redeemed the outstanding senior notes on November 15, 2005. As a consequence Alfa Laval has been de-registered with the SEC in the US.

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.

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.

Sale of businesses

In a press release on December 13, 2006, Alfa Laval announced that the company has taken the strategic decision to divests 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 divestment has caused a non-recurring charge to the profit and loss statement in the fourth quarter 2006 of SEK -125.5 million. The transaction was finalized at December 29, 2006.

Accounting principles

The fourth quarter interim report 2006 is in accordance with RR 31 Consolidated Interim Reports, which requires that IAS 34 Interim Financial Reporting and the Swedish Annual Report's Act must be applied. The accounting principles are according to IFRS (International Financial Reporting Standards).

Comparison figures for 2004 are recalculated to IFRS. Comparison figures are not needed for IAS 39 and are consequently not given.

Proposed disposition of earnings

The parent company has unrestricted funds of SEK 3,806.9 (1,828.8) million. SEK 1,500.0 million of the figure for 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.

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

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.

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

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.

Annual General Meeting

The Annual General Meeting of Alfa Laval AB will be held at Scandic Star Hotel in Lund on Monday April 23, 2007, at 16.00.

Annual Report 2006

The Annual Report for 2006 is estimated to be published and distributed to shareholders that have asked for a copy during week 13. The Annual Report will also be available on www.alfalaval.com.

CONSOLIDATED CASH-FLOW STATEMENTS

Amounts in SEK millions	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
Cash flow from operating activities		
Operating income	2,551.9	1,377.2
Adjustment for depreciation	601.4	579.5
Adjustment for other non-cash items	206.4	-44.1
	<u>3,359.7</u>	<u>1,912.6</u>
Taxes paid	-548.6	-429.2
	<u>2,811.1</u>	<u>1,483.4</u>
Changes in working capital:		
(Increase)/decrease of current receivables	-1,308.3	49.0
(Increase)/decrease of inventories	-724.7	-282.1
Increase/(decrease) of liabilities	1,418.2	482.6
Increase/(decrease) of provisions	422.5	-116.4
	<u>-192.3</u>	<u>133.1</u>
Cash flow from operating activities	<u>2,618.8</u>	<u>1,616.5</u>
Cash flow from investing activities		
Investments in fixed assets	-373.1	-323.7
Divestment of fixed assets	18.6	163.8
Acquisition of businesses	-1,226.7	-504.7
Divestment of businesses	3.7	-
Cash flow from investing activities	<u>-1,577.5</u>	<u>-664.6</u>
Cash flow from financing activities		
Financial net, paid	-114.8	-351.3
Dividends to owners of parent company	-569.5	-530.4
Dividends to minority owner in subsidiary	-29.0	-26.3
(Increase)/decrease of other financial assets	80.4	-31.0
Capitalised financing costs, acquisition loans	-4.1	-4.4
Increase/(decrease) of liabilities to credit institutions	-298.4	-29.3
Cash flow from financing activities	<u>-935.4</u>	<u>-972.7</u>
Net increase (decrease) in cash and bank	105.9	-20.8
Cash and bank at the beginning of the year	478.8	414.8
Translation difference in cash and bank	-38.7	84.8
Cash and bank at the end of the period	<u>546.0</u>	<u>478.8</u>
Free cash flow per share (SEK) *	9.32	8.52
Average number of shares	111,671,993	111,671,993

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

CONSOLIDATED INCOME STATEMENT

Amounts in SEK millions	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
Net sales	6,040.0	4,683.8	19,801.5	16,330.4
Cost of goods sold	-3,777.2	-3,137.8	-12,598.0	-10,800.4
Gross profit	2,262.8	1,546.0	7,203.5	5,530.0
Sales costs	-707.0	-655.6	-2,606.9	-2,365.3
Administration costs	-183.0	-248.2	-948.4	-993.7
Research and development costs	-157.3	-120.6	-526.1	-447.8
Other operating income *	60.9	133.9	281.4	323.8
Other operating costs *	-470.0	-211.9	-851.6	-669.8
Operating income	806.4	443.6	2,551.9	1,377.2
Dividends	0.3	2.7	2.6	4.9
Interest income	69.3	11.9	174.2	173.6
Interest expense *	-125.1	-182.1	-353.4	-456.7
Result after financial items	750.9	276.1	2,375.3	1,099.0
Taxes on this year's result	-246.9	37.4	-613.5	-160.1
Other taxes	-14.8	2.5	-36.8	-10.9
Net income for the year	489.2	316.0	1,725.0	928.0
Attributable to:				
Equity holders of the parent	482.7	304.7	1,686.8	884.8
Minority interests	6.5	11.3	38.2	43.2
Earnings per share (SEK)	4.32	2.73	15.10	7.92
Average number of shares	111,671,993	111,671,993	111,671,993	111,671,993

* The line has been affected by comparison distortion items, see separate specification below.

Comparison distortion items

Amounts in SEK millions	Oct 1 - Dec 31 2006	Oct 1 - Dec 31 2005	Jan 1 - Dec 31 2006	Jan 1 - Dec 31 2005
Operational				
Other operating income	60.5	129.6	275.8	272.1
Comparison distortion income	0.4	4.3	5.6	51.7
Total other operating income	60.9	133.9	281.4	323.8
Other operating costs	-344.5	-211.9	-726.1	-544.8
Comparison distortion costs	-125.5	-	-125.5	-125.0
Total other operating costs	-470.0	-211.9	-851.6	-669.8
Financial				
Interest expense	-125.1	-93.6	-353.4	-368.2
Comparison distortion costs	-	-88.5	-	-88.5
Total interest expense	-125.1	-182.1	-353.4	-456.7

In order to illustrate the quarterly development, the income statement analysis is shown also for the last ten quarters:

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
Adjusted EBITA	1,018.2	760.7	706.4	525.2	534.5	479.2	422.0	330.0	466.0	426.4
- in % of net sales	16.9	15.8	14.5	12.9	11.4	11.2	10.3	10.1	11.2	11.1
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
EBIT	806.4	677.3	624.1	444.1	443.6	452.0	348.4	133.2	397.3	401.1

* Excluding comparison distortion items

CONSOLIDATED BALANCE SHEET

Amounts in SEK millions	2006	2005
ASSETS		
Non-current assets		
Intangible assets	4,896.9	4,598.1
Property, plant and equipment	2,514.3	2,552.8
Other non-current assets	784.3	676.5
	8,195.5	7,827.4
Current assets		
Inventories	3,792.4	3,090.7
Assets held for sale	0.9	-
Accounts receivable	3,972.4	2,991.6
Other receivables	1,743.1	1,419.9
Derivative assets	269.9	55.6
Other current deposits	229.4	342.4
Cash and bank	546.0	478.8
	10,554.1	8,379.0
TOTAL ASSETS	18,749.6	16,206.4
SHAREHOLDERS' EQUITY AND LIABILITIES		
Equity		
Shareholders' equity	6,712.6	5,679.7
Minority interest	118.2	131.7
	6,830.8	5,811.4
Non-current liabilities		
Liabilities to credit institutions	1,250.9	2,701.8
Private placement	755.4	-
Provisions for pensions and similar commitments	940.5	902.8
Provision for deferred tax	949.5	766.8
Other provisions	317.5	307.1
	4,213.8	4,678.5
Current liabilities		
Liabilities to credit institutions	219.8	99.8
Accounts payable	2,143.6	1,560.7
Advances from customers	1,751.1	969.7
Other provisions	963.3	650.3
Other liabilities	2,487.8	2,256.3
Derivative liabilities	139.4	179.7
	7,705.0	5,716.5
Total liabilities	11,918.8	10,395.0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	18,749.6	16,206.4

CHANGES IN CONSOLIDATED EQUITY

Amounts in SEK millions	2006	2005	2004
At the beginning of the period	5,811.4	5,375.9	5,001.2
Changes attributable to:			
Equity holders of the parent			
Cash flow hedges	227.5	-290.5	-
Translation difference	-246.8	268.3	-95.0
Deferred tax	-65.1	90.8	-
Net income for the period	1,686.8	884.8	794.7
Dividends	-569.5	-530.4	-446.7
Subtotal	1,032.9	423.0	253.0
Minority			
Translation difference	-22.7	-4.4	-8.0
Net income for the period	38.2	43.2	45.4
Dividends	-29.0	-26.3	-22.4
Subtotal	-13.5	12.5	15.0
At the end of the period	6,830.8	5,811.4	5,269.2

The share capital of SEK 1,116,719,930 is divided into 111,671,993 shares at par value SEK 10.