# Third quarter 2007

## A record quarter!

"The third quarter 2007 was a record quarter. Order intake, invoicing and operating margin all reached record levels.

Orders received exceeded our expectations and increased organically with 29 percent and reached SEK 7.1 billion. The Marine & Diesel segment had an outstanding order intake for deliveries in 2009/2010. For the near future we see lower investments in renewable fuels caused by increased price of feed-stock and higher investment costs. We do not expect to repeat the order intake level of SEK 7.1 billion in the near future.

The operating margin in the quarter reached 21.0 percent. The combination of very high capacity utilization, very favourable product mix and high internal efficiency contributed to the result. For the fourth quarter we expect operating margin to reach approximately the same level as in the third quarter.

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

*Lars Renström, President and CEO*

***Third quarter:***

**Order intake** increased by 29.8 percent * to SEK **7,150** (5,648) million.

**Net sales** increased by 35.7 percent * to SEK **6,385** (4,810) million.

**Adjusted EBITA** was SEK **1,340** (761) million, including adverse foreign exchange effects of SEK 55 million.

**Adjusted EBITA-margin** was **21.0** (15.8) percent.

**Result after financial items** was SEK **1,252** (611) million.

**Result after tax** increased to SEK **922** (448) million.

**Earnings per share** increased to SEK **8.33** (3.91).

**Cash flow from operating activities** was SEK **976** (715) million.

***Nine months:***

**Order intake** increased by 25.5 percent * to SEK **20,977** (17,346) million.

**Net sales** increased by 32.6 percent * to SEK **17,629** (13,762) million.

**Adjusted EBITA** was SEK **3,305** (1,992) million, including adverse foreign exchange effects of SEK 210 million.

**Adjusted EBITA-margin** was **18.7** (14.5) percent.

**Result after financial items** was SEK **2,970** (1,624) million.

**Result after tax** increased to SEK **2,124** (1,236) million.

**Earnings per share** increased to SEK **18.87** (10.78).

**Cash flow from operating activities** was SEK **2,014** (1,624) million.

* excluding exchange rate variations

## Outlook for the near future

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

*(unchanged since the second quarter 2007 interim report published on July 19, 2007)*

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| **Key figures**<br>SEK millions,<br>unless otherwise stated | **July 1 - Sept 30 2007** | July 1 - Sept 30 2006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|
| **Order intake** | 7,150 | 5,648 | 20,977 | 17,346 | 24,018 | 18,516 | 15,740 |
| **Net sales** | 6,385 | 4,810 | 17,629 | 13,762 | 19,802 | 16,330 | 14,986 |
| **Adjusted EBITDA 1)** | 1,402 | 821 | 3,496 | 2,178 | 3,273 | 2,030 | 1,956 |
| **Adjusted EBITA 2)** | 1,340 | 761 | 3,305 | 1,992 | 3,010 | 1,765 | 1,695 |
| **Adjusted EBITA - margin 2)** | 21.0% | 15.8% | 18.7% | 14.5% | 15.2% | 10.8% | 11.3% |
| **Result after financial items** | 1,252 | 611 | 2,970 | 1,624 | 2,375 | 1,099 | 1,262 |
| **Return on capital employed 3)** | | | 47.1% | 29.9% | 35.9% | 22.7% | 23.7% |
| **Return on equity capital 3)** | | | 37.9% | 25.3% | 25.3% | 16.0% | 15.9% |
| **Solidity** | | | 31.7% | 34.9% | 36.4% | 35.9% | 37.4% |
| **Debt ratio, times** | | | 0.39 | 0.36 | 0.22 | 0.35 | 0.36 |
| **Cash flow from operations** | 976 | 715 | 2,014 | 1,624 | 2,619 | 1,616 | 1,203 |
| **Investments** | 97 | 55 | 241 | 192 | 373 | 324 | 388 |
| **No. of employees 4)** | | | 11,109 | 10,032 | 10,115 | 9,429 | 9,527 |

The interim report has been issued on October 23, 2007 by the President and Chief Executive Officer Lars Renström by proxy from the Board of Directors.

Lund, October 23, 2007,

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

## Review report

**Introduction**
We have reviewed this third quarter 2007 interim report. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts 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 Accounts Act and for the Parent company in accordance the Swedish Annual Accounts Act.

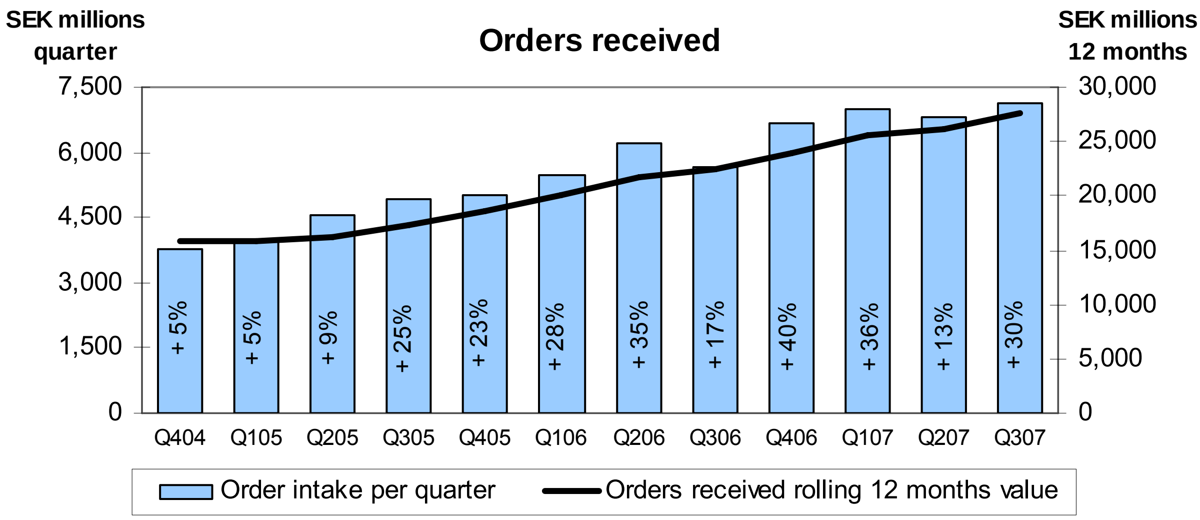
Lund, October 23, 2007,

Ingvar Ganestam
Authorised Public Accountant

Kerstin Mouchard
Authorised Public Accountant

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.

# Management's discussion and analysis



% = change by quarter compared to corresponding period last year, at constant rates

| **Order analysis** | **July 1 - Sept 30** |
|---|---|
| **2006 (SEK millions)** | 5,648 |
| Structural change | 1% |
| Currency effects | -3% |
| Organic development | 29% |
| Total | 27% |
| **2007 (SEK millions)** | 7,150 |

Orders received amounted to SEK 7,150 (5,648) million for the third quarter. Excluding exchange rate variations, the order intake for the Group was 29.8 percent higher than the third quarter last year. Adjusted for acquisitions and divestments made after September 30, 2006 [5)], the corresponding figure is 29.3 percent.

Orders received amounted to SEK 20,977 (17,346) million for the first nine months. Excluding exchange rate variations, the order intake for the Group was 25.5 percent higher than the same period last year. Adjusted for acquisitions and divestments of businesses [5)], the corresponding figure is 22.9 percent.

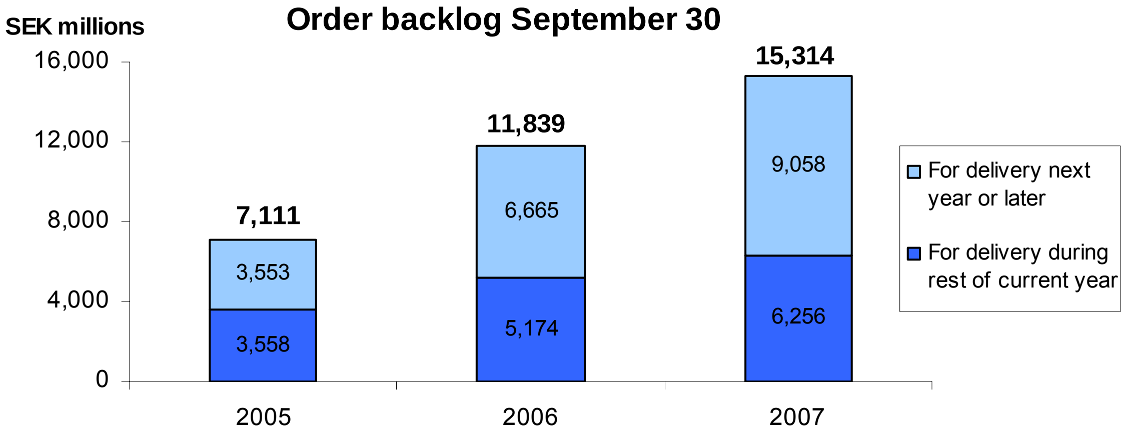
Orders received from the aftermarket "Parts & Service" has continued to develop positively and increased by 19.1 percent compared to the corresponding period last year excluding exchange rate variations. Its relative share of the Group's total orders received was 19.6 (20.7) percent.

***Large orders [6)] in the third quarter:***

During the third quarter 2007 Alfa Laval received large orders for SEK 360 (125) million:

- Two different orders for equipment to produce nutritional supplements containing Omega-3. The combined order value is about SEK 135 million. Delivery will take place in 2008.
- Order for a black liquor evaporation plant to an Indian paper mill. The order value is about SEK 60 million. Delivery is scheduled for 2008.
- Order for heat exchangers and seawater filters to a Latin American petrochemical company. The order value is about SEK 50 million and delivery will take place during 2008.
- Order for process solutions to two breweries in Ukraine. The order value is approximately SEK 50 million. Delivery will take place late 2007 and during 2008.
- Order for an evaporation system to an American company. The order value is about SEK 65 million and includes a ten year maintenance agreement. Delivery will take place during 2008.

5. Acquired businesses are: Tranter at March 1, 2006
DSO at March 16, 2007
Helpman at April 4, 2007
AGC Engineering at July 2, 2007
Divested business is: The biopharm engineering activity at December 29, 2006
6. Orders with a value over EUR 5 million.




The order backlog at September 30, 2007 was SEK 15,314 (11,839) million. Excluding exchange rate variations and adjusted for acquisitions and divestments made after September 30, 2006, the order backlog was 34.8 percent higher than the order backlog at September 30, 2006 and 26.4 percent higher than the order backlog at the end of 2006.

## CONSOLIDATED INCOME STATEMENT

| Amounts in SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| Net sales | 6,385 | 4,810 | 17,629 | 13,762 | 19,802 | 16,330 |
| Cost of goods sold | -3,974 | -3,104 | -10,986 | -8,821 | -12,598 | -10,800 |
| Gross profit | 2,411 | 1,706 | 6,643 | 4,941 | 7,204 | 5,530 |
| Sales costs | -716 | -635 | -2,047 | -1,900 | -2,607 | -2,365 |
| Administration costs | -256 | -254 | -848 | -765 | -948 | -994 |
| Research and development costs | -132 | -118 | -437 | -369 | -526 | -448 |
| Other operating income * | 80 | 115 | 197 | 220 | 281 | 324 |
| Other operating costs * | -119 | -137 | -441 | -382 | -852 | -670 |
| Operating income | 1,268 | 677 | 3,067 | 1,745 | 2,552 | 1,377 |
| Dividends | 0 | 1 | 1 | 2 | 2 | 5 |
| Interest income | 43 | -1 | 173 | 105 | 174 | 174 |
| Interest expense * | -59 | -66 | -271 | -228 | -353 | -457 |
| Result after financial items | 1,252 | 611 | 2,970 | 1,624 | 2,375 | 1,099 |
| Taxes | -330 | -163 | -846 | -388 | -650 | -171 |
| Net income for the year | 922 | 448 | 2,124 | 1,236 | 1,725 | 928 |
| Attributable to: | | | | | | |
| Equity holders of the parent | 910 | 436 | 2,091 | 1,204 | 1,687 | 885 |
| Minority interests | 12 | 12 | 33 | 32 | 38 | 43 |
| Earnings per share (SEK) | 8.33 | 3.91 | 18.87 | 10.78 | 15.10 | 7.92 |
| Average number of shares | 109,293,636 | 111,671,993 | 110,789,668 | 111,671,993 | 111,671,993 | 111,671,993 |

* The line has been affected by comparison distortion items, see separate specification on page 6.

Excluding exchange rate variations, the invoicing was 35.7 percent higher than the third quarter last year. Adjusted for acquisitions and divestments of businesses made after September 30, 2006, the corresponding figure is 34.6 percent.

Excluding exchange rate variations, the invoicing was 32.6 percent higher than the period January to September last year. Adjusted for acquisitions and divestments of businesses, the corresponding figure is 28.7 percent.

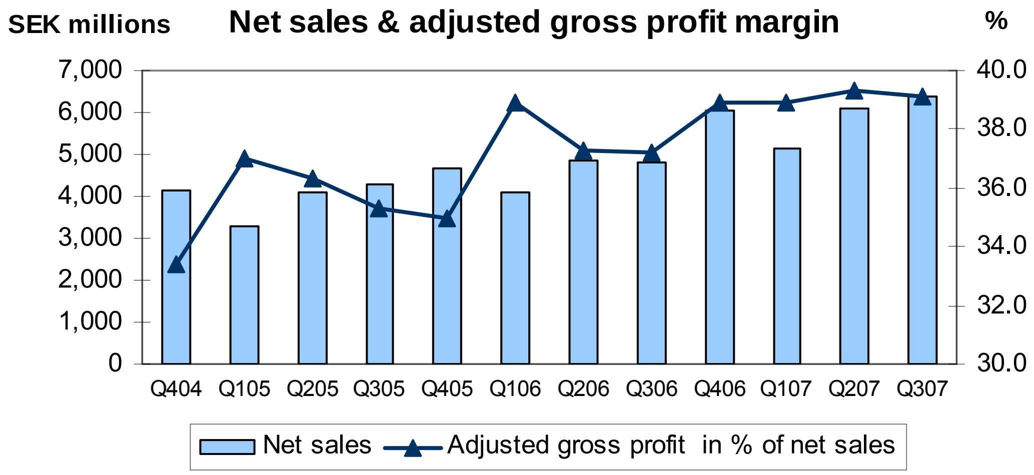
Sales and administration expenses amounted to SEK 2,895 (2,665) million. Adjusted for exchange rate variations and acquisitions and divestments of businesses, sales and administration expenses were 9.4 percent higher than last year.

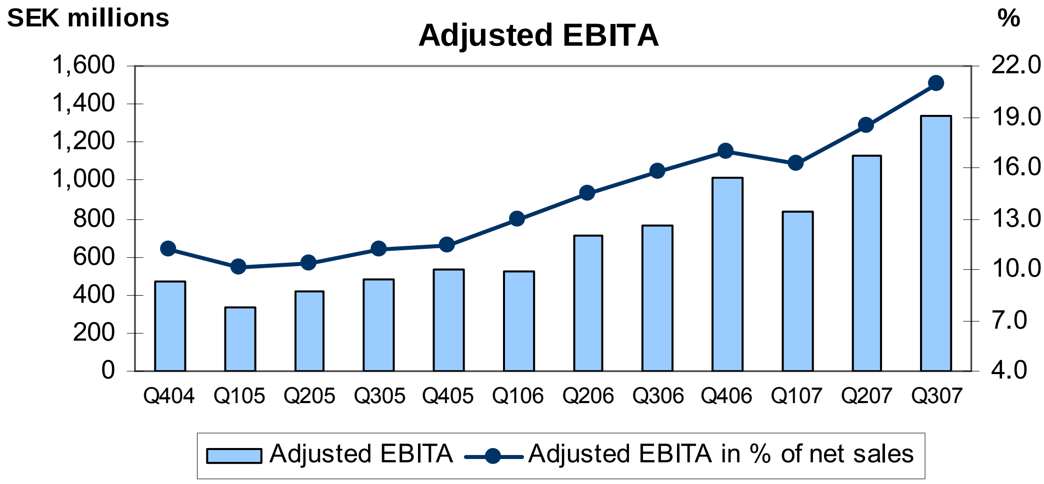
The costs for research and development have amounted to SEK 437 (369) million, corresponding to 2.5 (2.7) percent of net sales. Adjusted for exchange rate variations and acquisitions and divestments, the costs for research and development have increased by 18.2 percent compared to last year.

| **Income statement analysis** SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| Net sales | 6,385 | 4,810 | 17,629 | 13,762 | 19,802 | 16,330 |
| **Adjusted gross profit *** | 2,498 | 1,791 | 6,898 | 5,193 | 7,542 | 5,845 |
| ***- in % of net sales*** | ***39.1*** | ***37.2*** | ***39.1*** | ***37.7*** | ***38.1*** | ***35.8*** |
| Expenses ** | -1,096 | -970 | -3,402 | -3,015 | -4,269 | -3,815 |
| *- in % of net sales* | *17.2* | *20.2* | *19.3* | *21.9* | *21.6* | *23.4* |
| **Adjusted EBITDA** | **1,402** | **821** | **3,496** | **2,178** | **3,273** | **2,030** |
| *- in % of net sales* | *22.0* | *17.1* | *19.8* | *15.8* | *16.5* | *12.4* |
| Depreciation | -62 | -60 | -191 | -186 | -263 | -265 |
| **Adjusted EBITA** | **1,340** | **761** | **3,305** | **1,992** | **3,010** | **1,765** |
| ***- in % of net sales*** | ***21.0*** | ***15.8*** | ***18.7*** | ***14.5*** | ***15.2*** | ***10.8*** |
| Amortisation of step up values | -87 | -85 | -255 | -252 | -338 | -315 |
| Comparison distortion items | 15 | 1 | 17 | 5 | -120 | -73 |
| EBIT | 1,268 | 677 | 3,067 | 1,745 | 2,552 | 1,377 |

* Excluding amortisation of step up values. ** Excluding comparison distortion items.

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 20.40 (12.34) per share.






| **Comparison distortion items**<br>Amounts in SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| **Operational** | | | | | | |
| Other operating income | 65 | 114 | 180 | 215 | 275 | 272 |
| Comparison distortion income | 15 | 1 | 17 | 5 | 6 | 52 |
| Total other operating income | 80 | 115 | 197 | 220 | 281 | 324 |
| | | | | | | |
| Other operating costs | -119 | -137 | -441 | -382 | -726 | -545 |
| Comparison distortion costs | - | - | - | - | -126 | -125 |
| Total other operating costs | -119 | -137 | -441 | -382 | -852 | -670 |
| **Financial** | | | | | | |
| Interest expense | -59 | -66 | -271 | -228 | -353 | -368 |
| Comparison distortion costs | - | - | - | - | - | -89 |
| Total interest expense | -59 | -66 | -271 | -228 | -353 | -457 |

The operating income has been affected by comparison distortion items of SEK 17 (5) million. In the income statement these are reported gross as a part of other operating income and other operating costs. The income in 2007 refers to realised gains mainly on sale of a property in Belgium but also to a minor sale of land and buildings in India.

## Consolidated financial result and taxes

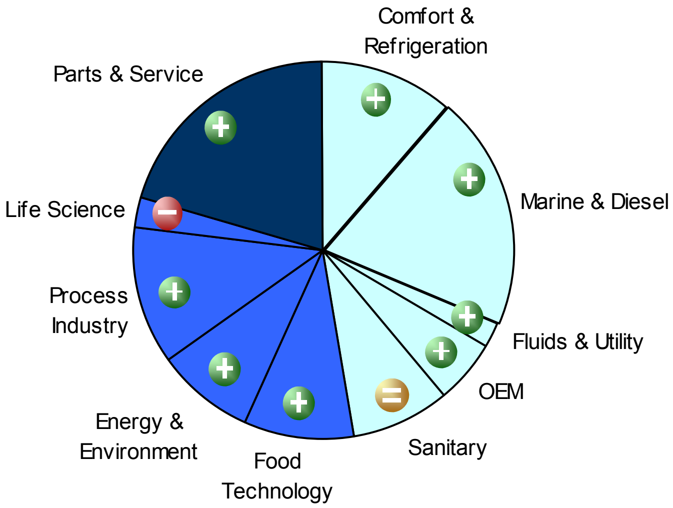
The financial net has amounted to SEK -140 (-128) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on debt to the banking syndicate of SEK -41 (-64) million, interest on the private placement and the bridge loan of SEK -30 (-24) million and a net of dividends and other interest income and interest costs of SEK -69 (-40) million.

The net of realised and unrealised exchange rate differences amounts to SEK 43 (7) million.

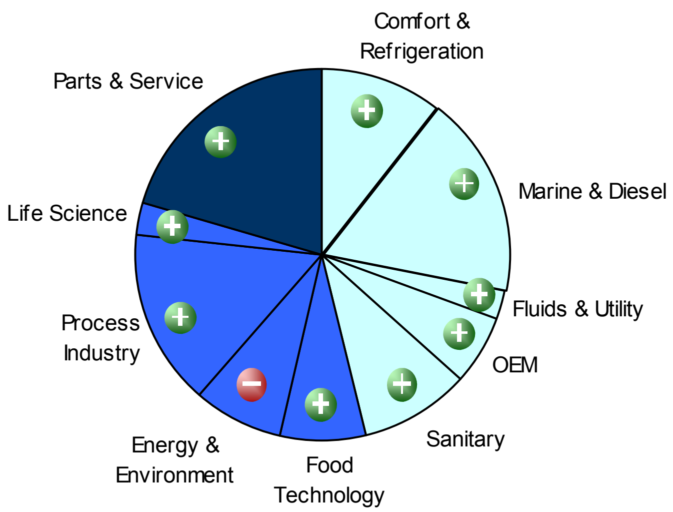
The increase in income taxes between 2007 and 2006 is primarily due to the increased result before tax.

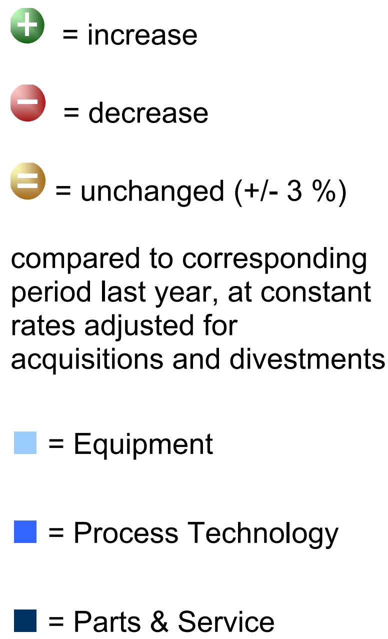
## Divisional reporting

**Orders received by segment Q3 2007**




**Orders received by segment YTD 2007**




## Equipment division

| SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| Orders received | 4,182 | 3,123 | 12,064 | 9,179 | 12,617 | 9,902 |
| Order backlog * | | | 7,638 | 5,490 | 5,722 | 3,382 |
| Net sales | 3,590 | 2,759 | 9,974 | 7,760 | 10,934 | 8,631 |
| Operating income | 763 | 527 | 1,978 | 1,380 | 2,072 | 1,162 |

* At the end of the period.

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

Orders received increased by 36.3 percent and net sales increased by 32.7 percent during the first nine months 2007 compared to the corresponding period last year. Adjusted for acquisitions and divestments of businesses, the corresponding figures are 31.5 percent and 24.7 percent.

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

*Operating income (excluding comparison distortion items)*

The increase in operating income during the first nine months 2007 compared to the corresponding period last year is mainly explained by a higher gross profit due to the volume increase, marginally offset by increased sales and administration costs.

## Process Technology division

| SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2,006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| Orders received | 2,932 | 2,523 | 8,858 | 8,158 | 11,391 | 8,573 |
| Order backlog * | | | 7,626 | 6,342 | 6,630 | 4,073 |
| Net sales | 2,789 | 2,047 | 7,643 | 5,967 | 8,829 | 7,673 |
| Operating income | 569 | 208 | 1,431 | 683 | 1,060 | 699 |

* At the end of the period.

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

Orders received increased by 12.7 percent and net sales increased by 33.1 percent during the first nine months 2007 compared to the corresponding period last year. Adjusted for acquisitions and divestments of businesses, the corresponding figures are 13.3 percent and 34.2 percent.

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

*Operating income (excluding comparison distortion items)*

The increase in operating income during the first nine months 2007 compared to the corresponding period last year is foremost explained by a higher gross profit due to the volume increase, marginally offset by increased R&D and sales and administration costs.

## Operations division and Other

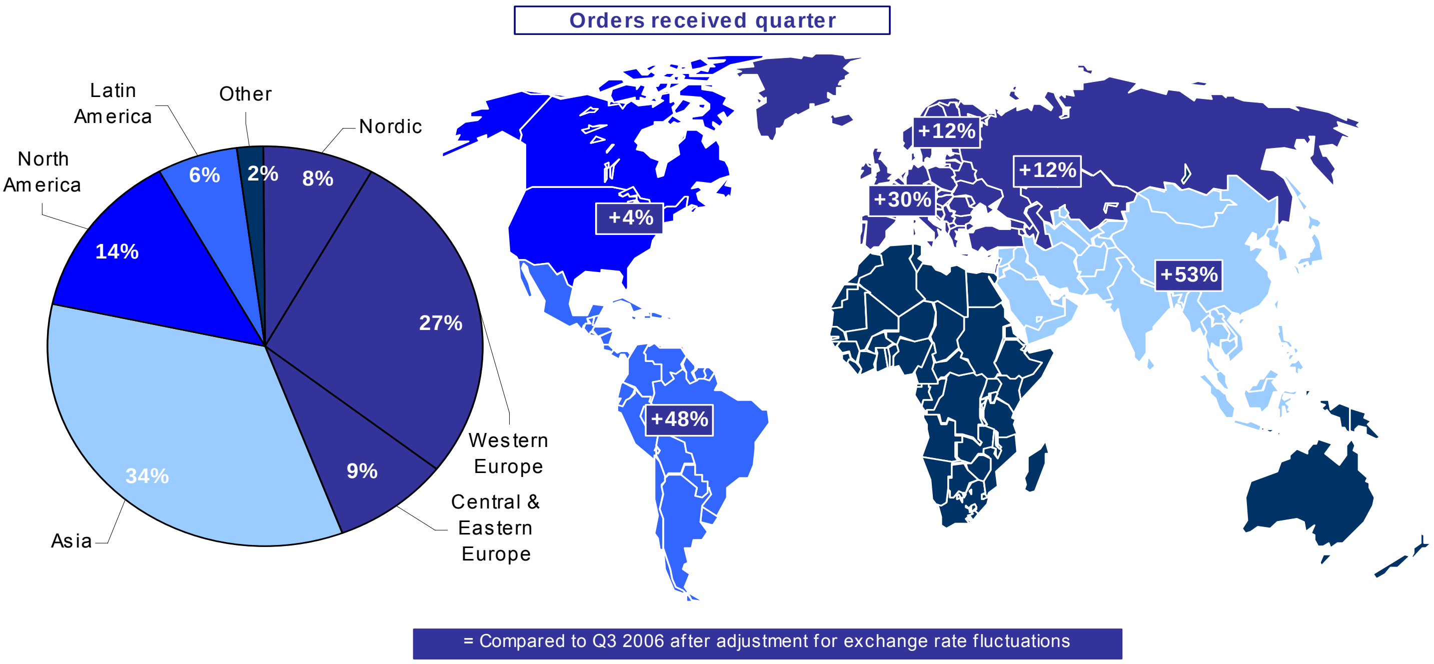
Operations are responsible for procurement, production and logistics. Other is referring to corporate overhead and non-core businesses.

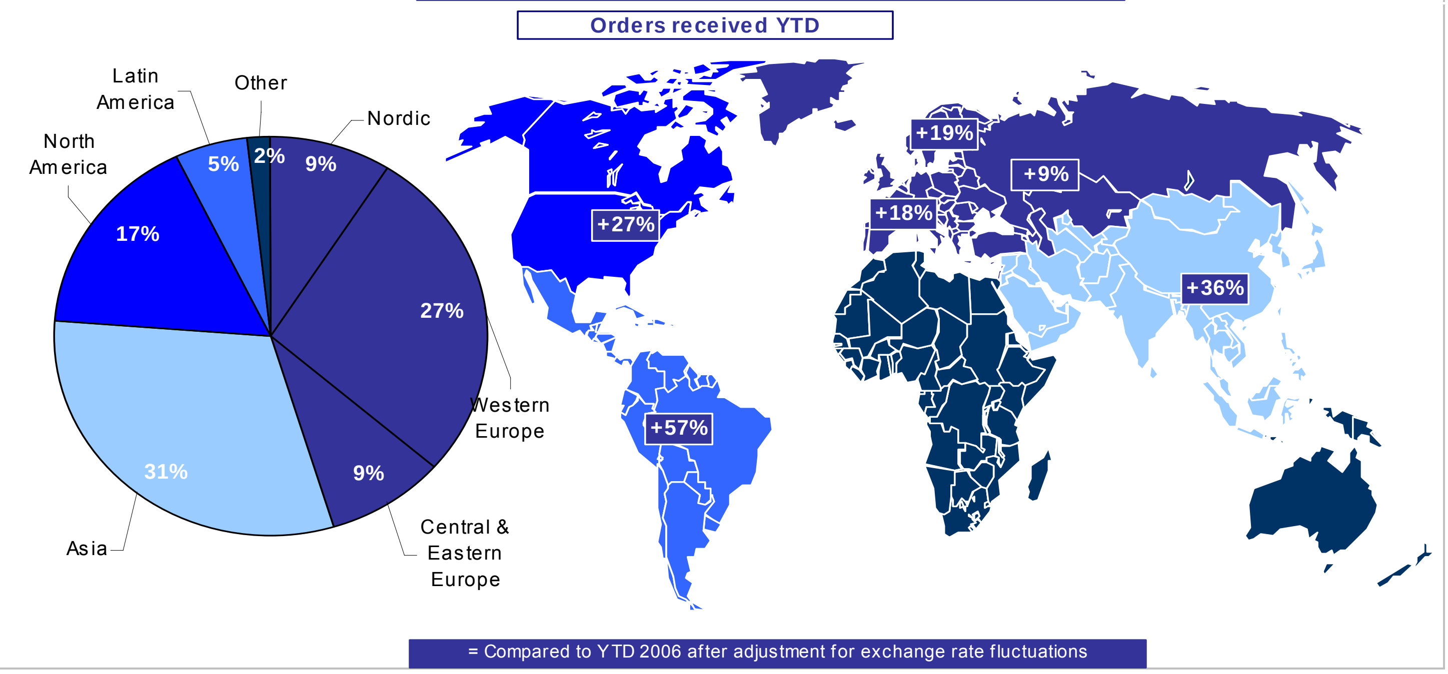
| SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2,006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| Orders received | 36 | 2 | 55 | 9 | 10 | 41 |
| Order backlog * | | | 50 | 7 | 8 | 42 |
| Net sales | 6 | 4 | 12 | 35 | 39 | 26 |
| Operating income | -79 | -59 | -359 | -323 | -460 | -411 |

* At the end of the period.

## Reporting by geographical markets

The Group's secondary segments are geographical markets. All comments are after adjustment for exchange rate fluctuations.



### Western Europe including Nordic

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

### Central and Eastern Europe

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

### North America

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

### Latin America

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

### Asia

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

| **CONSOLIDATED CASH-FLOW STATEMENTS**<br>Amounts in SEK millions | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Operating income | 3,067 | 1,745 | 2,552 | 1,377 |
| Adjustment for depreciation | 446 | 438 | 601 | 580 |
| Adjustment for other non-cash items | 23 | 7 | 207 | -45 |
| | 3,536 | 2,190 | 3,360 | 1,912 |
| Taxes paid | -893 | -386 | -549 | -429 |
| | 2,643 | 1,804 | 2,811 | 1,483 |
| Changes in working capital: | | | | |
| (Increase)/decrease of current receivables | -941 | -730 | -1,308 | 49 |
| (Increase)/decrease of inventories | -1,022 | -667 | -725 | -282 |
| Increase/(decrease) of liabilities | 980 | 836 | 1,418 | 482 |
| Increase/(decrease) of provisions | 354 | 381 | 423 | -116 |
| **(Increase)/decrease in working capital** | **-629** | **-180** | **-192** | **133** |
| | 2,014 | 1,624 | 2,619 | 1,616 |
| **Cash flow from investing activities** | | | | |
| Investments in fixed assets (Capex) | -241 | -192 | -373 | -324 |
| Divestment of fixed assets | 30 | 9 | 19 | 164 |
| Acquisition of businesses | -736 | -1,228 | -1,227 | -505 |
| Divestment of businesses | - | - | 4 | - |
| | -947 | -1,411 | -1,577 | -665 |
| **Cash flow from financing activities** | | | | |
| Financial net, paid | -166 | -52 | -115 | -351 |
| Repurchase of shares | -1,365 | - | - | - |
| Dividends to owners of parent company | -698 | -570 | -570 | -530 |
| Dividends to minority owners in subsidiary | -18 | -18 | -29 | -26 |
| (Increase)/decrease of other financial assets | -35 | 125 | 80 | -31 |
| Capitalised financing costs, acquisition loans | - | -4 | -4 | -4 |
| Increase/(decrease) of liabilities to credit institutions | 1,413 | 377 | -298 | -30 |
| | -869 | -142 | -936 | -972 |
| **Net increase (decrease) in cash and bank** | 198 | 71 | 106 | -21 |
| Cash and bank at the beginning of the year | 546 | 479 | 479 | 415 |
| Translation difference in cash and bank | 4 | -27 | -39 | 85 |
| **Cash and bank at the end of the period** | 748 | 523 | 546 | 479 |
| Free cash flow per share (SEK) * | 9.63 | 1.91 | 9.32 | 8.52 |
| Capex in relation to sales | 1.4% | 1.4% | 1.9% | 2.0% |
| Average number of shares | 110,789,668 | 111,671,993 | 111,671,993 | 111,671,993 |

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

Cash flow from operating and investing activities amounted to SEK 1,067 (213) million during the first nine months. As a result of increased volumes and profit the cash flow has been burdened by increased tax payments and build up of working capital. Depreciation, excluding allocated step-up values, was SEK 191 (186) million during the first nine months, whereas the investments were SEK 241 (192) million.

## CONSOLIDATED BALANCE SHEET

| Amounts in SEK millions | **Sept 30 2007** | Sept 30 2006 | Dec 31 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 5,351 | 5,265 | 4,897 |
| Property, plant and equipment | 2,521 | 2,460 | 2,515 |
| Other non-current assets | 1,123 | 765 | 784 |
| | 8,995 | 8,490 | 8,196 |
| **Current assets** | | | |
| Inventories | 4,879 | 3,826 | 3,792 |
| Assets held for sale | 1 | - | 1 |
| Accounts receivable | 4,991 | 3,821 | 3,973 |
| Other receivables | 1,737 | 1,353 | 1,743 |
| Derivative assets | 311 | 89 | 270 |
| Other current deposits | 220 | 200 | 229 |
| Cash and bank * | 748 | 523 | 546 |
| | 12,887 | 9,812 | 10,554 |
| **TOTAL ASSETS** | 21,882 | 18,302 | 18,750 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Shareholders' equity | 6,844 | 6,247 | 6,713 |
| Minority interest | 94 | 138 | 118 |
| | 6,938 | 6,385 | 6,831 |
| **Non-current liabilities** | | | |
| Liabilities to credit institutions | 2,524 | 1,982 | 1,251 |
| Private placement | 716 | 801 | 755 |
| Provisions for pensions and similar commitments | 915 | 943 | 941 |
| Provision for deferred tax | 912 | 827 | 949 |
| Other provisions | 405 | 305 | 318 |
| | 5,472 | 4,858 | 4,214 |
| **Current liabilities** | | | |
| Liabilities to credit institutions | 390 | 196 | 220 |
| Accounts payable | 2,247 | 1,694 | 2,144 |
| Advances from customers | 2,128 | 1,581 | 1,751 |
| Other provisions | 1,174 | 883 | 963 |
| Other liabilities | 3,384 | 2,583 | 2,488 |
| Derivative liabilities | 149 | 122 | 139 |
| | 9,472 | 7,059 | 7,705 |
| Total liabilities | 14,944 | 11,917 | 11,919 |
| **TOTAL SHAREHOLDERS' EQUITY & LIABILITIES** | 21,882 | 18,302 | 18,750 |

* The item cash and bank is mainly relating to bank deposits.

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 64 (117) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 76.7 (64.1) percent.

**Borrowings and net debt**

| Consolidated SEK in millions | **Sept 30 2007** | Sept 30 2006 | Dec 31 2006 |
|---|---|---|---|
| Credit institutions | 2,914 | 2,178 | 1,471 |
| Private placement | 716 | 801 | 755 |
| Capitalised financial leases | 34 | 27 | 25 |
| Interest-bearing pension liabilities | 2 | 3 | 2 |
| Total debt | 3,666 | 3,009 | 2,253 |
| Cash, bank and current deposits | -968 | -723 | -775 |
| Net debt | 2,698 | 2,286 | 1,478 |

Alfa Laval has a senior credit facility with a banking syndicate of EUR 268 million and USD 348 million, corresponding to SEK 4,726 million. At September 30, 2007, SEK 2,249 million of the facility were utilised. The facility matures in April 2011 with another year's option until April 2012.

The private placement of USD 110 million matures in 2016.

## CHANGES IN CONSOLIDATED EQUITY

| Amounts in SEK millions | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 |
|---|---|---|---|
| **At the beginning of the period** | 6,831 | 5,811 | 5,811 |
| | | | |
| ***Changes attributable to:*** | | | |
| ***Equity holders of the parent*** | | | |
| Repurchase of shares | -1,365 | - | - |
| Increase of ownership in Alfa Laval (India) Ltd | 56 | - | - |
| Cash flow hedges | 4 | 92 | 228 |
| Translation difference | 46 | -134 | -247 |
| Deferred tax | -3 | -24 | -65 |
| Net income for the period | 2,091 | 1,204 | 1,687 |
| Dividends | -698 | -570 | -570 |
| ***Subtotal*** | 131 | 568 | 1,033 |
| | | | |
| ***Minority*** | | | |
| Decrease of minority in Alfa Laval (India) Ltd | -56 | - | - |
| Translation difference | 17 | -8 | -22 |
| Net income for the period | 33 | 32 | 38 |
| Dividends | -18 | -18 | -29 |
| ***Subtotal*** | -24 | 6 | -13 |
| | | | |
| **At the end of the period** | 6,938 | 6,385 | 6,831 |

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

## Ownership and legal structure

Alfa Laval AB (publ) is the parent company of the Alfa Laval Group. The company had 15,278 (11,415) shareholders on September 30, 2007. The largest owner is Tetra Laval B.V., the Netherlands who owns 17.7 (17.7) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 7.0 to 1.6 percent. These ten largest owners own 49.2 (53.6) percent of the shares.

## Repurchase of shares

The Annual General Meeting 2007 gave the Board a mandate to decide on repurchase of the company's shares – if the Board deems this appropriate – until the next Annual General Meeting. The mandate referred to repurchase of up to 10 percent of the issued shares with the purpose to cancel the repurchased shares and reduce the share capital. The repurchase would be made through transactions on OMX Stockholm's Stock Exchange. Until September 30, 2007 Alfa Laval has made the following repurchases:

| **Specification of repurchase of shares** | April 1 - June 30 | July 1 - Sept 30 | Total 2007 |
|---|---|---|---|
| Number of repurchased shares | 1,011,969 | 2,246,920 | 3,258,889 |
| Percentage of outstanding shares | 0.9% | 2.0% | 2.9% |
| Decrease of equity capital in parent company and consolidated Group (SEK millions) | 426 | 939 | 1,365 |

## Material factors of risk and uncertainty

The main factors of risk and uncertainty facing the Group concern the price development and availability of strategic metals, 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. It is the company's opinion that the description of risks made in the Annual Report for 2006 is still correct. For additional information reference is therefore made to the Annual report for 2006 and the sections on financial and operational risks on pages 65 to 69 and the section on critical accounting principles, the section on key sources of estimation uncertainty and the section on judgements under accounting principles on page 59.

## Asbestos-related lawsuits

The Alfa Laval Group was as of September 30, 2007, named as a co-defendant in a total of 237 asbestos-related lawsuits with a total of approximately 286 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.

## Purchase of businesses

On July 2, 2007 Alfa Laval acquired the American company AGC Engineering, Inc. The company provides sanitary plate heat exchanger service and equipment to the dairy and food processing industries. AGC has a turnover of approximately SEK 70 million and 65 employees. The acquisition adds a complementary channel for sanitary plate heat exchangers to the dairy and food processing industries mainly in the USA. This applies to new units as well as parts and service. AGC will not be integrated into Alfa Laval. The two organizations will go to market independently of each other according to a multi-brand strategy.

Through a public offer that closed on May 26, 2007 Alfa Laval increased the ownership in the Indian subsidiary Alfa Laval (India) Ltd with 12.6 percent to 76.7 percent. The total cost for the acquisition was SEK 505 million.

On April 4, 2007 Alfa Laval acquired the Dutch company Helpman. Helpman is a leading company in the European market for air heat exchangers used in the sensitive logistical chain for food, i.e. refrigeration and temperature control to secure the final quality of the products. Helpman had a turnover in 2006 of about SEK 200 million and has approximately 130 employees within R&D, sales and at two manufacturing units, in Groningen, the Netherlands and in Sofia, Bulgaria. The intention is to fully integrate Helpman into Alfa Laval.

On March 16, 2007 Alfa Laval acquired the American company DSO Fluid Handling. The acquisition strengthens Alfa Laval's position within sanitary processing industries in the US. DSO is a supplier of predominantly parts for pumps and valves and adds a complementary channel for replacement parts. In line with Alfa Laval's multi-brand strategy, DSO will continue to sell its products under its own brand. DSO had a turnover in 2006 of about SEK 50 million and has approximately 20 employees. DSO is based in Irvington (Newark), New Jersey USA.

## Accounting principles

The third quarter interim report 2007 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). This means that the same accounting principles and accounting estimates have been applied in the third quarter interim report 2007 as for the annual report for 2006. The changes in Swedish legislation that are an effect of the European Union's Transparency Directive and that are effective from July 1, 2007 have been implemented.

## Parent company

The parent company's result after financial items was SEK 1,232 (1,991) million, out of which net interests were SEK 32 (0) million, realised and unrealised exchange rate gains and losses SEK 0 (-1) million, dividends from subsidiaries SEK 1,208 (2,000) million, costs related to the listing SEK -2 (-1) million, fees to the Board SEK -2 (-2) million, cost for annual report and annual general meeting SEK -3 (-3) million and other administration costs the remaining SEK -1 (-2) million.

## PARENT COMPANY INCOME STATEMENT

| Amounts in SEK millions | **July 1 - Sept 30 2007** | July 1 - Sept 30 2006 | **Jan 1 - Sept 30 2007** | Jan 1 - Sept 30 2006 | Jan 1 - Dec 31 2006 | Jan 1 - Dec 31 2005 |
|---|---|---|---|---|---|---|
| Administration costs | 0 | -1 | -7 | -7 | -11 | -9 |
| Other operating costs | -1 | 0 | -1 | -1 | -1 | -2 |
| Operating income/loss | -1 | -1 | -8 | -8 | -12 | -11 |
| Dividends | - | - | 1,208 | 2,000 | 2,000 | - |
| Interest income and similar result items | 13 | 5 | 34 | 8 | 15 | 2 |
| Interest costs and similar result items | -1 | 0 | -2 | -9 | -10 | -7 |
| Result after financial items | 11 | 4 | 1,232 | 1,991 | 1,993 | -16 |
| Appropriation to tax allocation reserve | - | - | - | -25 | -254 | -25 |
| Income tax | -3 | -24 | -7 | -45 | -214 | -21 |
| Tax on received Group contribution | - | - | - | - | 286 | 32 |
| Net result for the year | 8 | -20 | 1,225 | 1,921 | 1,811 | -30 |

## PARENT COMPANY BALANCE SHEET

| Amounts in SEK millions | **Sept 30 2007** | Sept 30 2006 | Dec 31 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Shares in group companies | 4,669 | 4,669 | 4,669 |
| **Current assets** | | | |
| Receivables on group companies | 1,025 | 1,063 | 2,081 |
| Other receivables | 42 | 3 | 2 |
| Cash and bank | - | - | - |
| | 1,067 | 1,066 | 2,083 |
| **TOTAL ASSETS** | 5,736 | 5,735 | 6,752 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Restricted equity capital | 2,386 | 2,386 | 2,386 |
| Unrestricted equity capital | 2,969 | 3,227 | 3,807 |
| | 5,355 | 5,613 | 6,193 |
| **Untaxed reserves** | | | |
| Tax allocation reserve, taxation 2005 | 81 | 81 | 81 |
| Tax allocation reserve, taxation 2006 | 25 | 25 | 25 |
| Tax allocation reserve, taxation 2007 | 254 | - | 254 |
| | 360 | 106 | 360 |
| **Current liabilities** | | | |
| Liabilities to group companies | 20 | 15 | 33 |
| Accounts payable | 1 | 1 | 1 |
| Tax liabilities | - | - | 165 |
| | 21 | 16 | 199 |
| **TOTAL EQUITY CAPITAL AND LIABILITIES** | 5,736 | 5,735 | 6,752 |

## Date for the next financial report

The fourth quarter and full year 2007 report will be published on February 6, 2008.

## Events after the balance sheet date

*Raised financial targets.*

The Board has reviewed the Group's financial targets. The Group's improved product mix and productivity as well as a structural increase in demand from energy related industries have resulted in a raised target level for two of the financial targets. The targets for:

- Average growth over a business cycle is unchanged: at least 5 percent per year
- Operating margin (EBITA) over a business cycle is increased to: 15 percent (from 12-15 percent)
- Return on capital employed is increased to: a minimum 25 percent (from a minimum 20 percent)

## Nomination Committee for the Annual General Meeting 2008

In accordance with a resolution taken at the Annual General Meeting of Alfa Laval AB on April 23, 2007, the Chairman of the Board, Anders Narvinger has contacted the largest shareholders to constitute the Nomination Committee in preparation of the Annual General Meeting 2008. The representatives of the largest owners are: Finn Rausing, Tetra Laval, Lars-Åke Bokenberger, AMF-Pension, Jan Andersson, Robur, Lars Öhrstedt, AFA/TFA-försäkringar samt Peter Rudman, Nordea Fonder.

The Annual General Meeting of Alfa Laval AB will be held at Olympen, Sparta, Tunavägen 39 in Lund on Tuesday April 22, 2008, at 16.00.

Shareholders who wish to submit proposals to the Nomination Committee in preparation of the Annual General Meeting can turn to the Chairman of the Board of Alfa Laval AB at: Anders.Narvinger@teknikforetagen.se or to one of the shareholder representatives at:

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