



Annual Report 2004



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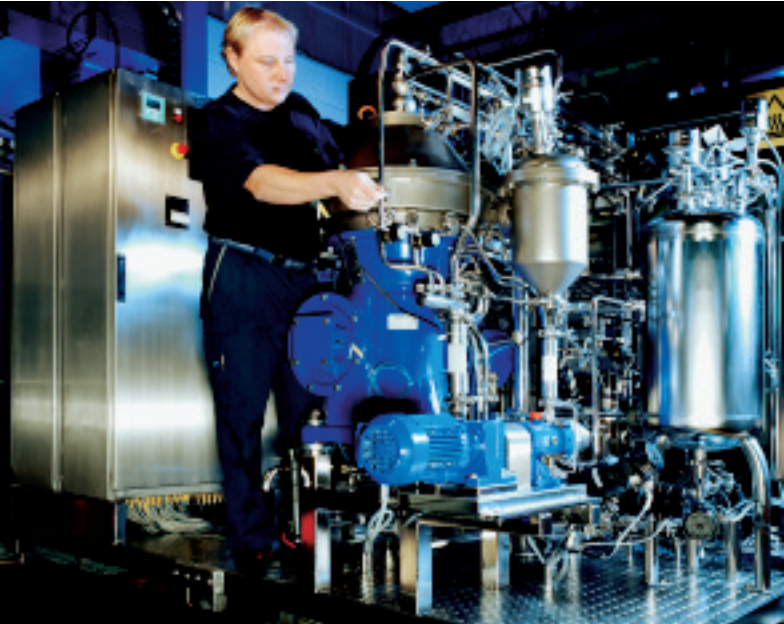
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	Definitions

Cover:

The natural driving force C_2H_5OH . Or ethanol in more easily understood letters. It is generated from corn, grain and other agricultural products. Serves as an additive in the fuel you use in your car. Converts to pure water and carbon dioxide in the combustion process. Provides plants with the perfect environment in which to flourish. And in such a manner completes nature's closed cycle. Alfa Laval plays a key role in this continuous process. The company is a world leader in heat exchangers, evaporators, condensers and separators for ethanol production. And Alfa Laval is prepared to meet the accelerating need for new plants.

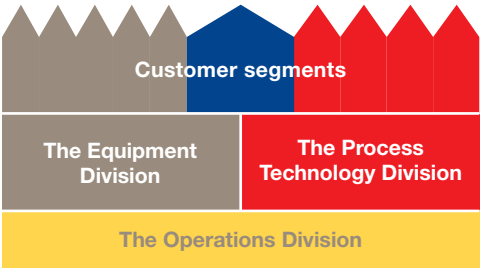
Industrial traditions from the 19th Century

Gustaf de Laval was a great engineering genius whose inventions include the centrifugal separator and the first functional steam turbine. During his lifetime, he registered 92 patents and started 37 companies. In 1883, he and his partner, Oscar Lamm Jr., established the company AB Separator, the forerunner of today's Alfa Laval.



Market-leading positions that are developed continuously

Alfa Laval's operations are based on leading global positions within the three key technologies, heat transfer, separation and fluid handling. Continuous development of products is required to strengthen competitiveness. Annually, approximately 2.5 percent of sales is invested in research and development, which results in 25-30 new products each year.



An organization near the customers

The market strategy at Alfa Laval is based on a sales organization that works close to the customers. To be close to the customer, the company is organized into various customer segments and to gain a distinct customer focus the segments are divided into two divisions. The Process Technology Division and the Equipment Division market and sell the company's products, with different offerings and different customer segments. The Operations Division is responsible for production procurement, manufacturing and logistics.

Profitable growth

Alfa Laval's growth strategy is based on its growing faster than the competition. The company intends to grow while – at least – maintaining its profitability. The aim is to achieve an annual average growth rate of 5 percent over a business cycle.

Alfa Laval in 2 minutes

SEK 1,118 million in operating cash flow

During 2004, Alfa Laval generated an operating cash flow of SEK 1,118 million, corresponding to 7.5 percent of consolidated sales.



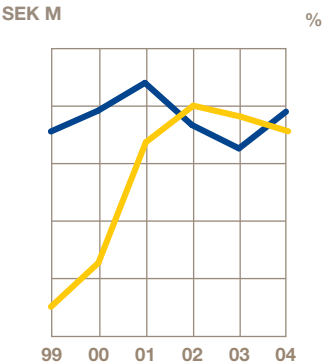
Global Alfa Laval

Alfa Laval's products are sold in approximately 100 countries, of which 55 through its own sales organizations. About 50 percent of sales are in Europe, 30 percent in Asia and 20 percent in North and South America. The company has 20 large production units (12 in Europe, six in Asia and two in the US), and 70 service centers. Alfa Laval has about 9,400 employees (9,350). The largest number of employees are in Sweden (1,899), Denmark (1,126), India (1,045), the US (826) and France (583).

The share

The Alfa Laval share declined during the year by slightly less than 2 percent, closing at SEK 107 (109). Since the introductory listing on May 17, 2002, the share price has risen 17 percent. The number of shareholders increased during the year to 11,758 (7,254).

2770	TV4 A (L)	+1
1434	ACTIVE BIOTECH (L)	+3
13456	ALFA LAVAL	+0,
10367	AXFOOD	+0
1826	AXIS	-0,
1511	BIACORE	+0
2937	BILIA A	-1
5725	BILLERUD	+1
10129	BOLIDEN	+0
1626	BOSS MEDIA	-1
3768	BROSTRÖM B	+0
8326	CAPIO	-1
2331	CAPONA (L)	+3
5753	CARNEGIE	-2
1632	CONCORDIA B	+0
1712	ENEA	-1
12652	ENIRO	-
199436	H&M B	+
1280	HIQ INTERN	+
1162	IBS B	+
2750	INTENTIA B	-
4802	INTRUM JUSTITIA	-



SEK 15 billion in sales and operating margin of 11.3 percent (adjusted EBITA)

In 2004, Alfa Laval generated sales of SEK 15.0 billion (13.9). In five years, Alfa Laval's operating margin rose from 7.7 percent (2000) to 11.3 percent (2004). The target is a margin of 10–13 percent.

Highlights

2004

- Lars Renström succeeded Sigge Haraldsson as President and CEO on October 1.
- Alfdex, a jointly owned company with Swedish Haldex, was formed to offer the automotive industry an effective solution for cleaning crankcase gases. A letter of intent was signed during the year with AB Scania for delivery of the product.
- An important cooperation agreement was signed with the German Sartorius Group. Under the agreement, Alfa Laval has exclusive rights to market Sartorius' membrane and membrane systems for filtering in the brewery industry.
- During the year, Alfa Laval secured major orders, including to an aluminum refinery in India valued at about SEK 125 million and a power plant construction project in Saudi Arabia valued at approximately SEK 65 million.
- A five-year credit facility amounting to SEK 3.8 billion was signed to refinance an existing facility of about SEK 5.5 billion.
- The Board proposes a dividend of SEK 4.75 (4.00) per share for 2004.

Amounts in SEK M unless otherwise stated	2004	2003	2002	2001
Order intake	15,740	14,145	14,675	15,894
Net sales	14,986	13,909	14,595	15,830
Adjusted EBITDA ¹⁾	1,956	1,920	2,087	2,138
Adjusted EBITA ²⁾	1,695	1,627	1,755	1,738
Operating margin (adjusted EBITA ²⁾), %	11.3	11.7	12.0	11.0
Profit/loss after financial items	1,070	817	372	42
Return on capital employed, %	24.3	21.3	20.2	18.5
Return on shareholders' equity, %	12.1	13.2	2.7	2.5
Earnings per share, SEK	5.40	5.78	1.41	0.96
Dividend per share, SEK	4.75 ³⁾	4.00	2.00	–
Equity per share, SEK	44.5	43.8	40.4	38.5
Free cash flow per share, SEK ⁴⁾	11.10	10.71	16.10	56.37
Equity ratio, %	35.7	33.3	29.2	8.2
Debt/equity ratio, multiple	0.38	0.49	0.78	5.38
Average number of employees ⁵⁾	9,527	9,358	9,125	9,259

1) Adjusted EBITA – Earnings before interest, taxes, depreciation, amortization of goodwill and consolidated surplus values, and items affecting comparability.

2) Adjusted EBITA – Earnings before interest, taxes, amortization of goodwill and consolidated surplus values, and items affecting comparability.

3) Board proposal to 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.

Strong growth

during 2004

Order intake during 2004 exceeded Alfa Laval's expectations, increasing by 15 percent in fixed currency.

Strong geographic presence

One of Alfa Laval's main strengths is its strong geographic presence. The rapidly growing markets in China, India and Russia are among our largest markets, China being the second largest market after the US. During 2004, order intake in Asia increased by 21 percent. The growth rate in India was 30 percent and in China 39 percent. A key priority is to further strengthen the company's local presence in rapidly growing markets.

In India and China, we plan to accelerate the expansion of local production in order to move closer to the fast-growing markets and to utilize these countries as a global supply base. Both the Indian and the Chinese currencies are pegged to the USD, which means that this is also a way of offsetting our exposure to the USD.

Stable cash flow

Alfa Laval generates a free cash flow of approximately SEK 1 billion per year, giving it considerable freedom of action.

Our aim is to secure a competitive return for our shareholders, and the Board of Directors adopted a new dividend policy early in 2005.

We have high-quality products, excellent geographic coverage and strong market positions, on which we propose to build further.

Cash flow will also be used to generate growth through acquisitions. The primary means of growth will be acquisitions that complement Alfa Laval's existing business in terms of products, geographic location or new sales channels. This type of acquisition involves limited risk, rapid integration into Alfa Laval and an early contribution to profitable growth. We do not exclude the possi-

bility of acquiring a fourth product area, although this has a lower priority. For a fourth product area to be a viable option, it must possess an industrial logic.

Acquired growth

In February 2005, Alfa Laval signed an agreement to acquire the French company Packinox. Packinox's customers are in the refining and petrochemicals industries. The company has a worldwide reputation for its niche application in large, high-performance welded flat heat exchangers.

Packinox is a good example of a complementary acquisition. The acquisition of Packinox broadens our product range and promises to produce positive synergy effects. The company's sales during 2005 are expected to amount to approximately SEK 450 M and should strengthen earnings per share.

Toftejorg in Denmark, which produces and markets tank-cleaning products and was acquired by Alfa Laval in 2003, has developed favorably, and the successful integration of the company is continuing.

Biokinetics in the US, also acquired in 2003, has been affected by weaker demand in the pharmaceuticals and biotechnology sectors in North America. During 2004, the company adapted to the decline in demand.

Review of financial targets

During the early part of 2005, the Board of Directors reviewed the company's financial targets, retaining the targets for growth and yield. The margin target was adjusted to 10-13 percent, based on the fact that exchange rates have

changed considerably since the target was set several years ago.

Key factors during 2004

The weakening of the USD during 2004 was the factor that had the greatest impact on Alfa Laval's earnings. The EBITA margin was more than SEK 300 M lower than 2003 as a result of currency movements, with the weakening of the USD having the greatest effect. To counter this trend, we are gradually increasing our production and purchasing in countries whose currencies are pegged to the USD.

Rising prices for materials were also a major factor during the year. Historically, Alfa Laval has been able to pass on price increases to its customers. During 2004, we were also able to offset most of the increases in materials prices, although there is a time-lag in certain customer

"It is vital to further strengthen the company's local presence in rapidly growing markets."

segments. We are also working to reduce the effect of price increases by redesigning products and switching to different materials.

Continuous product development strengthens competitiveness

To strengthen our leading market positions, we must continuously develop our products. We invest between 2.5 and 3 percent of our sales in research and development, and this is a sustainable level.

Alfa Laval proposes to increase the proportion of sales deriving from modern products by speeding up the process from prestudy to introduction of the product in customer operations. This is the foundation for profitable growth and stable prices.

Each year, Alfa Laval launches from 25 to 30 new products. Products launched during the past few years have included Aldec G2, the new heat exchanger Alfa Nova, the Alfa Vap evaporator and the Alfa Cond condenser. All of these products have been extremely well received in the market, resulting in an outstanding growth rate during 2004.

Continued focus on aftermarket

During the past few years, Alfa Laval has increased its focus on the aftermarket. Development of the aftermarket has been one of the factors contributing to the rise in the operating margin (EBITA margin) from 6 to 11 percent. Further development of the aftermarket is a key component in Alfa Laval's strategy for strengthening profitability in the future. We can become even stronger in the aftermarket – for example by forging closer links between new sales of our products and sales of services and products in the aftermarket.

Organizational development

For the past few years Alfa Laval has been organized according to customer segments, which has strengthened our customer focus. In order to internally ascertain product dimensions, product centers for high-speed separators and plate heat exchangers were established at the beginning of 2005. By gathering all the relevant expertise in a center for each product area, we achieve greater critical mass and higher effectiveness.

Changes in Group management during autumn 2004 included the appointment of Ray Field and Lars Henriksson as regional managers. They have broad experience of the Group and have successfully managed sales companies for many years. Effective January 1, 2005, Jesper Bulskov is the new personnel manager. Jesper joined Alfa Laval two years ago after working for a number of companies, most of the time for SAS Service Partner.

Share performance

During 2004, Alfa Laval's share price declined by 2 percent, while the Stockholm Stock Exchange as a whole rose 17 percent and SX20 Industrials, the industry index against which Alfa Laval



“We aim to increase the proportion of sales deriving from modern products.”

is measured, rose 19 percent. Since it was first listed on May 17, 2002, Alfa Laval's share has risen by 17 percent, while the Stockholm Stock Exchange has risen by 8 percent and SX20 Industrials by 7 percent.

Outlook for the near future

(included in the year-end report published on February 14, 2005)

In most of the markets that Alfa Laval serves the demand is expected to be on the same high level as during 2004.

Alfa Laval also believes that the current high price level for some raw materials will remain, at least short term.

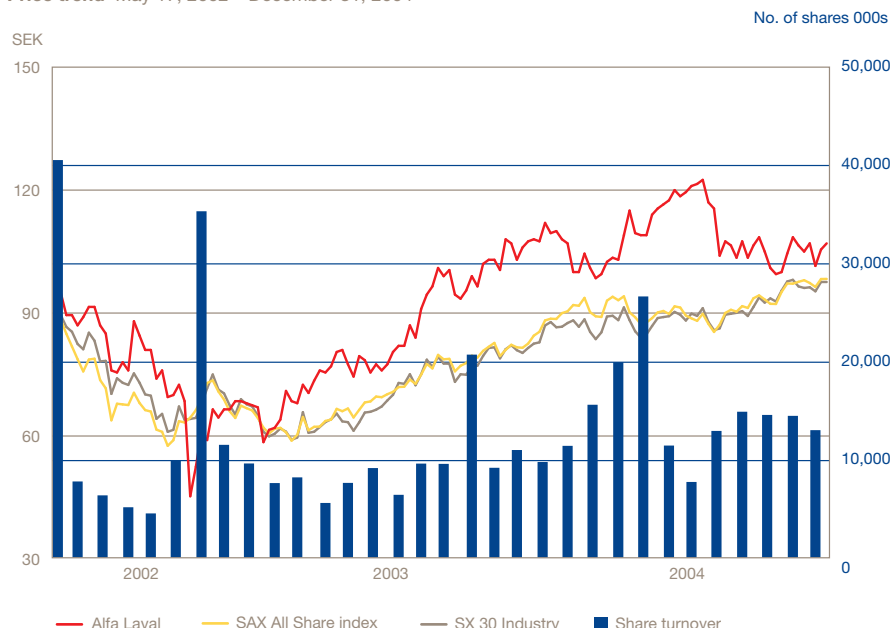
Finally, I would like to express my sincere thanks to all employees in the Alfa Laval Group for their excellent contributions during 2004. Our skilled and committed employees are the base for the Group's development. This was the case in 2004 and will continue to be so in the future!

Lund, March 2005

Lars Renström
President and CEO

The share

Price trend May 17, 2002 – December 31, 2004



Alfa Laval was listed for the first time on the Stockholm Stock Exchange in 1901. In 1991, Alfa Laval was acquired privately and delisted and was again introduced on the stock market on May 17, 2002.

The Alfa Laval share is traded on the O-list and is part of the Attract 40 group of most-traded O-listed companies. Alfa Laval has been included in the OMX index since the start of 2003, which comprises the 30 most actively traded shares on the Stockholm Stock Exchange measured in SEK.

All companies listed on the Stockholm Stock Exchange are classified into industry sectors. This division is in accordance with the Global Industry Classification Systems (GICS). Alfa Laval is listed under industrial goods and services (SXC20). Other companies in this sector on the exchange include Atlas Copco, Sandvik, SKF and Volvo.

Share capital

Alfa Laval has a total of 111.7 million shares with a par value of SEK 10 per share. All shares carry equal voting rights and rights to the company's assets. At year-end 2004, share capital amounted to SEK 1,117 million.

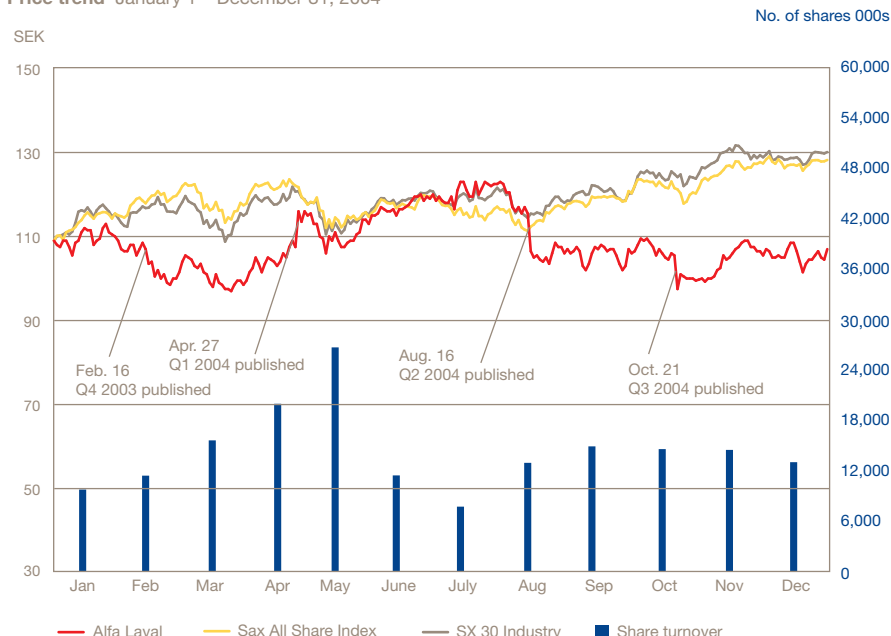
Change in number of shares and share capital

The change in number of shares and share capital is presented in a table on page 47.

Share performance

In 2004, the Alfa Laval share fell slightly more than 2 percent. This can be compared with the stock market as a whole, the SAX All Share Index, which rose 17 percent. The highest quotation of the year for Alfa Laval was SEK 125.50 (110) and the lowest was SEK 96 (58). The closing (last paid) price on Decem-

Price trend January 1 – December 31, 2004



ber 31 was SEK 107 (109), corresponding to a total market capitalization of about SEK 12.0 billion (12.1). A total of 166 million (108) shares changed owners, corresponding to a value of SEK 17.9 billion (9.2). This corresponds to a turnover rate* for the Alfa Laval share of approximately 149 percent (96). In comparison, turnover rates for the stock market as a whole in 2004 amounted to 134 percent (124) and 82 percent (78) on the O-list. The average size of transactions was around 2,190 shares (2,190) shares and an average of 300 transactions (200) were carried out per trading day.

Dividend policy

The Board of Directors' intends is to regularly propose a dividend that reflects the performance, the financial position the funding arrangements and expected capital needs of the Alfa Laval Group. Considering the cash generating capacity of the Group a dividend of 40–50 percent of net income, adjusted for step-up depreciations, calculated over a business cycle is targeted.

For 2004, the Board has proposed to the Annual General Meeting a dividend of SEK 4.75 (4.00).

Alfa Laval shareholders

At year-end, the company had a total of 11,758 (7,254) shareholders. On December 31, 2004, Tetra Laval BV and Industri Kapital were the two largest owners. At year-end Tetra Laval owned 17.68 percent (17.68) and Industri Kapital 8.52 percent (17.92). Combined, the ten largest shareholders owned approximately 55 percent (60) of the total number of shares.

Shareholder information update

Current information about share performance and updated owner information is provided at www.alfalaval.com

The 10 major owners/asset managers, at December 31, 2004

	Number of shares	Capital, %	Increase/decrease 2004
Tetra Laval B.V.	19,744,014	17.68	+/- 0
Industri Kapital 2000-fund	9,515,628	8.52	- 10,500,000
Third AP-Fund	8,308,060	7.43	+ 3,235,653
Robur Funds	5,182,263	4.64	+ 1,332,734
Fourth AP-Fund	4,804,200	4.30	+ 512,500
SEB-Funds	3,998,000	3.58	+ 2,803,500
Lannebo Funds	2,661,495	2.38	+ 137,500
Handelsbanken Funds	2,555,355	2.28	+ 1,653,334
State Street Bank & Trust	2,088,368	1.87	- 2,488,796
AMF Pension Funds	2,073,400	1.85	+ 2,073,400
Others	50,741,210	45.47	+ 6,106,654
Total	111,671,993	100.00	

Data per share

	2004	2003	2002 ¹⁾
Market price at year-end	107	109	77
Highest paid, SEK	125.50	110	98.50
Lowest paid, SEK	96	58	43.10
Price change during year, %	-1.8	40.3	- 15.4
Equity capital	44.5	43.8	40.4
Price/equity, %	2.4	2.5	1.9
Dividend, SEK	4.75	4	2
Dividend/earnings per share, %	88.0	69.2	141.8
Direct return, %	4.4	3.7	2.6
Earnings per share, SEK ¹⁾	5.40	5.78	1.41
Free cash flow, SEK ²⁾	11.10	10.71	16.10
P/E ratio	20	19	55
Number of shareholders	11,758	7,254	5,746

1) Share listed on May 17, 2002.

2) Free cash flow is the sum of cash flow from operating and investing activities.

Ownership distribution by size at December 31, 2004

Holdings	Number of shareholders	Number of shares	Holdings, %
1 – 500	7,743	1,548,529	1.39
501 – 1000	1,771	1,564,384	1.40
1001 – 5000	1,490	3,710,442	3.32
5001 – 10000	297	2,386,631	2.14
10001 – 15000	87	1,103,859	0.99
15001 – 20000	54	988,796	0.89
20001 –	316	100,369,352	89.89
Total	11,758	111,671,993	100.00

Ownership categories (including Tetra Laval (Netherlands) and Industri Kapital (UK))

	Capital (%)	No. of owners
Institutions and funds	91.74	2,320
Private individuals*	8.26	9,438
Total	100.00	11,758

* Including other legal entities

Geographic division

	Capital (%)	No. of owners
Swedish owners	55.65	10,986
Foreign owners	44.35	772
Total	100.00	11,758

Geographic distribution of free float*

Capital (%)	Sweden	US	UK	Luxembourg	France	Other	Total
	75.4	8.3	5.1	4.2	2.1	4.9	100.0

* Excluding Tetra Laval (17.68%) and Industri Kapital (8.52%)

* Turnover rate is calculated as the total number of shares traded in one year, relative to the total number of shares outstanding.

A business concept based on the customers

Alfa Laval's daily work is inspired by constant effort to increase added value for customers. Satisfied customers create a company with competitive, continuous value growth for shareholders.

A customer-oriented business concept

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

The foundation of Alfa Laval's business concept is its customers. To make a company sustainable and successful, customers must continuously be provided added value. Alfa Laval must be an attractive long-term investment. Shareholders want to minimize the risk of their investments, which Alfa Laval does for them by continuously improving its appeal – especially as an employer, a supplier and a customer.

For more than 120 years, Alfa Laval has provided products of the highest quality. To stay successful, however, something more is needed – an extra value important to the company's customers. This is what the business concept is all about.

A customer-oriented organization

Alfa Laval's organization is based on the company's customers.

The organization is the platform for living up to the business concept and to achieve goals. Alfa Laval is organized into three divisions, one that produces and supplies the company's products and two that market and sell the products. The two selling divisions are in turn divided into customer segments, which means that the company's sales personnel work close to the customer within specific industries.



The Equipment Division has a broad range of products and services for customers that have well defined, regular and recurring needs. Sales are through Alfa Laval's own sales companies and external sales channels. In recent years, Alfa Laval has broadened its marketing efforts through strengthened cooperation with agents, distributors and other partners.

The Process Technology Division offers solutions to support customers to optimize their own processes. The division delivers everything from components to systems, including services.

Goal oriented

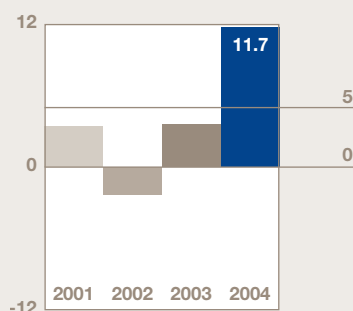
Accelerator is a tool for sales planning that all sales personnel use. The process is used to plan sales activities. It sums

the separate sales activities and what skills development that is required. Within a sales company, the results are summed up in accordance with a standardized presentation of Key Performance Indicators (KPIs).

Connect is a process for market planning that ensures that the growth strategy is linked to the sales companies' activity plans and each sales person's activity plan in Accelerator. At the same time, Connect ensures that the possibilities seen in the market are communicated back to the respective segment, so that business planning and strategies are continually developed.

Financial goals

Invoicing growth, %

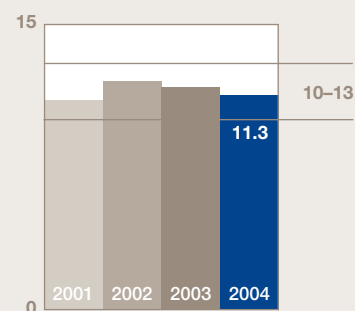


Goal: average of 5 percent annually over a business cycle.

The goal will be achieved through a combination organic and acquired growth. The underlying organic growth of Alfa Laval's markets is estimated at around 2 percent.

Goal fulfillment: After a number of less stronger years, 2004 was very strong, exceeding the goal considerably.

EBITA*-margin in relation to sales



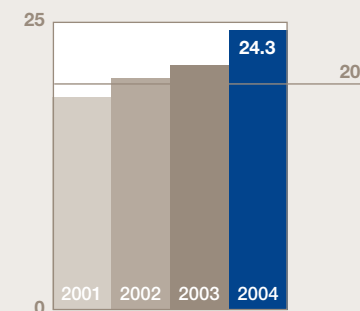
Goal: 10–13 percent.

The lower end of the target range applies during economic downturns while the upper end applies during periods of expansion. The goal is chosen to maintain financial flexibility.

Goal fulfillment: The restructuring program “Beyond Expectations” started in 1999 to increase the operating margin from 6 to 12 percent. A way into this program, greater potential was seen and the goal was increased to 12–15 percent. The goal has now been adjusted to 10–13 percent, based on significantly changed currency rates and is de facto a more ambitious target.

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

Return on capital employed, %



Goal: 20 percent.

Despite substantial goodwill and allocated surplus values, ROCE should reach 20 percent. This level is established with the low tied-up capital in mind, and as a result of the current profitability and the goal of further improving profitability.

Goal fulfillment: During the past three years, Alfa Laval has exceeded the return goal thanks to continuing improvements in capital employed.

Financial standards

As a supplement to the financial goals, the standards for a number of relevant financial key ratios that will help Alfa Laval meet the financial goals are described below.

Debt/equity ratio

Goal: below 1.0.

As a standard, Alfa Laval aims to have a debt/equity ratio that, in the long term, will be lower than 1.0 – that is, the company's borrowed capital may not amount to more than 100 percent of the book value of its shareholders' equity. Debt/equity ratio may increase in connection with major acquisitions but this has to be viewed as temporary since cash flow and profits are expected to offset this effect.

2002: 0.78% 2003: 0.49% 2004: 0.38%

Cash flow from current operations

Goal: 9–12 percent of sales.

The standard is set slightly lower than the target operating-margin, adjusted EBITA, because organic growth normally results in an increase in tied-up working capital. The unrestricted cash flow will generate a substantial amount, regardless of the debt/equity ratio, but within the framework of the guidelines for debt/equity ratio that the Group has established.

2002: 13.2% 2003: 11.9% 2004: 7.5%

Investments

Goal: approximately 2.5 percent of sales.

For existing operations, Alfa Laval's objective is to maintain investments in fixed assets at a level corresponding to about 2.5 percent of sales. This corresponds to depreciation according to plan. The purpose of this standard is to allow some scope for replacement investments and create a capacity expansion in line with organic growth for the Group's current key products.

2002: 1.9% 2003: 1.9% 2004: 2.5%

Strategy for profitable growth

Alfa Laval's growth goal is to grow an average of 5 percent annually over a business cycle. The basic philosophy is to grow faster than the market, but growth may not be a goal in itself. Growth must be achieved with – at least – maintained profitability.



The total of the underlying markets in which Alfa Laval is active is expected to grow by an average of 2 percent annually. By working systematically within the following areas, Alfa Laval shall obtain profitable growth.

Current products and services

Close cooperation with customers to understand and satisfy their requirements will ensure that the growth Alfa Laval had in the past, based on our key products, will be maintained or strengthened in the future. With

the high-quality products and the market positions Alfa Laval holds, the current products are an important component of the profitable growth.

Market-driven research and development

One of the cornerstones of Alfa Laval's success has been to be the market leader in its key technologies. The mission of the company's R&D organization is to improve current products and make them even more competitive in the market. The company's organization based on customer segments will further strengthen the dialog with customers.

The marketing organization with ten focused customer segments

Since the marketing organization focuses on customer segments while simultaneously working with the company's entire product range, it can work more closely with customers and help improve customers' processes. Alfa Laval has one face for every customer, and can effectively add value for the customer.

An example of this is the acquisition in 2003 of the Danish Toftebjerg, which produces products for tank cleaning – products that add to Alfa Laval's range of food and marine-related products.

Aftermarket

The aftermarket offers considerable possibilities for further growth. Alfa Laval has a large base of installed equipment and systems, and through our global network of workshops and personnel, the company is well equipped to manage this service. The product range has increased substantially, and service contracts, particularly, are now playing a more important role.

New marketing concepts

Alfa Laval is constantly seeking new ways to improve service to help customers to optimize their processes. It is a matter of looking at needs and problems in different ways, to be market driven.

Examples are Octopus, software for optimizing the operation of decanter centrifuges and Alfdex, an innovative solution for cleaning crankcase gases from diesel engines, based on the separation of oil droplets and particles from the gases.

New key products

Identifying and adding, within the framework of our strategy, supplementary products as well as new key products is a step that can provide an extra boost to growth. It enables Alfa Laval to further increase its product offering and be a more complete and an even more valuable partner. An example is the acquisition in 2002 of Danish Separations Systems (DSS), a company that develops, manufactures and sells membrane filters.

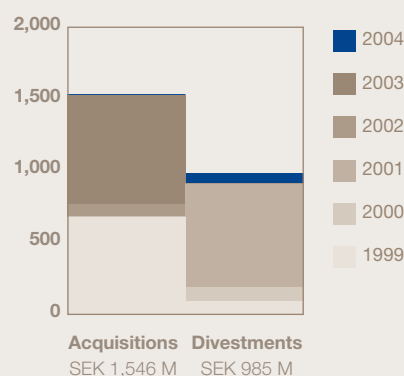
Acquisitions and divestments 1999–2004

	Company	Sales*
1999		
Acquisitions	Vicarb Group, France	SEK 425 M
	Scandibrew, Denmark	SEK 67 M
	Kvaerner Hetland, US	SEK 57 M
	Dorr Oliver, US	SEK 127 M
Divestments	Thermotechnik	SEK 49 M
	Cardinal	SEK 39 M
2000		
Acquisitions:	Separator Division of Wytworna Sprzeta, Poland	SEK 20 M
Divestments:	Tetra Pak Division of Indian subsidiary	SEK 47 M
	Aircoil	SEK 51 M
2001		
Acquisitions:	Additional 13% of share capital of Alfa Laval India	No effect on sales
Divestments:	Rema Control	SEK 68 M
	Industrial Flow	SEK 656 M
2002		
Acquisitions:	DSS, Denmark	SEK 90 M
Divestments:	-	
2003		
Acquisitions:	Toftejorg, Denmark	SEK 210 M
	Biokinetics, USA	SEK 550 M
Divestments	-	
2004		
Acquisitions	-	
Divestments:	Tri-Lad	SEK 75 M

*Refers to the year prior to divestment or acquisition.

During 1999–2004, Alfa Laval acquired seven companies/units with total sales of SEK 1,546 M – an average annual sales of about SEK 260 M. During the same period, Alfa Laval divested seven companies/units with combined annual of slightly less than SEK 1,000 M.

The number of acquisitions are expected to continue at the same pace as previously. Divestments are expected to decline sharply, since all units in the Group today comprise the company's core operations.



Acquired net growth = SEK 561 M, growth totaling 3.9 percent based on 1999 sales (SEK 14,405 M).

Divested growth = SEK 1,546 M, growth totaling 10.7 percent based on 1999 sales (SEK 14,405 M).

Strategy for acquisitions and alliances

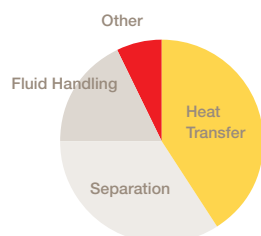
Alfa Laval's business concept of optimizing the performance of our customers' processes, time and time again, is also the basis of the company's acquisition/alliance strategy. This means that Alfa Laval shall undertake acquisitions/alliances:

- that strengthen the existing key products
- of new key products
- around products that complement our current products and that can strengthen the customer offering that our customer segments make.

There is a special function, Corporate Development, ensures that work with acquisitions and alliance is carried out systematically and effectively.

Alfa Laval's stable platform, the three core technologies

New sales, distribution
by key technologies, %



The core of Alfa Laval's operations is based on three key technologies – heat transfer, centrifugal separation and fluid handling – with all three playing a decisive role in most industrial processes. Alfa Laval holds leading global positions in all of these areas of technology.

Heat transfer

Alfa Laval's heat exchangers are used for applications such as heating, cooling, freezing, ventilation, evaporation and condensation of fluids. As a result of the many applications in which heat exchangers can be used, Alfa Laval has a considerably large and geographically diverse customer base within industries such as chemical, food processing, oil and gas production, power generation

and marine industries and for heating and ventilation of buildings.

Alfa Laval's heat-transfer product range consists of plate heat exchangers, spiral heat exchangers and air heat exchangers. The plate heat exchanger is the main product and has many applications. Spiral heat exchangers are used in the pulp industry and in waste treatment. Air heat exchangers are used for air conditioning and refrigeration.

Alfa Laval estimates that it had a combined market share of between 35 and 40 percent in 2004.

There is a clear tendency in the processing industry to switch from traditional shell-and-tube heat exchangers to compact heat exchanges such as plate heat exchangers because the latter

Heat transfer

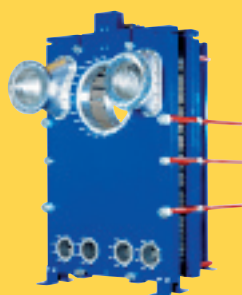


Plate heat exchangers

Alfa Laval has the broadest range on the market within industrial and sanitary applications

Shell-and-tube heat exchanger

Alfa Laval's shell-and-tube heat exchanger is aimed at applications in the pharmaceutical and food processing industries for cooling.



Scraped-surface heat exchanger

For heating or cooling of sensitive products.



Air heat exchanger

Alfa Laval's range covers most types of coolants and cooling applications.

Spiral heat exchangers

Custom-designed for liquid products and products that could cause heavy contamination or corrosion.



Separation



Membrane filtration

Alfa Laval's wide range covers osmosis, nanofiltration, ultrafiltration and microfiltration.

save space and energy and provide better maintenance security than shell-and-tube heat exchangers.

Alfa Laval's largest competitors are Tranter/SWEP (US), Invensys-APV (UK) and MG Technologies/GEA (Germany).

Separation

Ever since the company was formed in 1883 the separation technology has been a central part of the operations. The technology is currently used to separate liquids from other liquids and solid particles. The separators are used in a number of industrial processes within the food processing and chemical industries, on ships, to purify fuel and lubricating oil, on oil rigs, to separate oil and water, in the mechanical engineering industry, to purify industrial fluids, and in industrial and municipal wastewater treatment plants.

Alfa Laval is a global market leader in separation products and, according to the company's estimate, in 2004 its share of the global market was between 25 to 30 percent.

High-speed separators and decanter centrifuges are Alfa Laval's dominant products within centrifugal separation. High-speed separators are primarily

used for separating fluids. A decanter centrifuge is a horizontal separation technique that uses a slower speed than the high-speed separation technique. It is mainly applied in the separation of a relatively higher solid content. For example, decanter centrifuges are used in dewatering in wastewater treatment plants.

Membrane filtration is the accepted industry standard for separating less dense particles, which is a growing need within the food, biotechnology and pharmaceutical industries.

Alfa Laval's largest competitors are: MG Technologies/GEA Westfalia Separator (Germany), Andritz (Andritz Bird, US, and Andritz Guinard, France), Mitsubishi Kakoki Kaisha (Japan), Pieralisi (Italy) and Flottweg (Germany).

Fluid handling

Transporting and regulating fluids in a safe and efficient manner is vital for industries. Alfa Laval focuses its competence on fluid handling, where the demand for hygiene is high. The company's pumps, valves and installation material are used in fluid-handling applications such as in the production of beverages, dairy products, food,

pharmaceutical products, health and personal care products. Alfa Laval is a market leader in fluid handling and estimates that it had a global market share of between 10 and 12 percent in 2004.

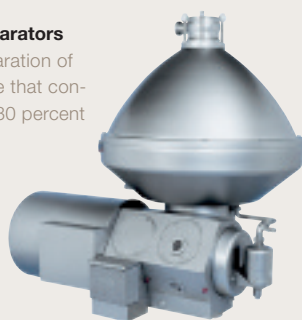
There are mainly three types of pumps used in sanitary environments:

- Centrifugal pumps, which combine high efficiency rate with careful product treatment.
- Rotary lobe pumps, which are used to facilitate the flow of thicker and more sensitive fluids that require a high standard of hygiene.
- Liquid ring pump, which has a wide range of applications.

Alfa Laval's main competitors are: MG Technologies/GEA (Germany), Invensys/APV (UK), Waukesha/Cherry Burrell (US) and ITT Industries (US).

High-speed separators

Primarily for separation of liquids and waste that contains more than 30 percent solid particles.



Decanter centrifuges

Separate solid particles from liquids and plays a key role in a number of industrial, food processing and treatment processes.



Fluid handling

Valves

Sanitary, mixproof valves, Intelligent regulating equipment. Butterfly valves. Seat valves. Aseptic valves.



Tank-cleaning products

Alfa Laval has a broad assortment for sanitary applications.



Pumps

For accurate pumping of all types of liquids in sanitary applications.



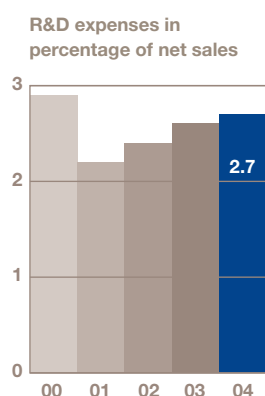
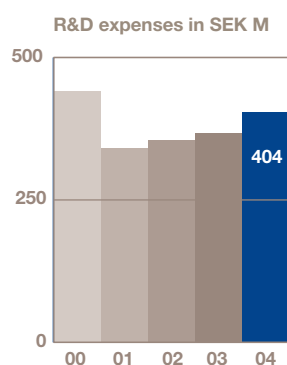
Installation material

Alfa Laval has a very wide selection of installation material for, in principle, all conceivable applications.



Steady flow

of new products strengthen leading positions



The Alfa Laval brand has been associated with innovation for over 100 years. An ongoing, consistent commitment to research and development (R&D) has been critical in building, strengthening and developing the company's global market leadership. Alfa Laval's R&D activities are distinctly customer oriented and aimed at better solutions for customers.

Total R&D expenses amounted to SEK 404 million (368) in 2004, approximately 2.7 percent (2.6) of the Group's total sales. The Group has about 290 employees and four centers within R&D. The Process Technology Division and the Equipment Division have their own R&D functions for channeling resources to areas where there is most growth potential. Such areas include biotechnology and wastewater treatment.

Alfa Laval's R&D operations are based on a long-term commitment to basic research, focusing primarily on stream-

ing technology and heat transfer. The company launches 25–30 new products annually as well as at least as many product improvements. The company holds more than 200 patents on its own products, and the brand name Alfa Laval is registered in around 100 countries.

Steady product renewals sharpen competitive edge

To remain competitive, existing products must be constantly upgraded to cope with the changing demands and needs of customers. This often involves relatively minor adjustments that could lead to major improvements for customers.

To boost market potential in the existing operations, Alfa Laval can broaden its offering by adding products suitable for other capacities, pressures and temperatures. This may also involve producing versions of new

Development and testing of separators in Tumba, Sweden.



material, and to automate and integrate intelligent functions in the products, such as measuring and reintroducing information, or analyzing and forecasting. Over the past few years, the company's commitment to research and development has resulted in the following products:

AlfaNova

A new plate heat exchanger technology with better temperature and pressure tolerance

Many researchers believe that heat exchangers made from only one material are the way of the future. Here, Alfa Laval is well in the forefront. AlfaNova is a completely new plate heat exchanger made from a single material: stainless steel. The actual brazed material in combination with the manufacturing technique is patented. AlfaNova tolerates the combination of high temperature and high pressure better than brazed plate heat exchangers. These characteristics broaden the market for the product. New areas of application include processors that involve the use of ammonia. The product was launched in 2003 and in 2004 a number of new sizes were introduced.

Eco Stream for marine industry

Cleans polluted waters environmentally

Eco Stream is a system for treating polluted water based on Alfa Laval's high-speed separator. The product is developed for the marine industry and its task is to remove contaminants in the bilge water in the engine room and internal drainage systems on board. The product replaces the use of chemicals and filters. Eco Stream is fully automated and the effective result means that substantially less waste must be deposited on land and that the dirty water becomes so clean that it can be returned to the sea.

Alfa Laval Octopus

Software that automatically enhances the efficiency of dewatering in treatment plants.

Another example of a new, attractive product is Octopus, which is software for optimizing the operations of decanter centrifuges (the product that separates sludge from water) in the

treatment plant. The treatment of waste sludge is an area becoming increasingly self-regulating and automated. Octopus is the first totally self-regulating system for dewatering of sludge. It can be described as an autopilot that ensures that the decanter centrifuge works as effectively as possible. The wastewater treatment plant can realize major savings through efficient sludge dewatering and through reducing the use of polymers and fresh water. Another major advantage is that the purity of the water separate from the sludge is higher.

Hynetics

The first single-use mixing tank in production scale

Hynetics is a product developed as a result of the acquisition of North American Biokinetics. The product is aimed directly at the pharmaceuticals industry. It is a system designed for single-use and is applied for dissolving and mixing of various types of media and drug formulations. Hynetics is the first system on the market in which single-use products (mixing tanks) are used in production scale, between 1,000 to 10,000 liters. The product was launched in the first quarter of 2004 in conjunction with the major Interphex biotech exhibition in New York.

Small seat valve

Completes Alfa Laval's already broad range of seat valves.

The new seat valve is designed for the biotech, pharmaceutical and food processing industries. The simple design, featuring few moving parts, makes it highly reliable. Other competitive advantages are its sanitary feature and that it is highly reliable even in vacuum-induced environments due to its special double-lip sealing.



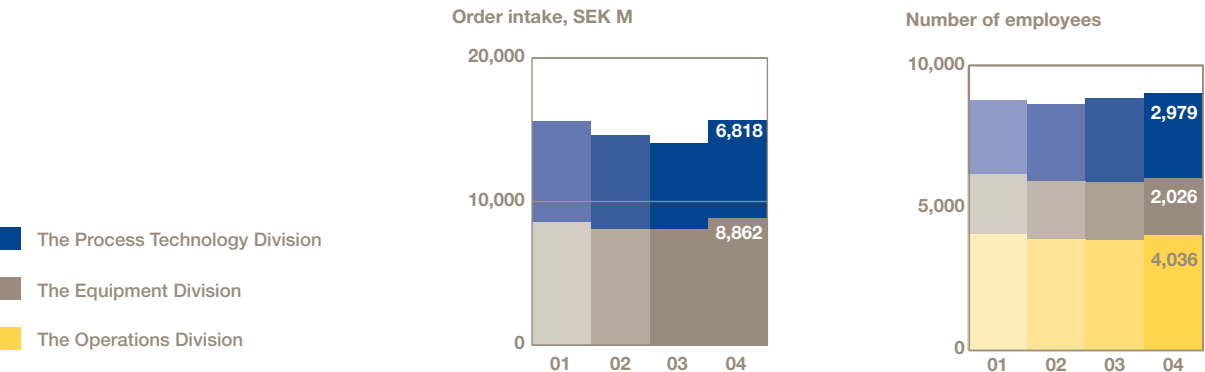
Alfa Nova, a new technology for plate heat exchangers, was introduced in a number of new sizes during 2004.

A market-oriented organization with global presence

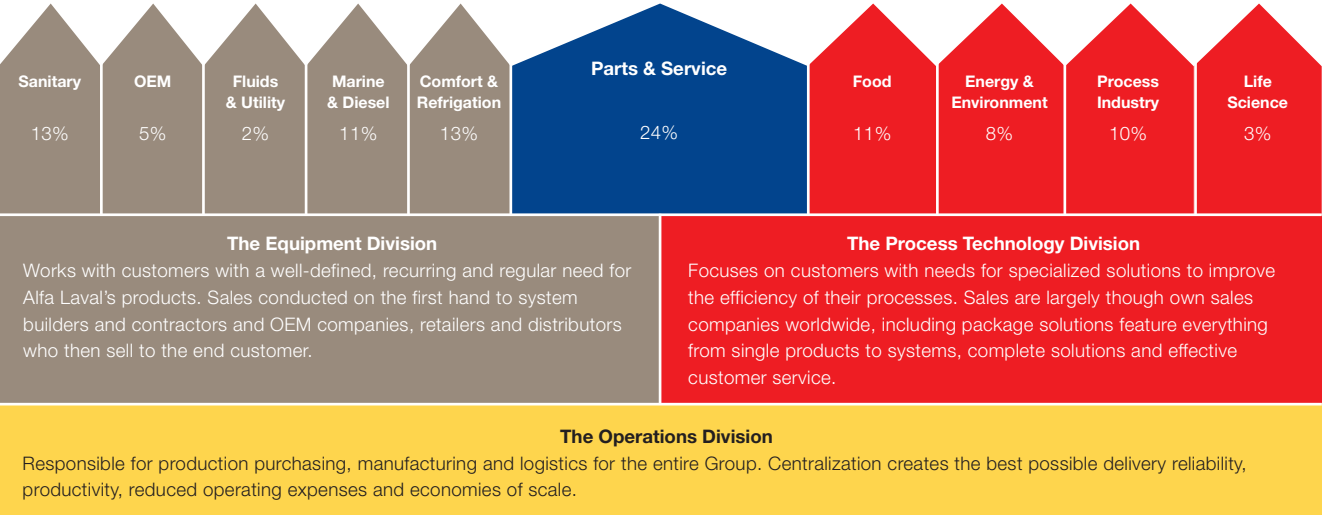
Alfa Laval's operations are divided into two selling divisions – the Equipment Division and the Process Technology Division. They market and sell all three product technologies, to different customer groups and through different sales channels.

This market orientation is further strengthened through the various specialized customer segments. Through the segment working with all three product technologies, the Group's sales team can offer customers Alfa Laval's entire product offering.

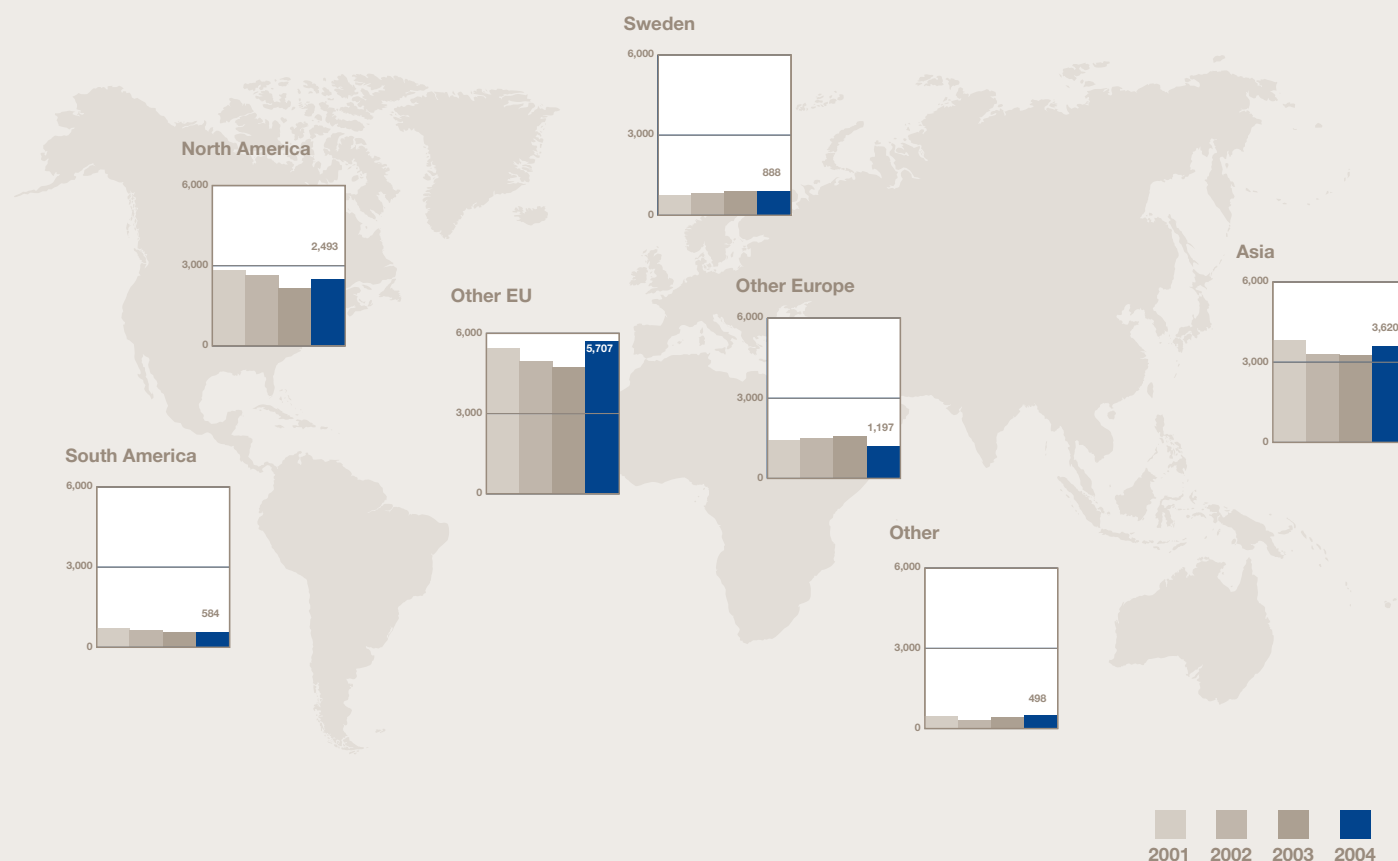
Alfa Laval has a broad geographic coverage. About 50 percent of sales are in Europe, 30 percent in Asia and 20 percent in North and South America. Sales are carried out in more than 100 countries, of which half with own sales representation. Sales in Asia have increased the strongest in recent years, largely attributable to the strong market presence for many years in many large Asian markets. Service for the key after-market is provided through about 75 service centers worldwide staffed by a total of 355 engineers.



A market-oriented organization



Regional sales development 2001–2004, SEK M

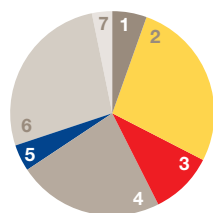


Geographic change, 2001–2004

Regional trend

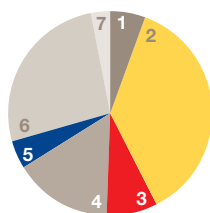
Sales as percentage of sales

2001



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

2004

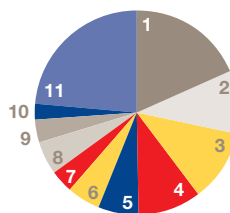


- 6 Asia
7 Other

Employees

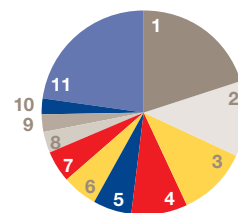
The ten largest countries in 2004 as percentage of total employees compared with 2001

2001



- 1 Sweden
2 Denmark
3 India
4 US
5 France
6 Italy

2004



- 7 China
8 UK
9 Germany
10 Russia
11 Other countries

Better development

in 2003 in all five customer segments

Highlights 2004

- Joint-venture company Alfdex formed with Swedish Haldex, to market technology for cleaning crankcase gases. A letter of intent signed with AB Scania for delivery of the product during 2005.
- Strong growth for air products within Comfort & Refrigeration.
- Continued very high interest for the AlfaNova technology platform.
- Launching of the "Pure Thinking" environmental strategy within Marine & Diesel.

The Equipment Division works with customers that have well-defined, recurring and regular need for Alfa Laval's products. Sales are largely to customers other than the end customer, that is, to users of the products. These are primarily system builders and contractors, as well as retailers and distributors.

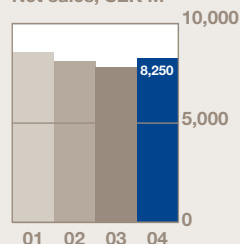
The Division focuses on increasing value for the customer through a customized module concept and development of products in close cooperation with the customers. It is strategically important that the products are available worldwide. Accordingly, the Division focuses on increasing the number of sales channels.

The Equipment Division's strategy is to retain and strengthen its global market positions and to find new applications for products in areas with favorable growth potential.

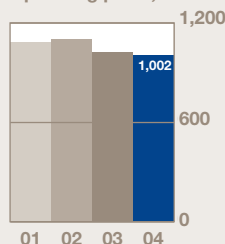
The Equipment Division works within five market segments: Sanitary, Comfort & Refrigeration, Marine & Diesel, Fluids & Utilities and OEM, plus the segment for the aftermarket, Parts & Service (presented separately on page 24). The Division reported sales of SEK 8,250 (7,842) million in 2004, corresponding to 55 percent (56) of the Alfa Laval Group's total sales. The number of employees in the Division was about 2,000 (about 2,000).

In 2004, the Equipment Division posted an increase in order intake in all of the Division's five market segments.

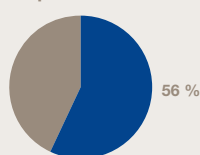
Net sales, SEK M



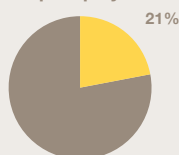
Operating profit, SEK M



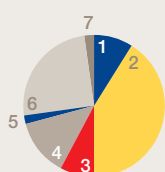
The Division's share of Group order intake



The Division's share of Group employees

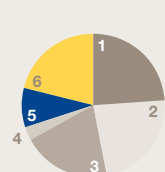


Geographic distribution of the Division's order intake



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

Segment distribution of the Division's order intake



- 1 Sanitary
- 2 Comfort & Refrigeration
- 3 Marine & Diesel
- 4 OEM
- 5 Fluids & Utility
- 6 Parts & Service

Sanitary


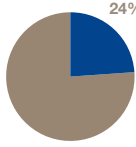



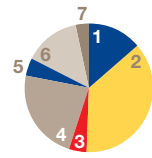

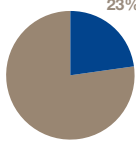



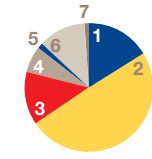

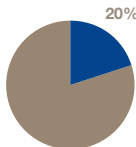



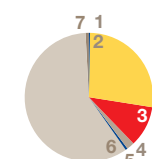

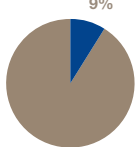



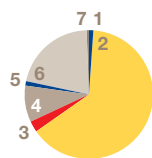

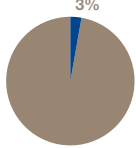



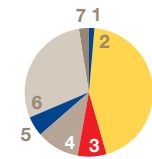
Increased market share in Europe

Compared with a year earlier, the Sanitary segment posted an increase in order intake. The first half of the year developed very strongly and order intake attained a high level. The business climate was less intensive during the second half of the year.

Geographically, the trend was fragmented. The segment gained market shares in Europe and India posted continued favorable growth, while development in certain industries in China stagnated.

During the year the segment introduced a number of new possibilities for growth, including within the pharmaceutical industry in which the offering was complemented with a number of new products through alliances. The integration of Danish Toftejorg was completed successfully in 2003 and the tank-cleaning products continued to development highly satisfactorily in 2004.

Overview the Equipment Division

Segment	Operations	Share of the Division's order intake*	Order trend**	Geographic Distribution (order intake)
Sanitary 	Customers in the beverage, dairy, food, pharmaceutical and biotech industries, all of which with very high hygiene and safety demands. Alfa Laval's products used to produce liquid and viscous food products, pharmaceuticals and hygiene products. Largest customer is Tetra Pak, a leading supplier of process and packaging systems for the food processing industry. Tetra Pak is a strategic partner as well as a key customer.	 24%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Comfort & Refrigeration 	Primarily sales of heat exchangers for use in district heating and cooling systems, air-conditioning for factories, offices and store complexes and to hold cooling and freezing cases and ice-rinks at the right temperature. Customers range from multinational companies to small local installation companies. Examples of customers are Climespace, York, Mycom and Uppsala Energi. Eastern Europe, with large district heating systems, is an important and growing market.	 23%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Marine & Diesel 	Customers are shipyards and manufacturers of diesel engines. About one third of the world's ships have some form of Alfa Laval equipment on board. Product applications include fuel and lube oil cleaning, engine cooling, production of fresh water and cleaning of tanks, sludge and oily water. The customer list features Hyundai, MHI, Fincantieri, Wärtsilä and MAN/B&W,	 20%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
OEM (Original Equipment Manufacturers) 	Customers in the segment are, for example, manufacturers of air-conditioning systems, air compressors, air dryers, diesel engines and gas boilers. The customers integrate Alfa Laval's products, often brazed heat exchangers, into their products. Alfa Laval's strategy is to build partnerships with the customers to jointly develop new products. Examples of customers are Vaillant, Caterpillar and Carrier.	 9%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Fluids & Utilities 	Most industries use various types of liquids in their production, which need to be cleaned and temperature controlled to achieve high operational reliability. Alfa Laval's separators clean fluids so that they can be reused, which reduces operating expenses and protects the environment. Customers, which mainly are in the automotive, machine tooling and hydraulic industries, include Scania, Rolls Royce, SKF and Hexagon Automation.	 3%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other

* Parts & Service accounts for 21 percent, see page 24.

** Pertains to development compared with preceding year.

Comfort & Refrigeration

Highly favorable growth for air-cooling products

Order intake within Comfort & Refrigeration developed better than in 2003. The launch of the new technology platform for plate heat exchangers, Alfa Nova, was received positively and orders received for the product are growing continually while at the same time the range is being broadened.

Products for air cooling showed highly favorable growth. The products now have a better geographic distribution, which resulted in increased market shares.

Geographically, China and Russia continued to grow favorably. An improved business climate and the segments focus on channels are the main reasons.

In an agreement with the segment's largest customer, York, Alfa Laval added air-cooling products during the year.

Marine & Diesel

New "Pure Thinking" environmental strategy helps shipping companies to meet the authorities' stricter environmental demands

Shipbuilding experience a fantastic year in 2004. Most of the market is in Asia, in which Korea, Japan and China combined account for nearly 70 percent of the total shipbuilding in the world. Despite increasingly tougher competition, order intake rose sharply during the year and Alfa Laval has retained and increased its market shares.

As a result of the increasingly higher requirements being placed by the authorities on emissions from ships, the shipping companies' demand for environmental products to solve these problems is rising.

During 2004, Alfa Laval launched the new environmental strategy "Pure Thinking" which comprise three environmental areas:

Bilge water, in which Alfa Laval separators clean bilge water from oil highly efficiently.

Ballast water. As of 2009, a law becomes effective for cleaning of ballast water. Alfa Laval has entered a cooperation with a Swedish company to develop a product that can clean and treat ballast water on board. Launch is expected in summer 2006.

Crankcase gases. Alfa Laval has developed an air separator to separate oil from the air ventilated from the crankcase of diesel engines. The product is based on the same principle as Alfdex and is expected to be launched in 2005.

Fluids & Utility

Very strong development in China and India

During 2004, order intake for Fluids & Utility developed much stronger than in 2003. Primarily Asia developed significantly better, with very strong increases in China and India. The market in the US turned upward with strong growth, particularly within heat exchangers for the engineering industry. In addition, the Alfa Pure Z separation equipment for efficient cleaning of industrial liquids increased.

To cover of the Nordic hydraulics market more effectively, the segment signed an agreement with four companies within Hexagon Automation. At the end of the year a new oil cooler – Alfa Laval Doc – was introduced for cooling with corroding coolants and seawater.

OEM (Original Equipment Manufacturers)

Strong growth and increased market shares

Order intake for the segment was clearly better than in 2003, primarily due to an improved business climate and that Alfa Laval captured market shares in 2004.

During the year, the segment experienced a breakthrough for brazed products in the engine segment, in which the first commercial order was received. In addition, the sale of small brazed heat exchangers continued to develop highly favorably.

The new technology platform for plate heat exchangers, Alfa Nova, was positively received and creates possibilities for a broadening of the segment's customer base. During the year, the segment continued to focus on key customers to further improve relations, which continued to increased volumes.



Powder for gourmets

Almost everyone in Japan has eaten or drunk what Sato Foods Industries make. The company is one of Japan's leading producers of powdered extracts such as black and green teas, seasonings, soup bases, soy sauce and other high-quality products that have true, natural flavour.

To achieve what Sato Foods founder and Chairman Jinichi Sato calls the ideal mix of "technology and art" that results in delicious products and good business results, the company has applied both human skills and world-class equipment in building their new factory. The equipment includes a number of key products from Alfa Laval. A separator sees to it that exactly the right, small amount of solids is kept in the product and plate heat exchangers ensure very fine control of product temperature before drying. To move the liquids through the various processes on the way to the transformation in the drying towers, Sato Foods have installed a number of remote-controlled valves and other sanitary valves for precise, optimum product flow.

"Products like Alfa Laval's
are our weapons.
We need the best."

Jinichi Sato, Sato Foods

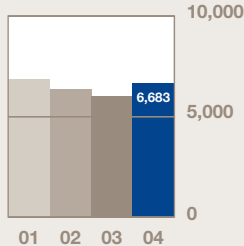


Very strong increase in order intake

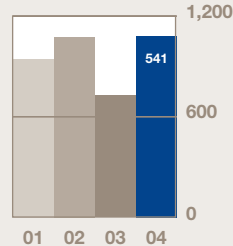
Highlights 2004

- Strategic agreement with German Sartorius gives Alfa Laval exclusive rights to sell products for filtration in the brewery industry.
- New Aldec 2 decanter has rapidly won market shares in the environmental area.
- Continued very strong growth in process industry in Asia.
- Weak investment climate in biotech and pharmaceutical industry in North America – higher activity in Europe and Asia.

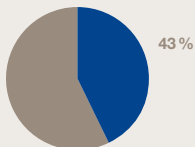
Net sales, SEK M



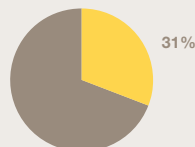
Operating profit, SEK M



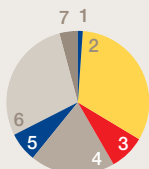
The Division's share of Group order intake



The Division's share of Group employees

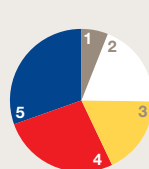


Geographic distribution of the Division's order intake



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

Segment distribution of the Division's order intake



- 1 Life Science
- 2 Process Industry
- 3 Energy & Environment
- 4 Food Technology
- 5 Parts & Service

The Process Technology Division serves customers who require solutions specially adapted to improve the efficiency of their processes. The division's sales are mostly effected through the Group's own sales companies. Alfa Laval combines expertise in its key technologies with thorough knowledge of its customers' processes and offers package solutions ranging from single products to systems and turnkey solutions, as well as efficient customer service.

The Process Technology Division is organized in four customer-oriented segments: Process Industry, Food Technology, Energy & Environment and Life Science, as well as the segment for the aftermarket, Parts & Service (presented separately on page 24). The Division reported sales in 2004 of SEK 6,683 million (5,994), corresponding to 45 percent (43) of the Alfa Laval Group's total sales. The number of the employees in the Division is about 2,980 (about 2,980).

The increase in order intake within the Process Technology Division during 2004 was the strongest in quite a number of years, with an organic growth of slightly more than 20 percent. All segments and geographic areas developed better than in 2003. Development within Food Technology stabilized during the second half of the year, due largely to Alfa Laval prioritizing earnings rather than volume. The other segments reported much strong order intake during the entire year than in 2003.

Food Technology

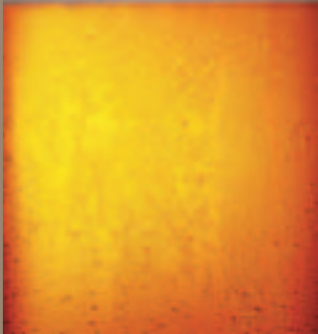
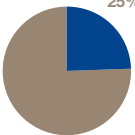





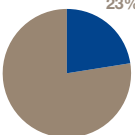



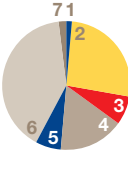

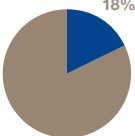





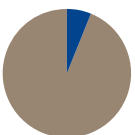



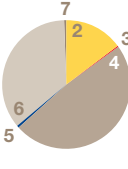
Major projects in vegetable oils contributed to a strong order increase

The order intake within Food Technology was stronger than a year earlier for the third consecutive year. The rise in 2004 was strongest in China, Japan and Southeast Asia. Western Europe also developed well. In the US, a successive recovery was noted after several weak years.

The brewery and protein industries rebounded after a weak 2003. The applications for beverages and liquid foods continued to develop strongly and grew for the fourth consecutive year.

Alfa Laval signed a strategically important agreement with the German company Sartorius, giving Alfa Laval the sole right to sell the entire range of Sartorius' filtration products, primarily membrane filtration for the brewing industry. An interesting substitution is taking place in this area, with the use of kieselguhr, an environmentally-hazardous clay mineral, being replaced by membrane filtration.

Overview the Process Technology Division

Segment	Operations	Share of Division's order intake *	Order trend **	Geographic Distribution (order intake)
Food Technology 	Alfa Laval holds a strong position as a supplier of process solutions for the beverage and food industries. The solutions are used for the production of beer, wine, vegetable oils as well as meat and fish proteins. Customers include such global Groups as Cargill, ADM, Nestlé, Heineken and Anheuser-Busch.	 25%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Process Industry 	Alfa Laval's products are used for the production of petrochemical products, plastics, polymers, metals, minerals, ethanol, starch, paper and sugar. Alfa Laval has a number of well-known customers within the process industry: BASF, Bayer, DuPont, Procter&Gamble and International Paper are some examples.	 23%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Energy & Environment 	As a result of more stringent environmental legislation, the need to effectively treat wastewater and sludge is increasing. Alfa Laval delivers systems that reduce sludge volumes so that they can be disposed of more cost efficiently. In the energy sector, Alfa Laval's products, modules and systems are of major importance, in the extraction as well as in production of energy in a power plant. Examples of customers are Exxon, Petrobas, Statoil, General Electric, China Nuclear Corp., Thames Water and the City of Chicago.	 18%	 2004  2003  2002	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Life Science 	Customers are in the pharmaceutical, hygiene and health food product industries. Alfa Laval has developed a number of products and solutions that meet these the industries' as well as the supervisory authorities' extreme safety and hygiene demands. The Life Science customer list includes such major pharmaceutical companies as Eli Lilly, GlaxoSmithKline and Genentech.	 6%	 2004  2003  2002	 1 Sweden (0) 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other

* Parts & Service accounts for 28 percent, see page 24.

** Pertains to development compared with preceding year.

Alfa Laval's growth in the brewery area exceeds market growth. The company has established close cooperation with its customers, which include many of the world's largest brewery groups. Special modules for pasteurization, mixing, wort cooking and deaeration have been developed in cooperation with the brewing industry.

Process Technology

Increased demand from metals contributed to the extremely strong volume increase

The Process Industry segment developed much more strongly than in 2003. Growth was noted in all geographic regions, with continued very solid growth in Asia and recovery from low levels in Europe as well as the US.

In terms of customers, the growth was very broad. In principle, all areas in the segment noted a plus compared with 2003. The strongest increases occurred in Inorganics, Metals & Paper in which investments increase due to strong demand for steel and base metals.

During the year, the focus on so-called dual-phase technology began to yield results, in which compact heat exchangers replace existing technology for condensation, recocking and evaporation. The segment began marketing the new AlfaNova technology platform and a number of key customers placed orders.

Within petrochemicals, a continued strong growth in order intake was noted that, however, weakened somewhat due to increasing oil prices. The high investment pace continued in fuel ethanol. In this area, Alfa Laval has had favorable order intake for components as well as complete process lines and strengthened its market-leading position in decanters.

Energy & Environment

Strong development in Oil & Gas

The positive trend noted already in 2003 was strengthened in 2004. Two of the segment's three areas, Oil & Gas and Power, posted clear increases in order intake compared with 2003.

The largest increase was in Oil & Gas, due largely to an improved business climate based on high oil prices. Within oil and gas, Alfa Laval delivers solutions for drilling and production of crude oil and gas, freshwater generation and treatment of oily water.

The Power area also posted favorable growth, particularly in the Middle East and Asia, in which Alfa Laval secured a number of large orders. Separators are used in many of the world's power plants for effective cleaning of lube oil and fuel oil, compact heat exchangers for heating and cooling and systems to handle desalinization of large volumes of seawater. In the environmental area, the new Aldec 2 decanter – launched in 2003 – continued to secure Alfa Laval's position as global market leader in sludge treatment. Alfa Laval's decanter centrifuges and systems are used to thicken and dewater waste sludge in municipal and industrial plants.

Life Science

Weaker investment climate in North America – attractive increase in Europe and Asia

The acquired operations within Biokinetics were affected by the downturn in the American market. In contrast, the traditional part within Alfa Laval progressed well globally, with a volume increase of 15 percent.

The market for production investments within biotech and pharmaceuticals was weak in North America, much lower than in the first years of the 2000s. The level of activity was better in Europe and really good in Asia, although the market is still small compared with North America. Alfa Laval's development in the Indian, Chinese and Japanese markets exceeded expectations.

During the year the focus was on continued positioning of Alfa Laval in the biotech field, which began with the major Interphex biotech exhibition in New York. At the fair, the Alfa Laval system for single-use dissolving and mixing of media and pharmaceutical formulas was introduced. This is the first system on the market that single-use products are applied in production scale.

Energy savings are a must at the Gela refinery. Alfa Laval's plate heat exchangers help the company meet its goals.

Energy savings are a must at the Gela refinery. Alfa Laval's plate heat exchangers help the company meet its goals.



Oiling the works in Sicily

Located outside Gela in southern part of Sicily, Eni's oil refinery has developed into a leading refinery in the Mediterranean area. The plant produces fuels for automotive use and residential heating purposes as well as petrochemical feedstocks. An advanced engineering structure allows the refinery to comply with the most exacting environmental standards while producing high quality finished products such as gasoline with less than 1% benzene content and diesel oils with very low sulphur content.

A large number of Alfa Laval plate heat exchangers for heat transfer duties have been installed in the refinery premises in Gela over the years. Recent installations include Compabloc welded heat exchangers that are perfect for demanding environments and high temperatures and pressures. Gela choose Compabloc units since they are very compact and make it possible to have two units instead of one, in the same space. When maintenance is needed the company can switch from one unit to the other without costly production stops.

Positive development,

primarily in Western Europe, North America and Asia

Alfa Laval is continuing to develop and increase its spare parts and service operations, among other factors, because it provides customer benefits, links customer closer to Alfa Laval and is less cyclical. In addition, by creating continued customer contacts, it supports new sales.

During 2004, order intake for the aftermarket (Parts & Service) rose by 7 percent, accounting for 24 percent (26) of the Group's total sales during the year.

During 2004, the segment continued to focus efforts on the more mature markets, mainly Europe and the US, to increase the number of service contracts and in such a manner strengthen the long-term relationships with large and small customers. The company has secured many new service contracts, particularly with customers with an installed park of separators. Service contracts represent a major potential for Alfa Laval and have increased by about 50 percent in only two years.

During the year, new sales developed positively for Alfa Laval, particularly in the Process Industry, Energy & Environment and the Marine & Diesel segments. These are segments that generate a major part of the aftermarket business and Alfa Laval assesses that this

trend will have positive effects for the aftermarket. Much of the growth is related to an increase in Alfa Laval's installed machine park, but is also due to the organization continually developing and cultivating markets even more effectively.

Alfa Laval has continued to sell products as well as services through successfully marketing the company's service contract to all of the company's key segments. Through offering the new service concept "Allbrands service," the company has succeeded in securing many new full-service contracts with customers who chose Alfa Laval as their exclusive service partner.

Common organization for aftermarket

Alfa Laval's organization, with customer-oriented divisions, is also reflected in the aftermarket. The company's sales units now have a common organization for these operations, which covers Alfa Laval's entire product offering. This, combined with enhancing the expertise and status for service managers and personnel, has resulted in a new culture and a new perspective regarding service. The new orientation is to become a partner for customers and through exceptionally good knowledge about their operations assisting them in maintaining and optimizing their processes, so that they become as efficient and safe as possible and so that profitability improves.

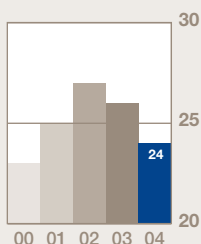
Large installed base of products, with long lifetime

The stable platform for Alfa Laval's spare parts and service operations is the large and growing installed base of products. Moreover, these products have a long lifetime: heat exchangers 5–20 years and separators 10–20 years. The global service network, with about 70 service centers worldwide, means that spare parts and service are available close to the customer.

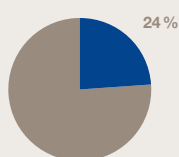
Highlights 2004

- Continued increase in order intake.
- Increase in new sales builds platform for future potential.
- Strong growth in Western Europe, North America and Asia.
- Continued rise in number of service contracts.

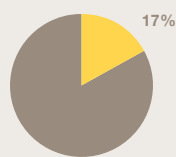
Parts & Services' share of Group sales, %



Parts & Services segment's share of Group sales



Parts & Services segment's share of Group employees





Protecting the San Diego environment

The City of San Diego Metropolitan Wastewater Department (MWWWD) in the USA serves a 450 square-mile area in Greater San Diego. Two million people from 16 cities and districts generate up to 680,000 cubic metres of wastewater daily. The plant handles this challenge with ease.

The heart of the MWWWD system is the Metro Biosolids Center (MBC) that processes both raw sludge and digested sludge. Alfa Laval spiral heat exchangers are used to preheat the sludge and to keep it at the optimum temperature for digestion. Decanter centrifuges are installed to dewater the blended wet biosolids and to thicken the remaining biosolids into a high quality cake. "We have saved 1.8 million dollars on our annual bio-solid disposal costs after changing our dewatering process to centrifuges," says Jack Swerlein, Plant Superintendent at the MWWWD.

To prevent downtime the MWWWD has chosen a Performance Agreement with Alfa Laval for maintenance of its 13 decanters. This programme allows accurate budget planning and eliminates unpleasant financial surprises if a technical need arises.



"The Alfa Laval Performance Agreement has played a key role in achieving our large cost savings."

Jack Swerlein, MWWWD

Focus on capacity and quality

The Operations Division is responsible for manufacturing, purchasing and logistics functions within Alfa Laval. In centralizing these functions, the company aims to optimize delivery reliability for customers, increase productivity, reduce operating costs and exploit economies of scale.

Alfa Laval believes it is necessary to have a global perspective and coordinate purchasing, manufacturing and logistics in order to create a reliable access to the company's products in the world market.

Manufacturing

Increased capacity to meet higher order intake

There are about 4,000 employees engaged in manufacturing at Alfa Laval in 20 major production units, of which 12 in Europe, six in Asia and two in the US. In recent years, production has been concentrated to fewer, product-specific plants, localized based primarily on proximity to the market and cost advantages. High-value products requiring advanced technical skills, are produced in production centers mainly in Western Europe and Japan.

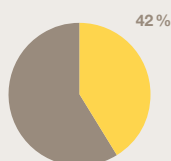
During 2004, most of the production units continued with aligning and increasing capacity to a higher order intake. An investment of about SEK 100 million was made in production of plate heat exchangers in Lund to increase capacity and improve logistics. The extension is scheduled to be complete during the first quarter of 2005. It was also decided during the year to invest SEK 80 million in a press line in Lund. Production capacity for decanters in Puna, India will be doubled through the construction of a new plant: This unit is scheduled to be placed in operation in mid-2005. Other major capacity investments were made in China and Ronneby, Sweden.

Production of installation material for fluid handling was developed during 2004. The market for installation material is characterized by demands for competitive prices, high availability and delivery precision. Developing the delivery chain is part of Alfa Laval's overall focus on securing growth potentials existing in the market. Production of high-frequency installation material was concentrated during the year to the plants in China and India, while production of low-frequency items was outsourced to local and regional manufacturers. As a result of these changes, Alfa Laval phased out the production unit in Mexico and increased activities in Kunshan, China.

Highlights 2004

- Investment in production to meet increased order intake.
- Development of manufacturing of installation material for fluid handling, which means that Alfa Laval closed the production unit in Mexico and expanded activities in Kunshan, China.
- Continued focus on Sigma Six at the units in Lund and Ronneby, Sweden, Kolding, Denmark and Alonte, Italy. Work with ISO 14001 certification initiated in Alonte and Eskilstuna.
- Restructuring of production of separators in Eskilstuna to increase delivery reliability and reduce delivery times.

The Operations Division's share of Group employees



Major production facilities*



* The map shows Alfa Laval's major production facilities. There are other production and assembly plants in the company.



Quality

Focus on Six Sigma and ISO 14001

Six Sigma is an improvement program that, among other aspects, provides a distinct strategy, demonstrates commitment by management to change issues and involves clearly defined roles. Six Sigma is not just a tool to achieve change, it is largely at manner in which to change the employees' attitude to the change effort. The Six Sigma method is actually divided into two elements: one that improves current processes, and one that develops new processes and products.

During 2004, the focus on Six Sigma at the production units in Lund and Ronneby continued. Toward the end of the year, Six Sigma was introduced at the units in Kolding, Denmark and Alonte, Italy.

The goal for the production unit in Lund during 2004 was to save SEK 8 million through changes resulting from Six Sigma. The outcome was saving of SEK 7.8 million.

To also follow up on the stability of the process, a central concept within Six Sigma, a measurement database, which measures the number of errors in

With a coordinated global perspective on purchasing, manufacturing, and logistics the company creates a reliable access to Alfa Laval's products in the world market.

about one million events, was introduced. Once each month about 50 different points in production are sampled – for example scrappage from the press line, cycling times in key machines (bottlenecks) and delays from suppliers.

Logistics

New delivery system stabilizes delivery performance

Efforts to introduce the One4AL, a system that simplified the flow from order to delivery and invoicing in a comprehensive manner, continued during 2004. The system makes it possible to distribute goods directly from the factory to the customer. Order processing, booking, delivery and invoicing occur in an integrated, transparent process so that sales companies and customers can easily track the flow. Apart from offering better service to customers, the system mainly frees up valuable sales and marketing resources in the sales companies. The goal is that 80–85 percent of all transactions shall be carried out in One4AL. In Kolding, Denmark work with introducing the new system for distribution was concluded. The aim is to further stabilize delivery capability and rationalize distribution operations.

Purchasing

Volume advantages through fewer suppliers

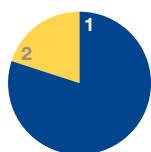
Production purchasing has been centralized and contracts are with six units for various raw materials. Apart from reducing the number of suppliers and deliveries, there is an increase in the deliveries from Eastern Europe and Asia, patterned after manufacturing.

In 2004, the Division also introduced a tool box to enable units to review and improve suppliers' delivery reliability in a systematic way. The purchasing organization is introducing systems to promote continuous improvement, focusing on a number of key parameters, to increase competitiveness.

Continued high

activity within Alfa Laval University

Gender distribution, %



1 Men 80
2 Women 20

Geographic distribution

(average no. of employees 2004)

Ten largest countries

1	Sweden	1,899
2	Denmark	1,126
3	India	1,045
4	US	826
5	France	583
6	Italy	506
7	China	479
8	UK	320
9	Germany	242
10	Russia	236
	Other	2,138
	Total	9,400

Alfa Laval assigns considerable importance to the development of its employees. "Alfa Laval University" develops and selects the Group's training and development programs to correlate with the company's needs and to sustain and develop its business operations.

The year 2004 was intensive for "The University" since 144 training sessions with 1,711 participants from 42 countries were carried out. Despite the main thrust of the courses being on sales and service, three courses for key managers were introduced during the year. Today, all courses are measured in accordance with standardized criteria, with the convergence points then utilized for training instructors and how they are selected.

The sales faculty within the university introduced a new sales and marketing program directed at all persons in positions of responsibility within marketing and sales. The program strengthens the sales and marketing program that was introduced in 2003, and which during 2004, had a particular focus on price-setting and on understanding Alfa Laval's business operations. The program was carried out in cooperation with Ashridge Business School, U.K.

The technological faculty directed its activities during the year to technical managers. For them, the focus was on technical development, reducing the time between development and product introduction, and production and information technology. These training sessions were held in cooperation with CHAMPS Business School, in Göteborg.

Talent bank and succession planning

During 2003, a more structured method of identifying the Group's talents was initiated, aimed at ensuring that the continuous need for management personnel and other key people as a part of the Group's growth strategy is satisfied. The "bank" of talents is an element of

the Group's succession planning, and during 2004, the development of this process was continued and refined. As a result of this work, the identification of internal candidates for key positions in the Group is now more rapid.

Center for virtual training resources (VLRC)

As part of the strategic cooperation with the Ashridge Business School in the U.K., Alfa Laval's employees will have daily direct access to e-learning resources. VLRC enables on-the-job training as a web-based tool. It will also be available for Alfa Laval's employees from their private computers at home. During the second half of 2004, VLRC was tested and will be unveiled on the group's Intranet in early 2005.



Continued implementation of the company's "Business principles"

Alfa Laval's "Business principles" were introduced in September 2003. Most of the principles have been an integral part of Alfa Laval's culture for many years. With the publicizing of the business principles, they were for the first time brought together in a single presentation. Alfa Laval considers that to be capable of creating a long-term development of the company's business principles, it is fundamental for all employees, that the principles be integrated into everyday work.

During 2004, Alfa Laval focused on communicating the business principles internally. The reactions the company elicited from various occupational groups and discussions with managers demonstrate that the workforce welcomes such an initiative – which in itself is an important result. Without employee support, Alfa Laval would not be successful with introducing these types of processes for improved sustainability. The negative side during 2004 was that the company underestimated the need for centralized support, which necessitated a somewhat slower introduction than had

been desired and, as a consequence, resources must be increased in 2005.

Two of many actions taken are:

- Business principles, goals and background were publicized on the company's home page and Intranet, and were a special theme for the Group's global internal newsletter.
- All presidents of Alfa Laval's 50 sales companies arranged a discussion of their respective supervisory groups, centering on "Business principles," a discussion with a special focus on sales ethics. Each president was then obliged to report when these meetings had been held.

Measure and control

One of Alfa Laval's goals is to report the company's sustainable success based on the relevant points of measurement in Global Reporting Initiative. Each unit shall have an effective supervisory system for sustainable development and to report the key points of measurement for the unit. At the same time, the company takes pains not to introduce systems that involve time-consuming reporting of statistics, which frequently prove difficult to utilize, and may even be misleading when taken out of context.

Training for newly employed salespeople

Held in Sweden each quarter. Each newly employed salesperson must listen to and discuss the Group's strategy directly with President, other management staff members and key people. They are trained both in theory and in practice, in the use of the sales tool the Accelerator for the planning of sales activities. They then participate in customized training to become adept at planning the sales activities for the specific product and the applications they will be expected to sell.

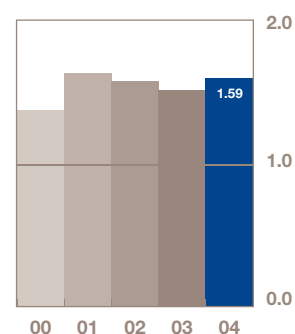
Dialog for growth

On these occasions, selected managers and specialists form a working group for discussing and solving growth-related problems and opportunities. Participating at each meeting is someone from Group management staff and a representative from a company in some other industry that has dealt with and exploited comparable growth opportunities. During 2003, three "Dialogs for growth" were held.

Number of employees

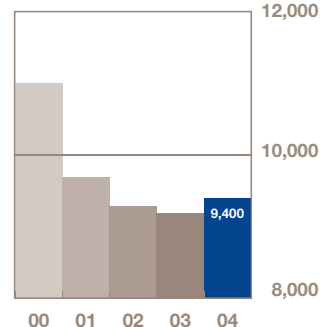
At December 31, 2004, Alfa Laval had 9,527 employees, up 169 compared with 2003.

Sales per employee*, SEK M



* average no. of employees

Average no. of employees





Turning dark into light

A drop of oil. Containing enough energy to keep a lamp lit for several minutes. At Alfa Laval we know this because we are involved at almost every stage of the long process from the extraction of raw materials through production to its ultimate use as energy. And not just with oil. Gas, steam and nuclear energy. Our equipment and systems undertake the vital tasks of heating, cooling and cleaning in these complex, often difficult processes. They offer unsurpassed efficiency, require minimal floor space and have extremely low maintenance costs.

Alfa Laval AB (publ) Annual Report 2004

Board of Directors' Report

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2004 to December 31, 2004.

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 Rudeboks-vägen 1 in Lund and the postal address is Box 73, 221 00 Lund, Sweden. Alfa Laval's website is: www.alfalaval.com.

Ownership and legal structure

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

The company had 11,758 (7,254) shareholders on December 31, 2004. The two largest owners are Tetra Laval and Industri Kapital, where 17.7 (17.7) percent are owned by Tetra Laval B.V., the Netherlands and 8.5 (17.9) percent are owned by the partnerships that are controlled by Industri Kapital 2000 Ltd, United Kingdom. At the beginning of May 2004 Industri Kapital decreased the holding in Alfa Laval from 17.9 percent to 8.5 percent. Next to the two largest owners there are eight institutional investors with ownership in the range of 7.4 to 1.9 percent. These ten largest owners own 54.6 (60.1) 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.

Sale of business

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 divestment of the operation called Industrial Flow was made on April 2, 2001. A few activities remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million.

These disposals are reported as comparison distortion items in a note to the income statement.

Sale of real estate

During September 2004 the property in Kenosha, USA, has been 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 has resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark has resulted in a realised loss of SEK -0.5 million. Other properties in Belgium,

Brazil, France, Wales and Peru are also planned for sale.

On February 26, 2003 the property in Newmarket in Canada was sold for SEK 20.0 million, with a realised gain of SEK 3.6 million. In connection with the construction of a new headquarter building in Lund a piece of land was sold to the new landlord for SEK 3.8 million with a realised gain of SEK 2.0 million.

The sale of the property in Warminster, the United States was completed in March 2002 at a price of SEK 62.1 million and with a realised loss of SEK -43.2 million.

These disposals are reported as comparison distortion items in a note to the income statement.

Purchase of business

On October 2, 2003, Alfa Laval acquired the Life Science division, bioKinetics, from Kinetics Group Inc. in the US for SEK 215 million. Alfa Laval made public in December 2003 that the company had decided to initiate new negotiations with the former owner of bioKinetics Inc. This decision was based on the fact that Alfa Laval suspected irregularities in the accounting of certain customer projects in the acquired US-company. The parties were originally unable to resolve the matter, leading Alfa Laval to file a lawsuit against the former owner Kinetics Group Inc. and certain individuals. On July 2, 2004 Alfa Laval announced that a settlement agreement had been reached between the parties. The terms of the agreement are confidential. Out of the difference between the purchase price paid and the net assets acquired SEK 23.8 million has been allocated to patents and unpatented know-how, while the residual SEK 84.3 million has been allocated to goodwill. The goodwill is amortised

over 10 years. bioKinetics had approximately 400 employees and net sales of approximately SEK 550 million.

On January 31, 2003, the Danish Toftejorg A/S Group was acquired, with effect from January 1, 2003. The operations cover R&D, assembly and sales of advanced tank cleaning equipment, targeting the Food and Marine industries. In addition to the operations in Denmark, the Toftejorg Group had sales companies in Sweden, Norway, Germany, the UK, France, Singapore, the United States and its own representation in South Korea. The operations are integrated into the Equipment Division. During 2004 an additional purchase price of SEK 1.5 million has been paid. The difference between the purchase price paid and the net assets acquired has thereby increased to SEK 34.7 million. SEK 0.9 million of this has been allocated to a property in the US, while the residual SEK 33.8 million has been allocated to goodwill. The goodwill is amortised over 10 years. Toftejorg had annual sales of about SEK 210 million and approximately 100 employees.

On September 4, 2002, Alfa Laval acquired Danish Separation Systems A/S, specialists within membrane filtration in the biotechnology, pharmaceutical and food industries. During 2004 an additional purchase price of SEK 7.9 million has been paid. The difference between the purchase price paid and the net assets acquired has thus increased to SEK 115.1 million. This has entirely been allocated to goodwill. This goodwill is amortised over 20 years. The company had annual sales of about SEK 90 million and 65 employees within R&D, manufacturing and sales.

Orders received

Orders received amounted to SEK 3,770.6 (3,750.4) million for the fourth quarter. Excluding exchange rate variations, the order intake for the Group was 4.7 percent higher than the fourth quarter last year. The increase is lower than during the previous quarters in 2004 since the fourth quarter 2003 was very strong.

Orders received amounted to SEK 15,740.0 (14,145.3) (14,674.8) million during 2004. Excluding exchange rate variations, the order intake for the Group was 15.2 percent higher than last year.

Orders received from the after market "Parts & Service" has continued to develop positively and increased by 7.3 percent compared to last year excluding exchange rate variations. Its relative share of the Group's total orders received decreased to 24.3 (26.1) percent due to the large increase in capital sales.

Order backlog

The order backlog at December 31, 2004 was SEK 4,763.4 (4,021.1) million. Excluding exchange rate variations, the order backlog was 23.0 percent higher than the order backlog at the end of 2003.

Net sales

Net sales of the Alfa Laval Group amounted to SEK 4,166.1 (4,086.3) million for the fourth quarter of this year. Excluding exchange rate variations, the invoicing was 5.8 percent higher than the fourth quarter last year. The increase is lower than during the previous quarters in 2004 since the fourth quarter 2003 was very strong.

Net sales of the Alfa Laval Group amounted to SEK 14,985.8 (13,909.3) (14,594.9) million during 2004. Excluding exchange rate variations, the invoicing was 11.7 percent higher than last year.

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 13.2 percent and net sales increased by 8.6 percent during 2004 compared to last year.

All segments served by the Equipment division have developed strongly. The most significant growth is found within the "Marine & Diesel" and "OEM" segments.

Operating income

(excluding comparison distortion items)

Operating income was SEK 1,002.4 (1,022.6) million in 2004. The slight reduction in operating income during 2004 compared to last year is explained by a lower gross margin mainly due to adverse foreign exchange effects and partly to price pressure and raw material cost development. These adverse effects were almost entirely compensated by the increase in sales volume.

PROCESS TECHNOLOGY DIVISION

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

Orders received and net sales

(all comments are after adjustment for exchange rate fluctuations)

Orders received increased by 18.5 percent and net sales increased by 16.2 percent during 2004 compared to last year. Excluding the acquisition of bioKinetics, the corresponding figures are 16.9 percent and 13.8 percent.

All segments in the Process Technology division have reported a large increase in orders received compared to 2003. The increase affects almost all the applications the division is working within. The growth has been largest within the "Process Industry" and "Energy & Environment" segments.

Operating income

(excluding comparison distortion items)

Operating income increased to SEK 540.8 (363.3) million in 2004. The operating income increased substantially during 2004 compared to last year due to a large growth in sales and improved performance on contract orders. The increase was partly offset by adverse

foreign exchange effects and 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 -333.0 (-253.0) million in 2004. The decrease in operating income is mainly related to increased R&D costs, adverse foreign exchange effects and changes in provisions.

Reporting by geographical markets

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

Orders received

Orders received increased in all regions during 2004 compared to last year. The largest increases are in Latin America and Asia followed by Western Europe, North America and the Nordic countries.

Net sales

The invoicing increased in all regions except Africa during 2004 compared to last year. The most substantial increases are found in Asia followed by Western Europe, Latin America and North America.

Personnel

The parent company does not have any employees.

The Group has on average had 9,400 (9,194) (9,292) employees. At the end of December 2003 the Group had 9,358 employees. The number of employees was 9,527 on December 31, 2004. The increase compared to 2003 is related to the increase in sales.

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.

Research and development

As the result of an intensive and consis-

tent 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 with-in 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 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 403.9 (368.1) (355.2) million, corresponding to 2.7 (2.6) (2.4) percent of net sales. This represents an increase by SEK 35.8 million or 9.7 percent between 2004 and 2003.

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 in the United States

Alfa Laval's subsidiary in the United States, Alfa Laval Inc., was as of December 31, 2004, named as co-defendant in a total of 175 asbestos-related lawsuits with a total of approximately 13,800 plaintiffs.

Alfa Laval strongly believes the claims against the company are without merit

and intends to vigorously contest each lawsuit.

During the fourth quarter 2004, Alfa Laval Inc. was named as co-defendant in an additional 29 lawsuits with a total of approximately 50 plaintiffs. During the fourth quarter 2004, 12 lawsuits involving approximately 680 plaintiffs have been resolved. Alfa Laval Inc. has in addition been dismissed from the proceedings in respect of 840 plaintiffs in ongoing multiple plaintiffs lawsuits.

Furthermore, the claims of approximately 5,700 plaintiffs pending against Alfa Laval Inc. in Mississippi were, during the fourth quarter 2004, transferred to a federal court in Pennsylvania responsible for asbestos matters. The transferred claims are in addition to the claims of 522 plaintiffs, which were previously transferred to the same federal court. The court will administratively treat these claims as inactive unless the plaintiffs are able to demonstrate that they have been injured by asbestos. Alfa Laval will treat these claims as effectively dismissed, although it cannot be ruled out that one or more of the claims might be reinstated.

Alfa Laval Inc. has insurance coverage for the asbestos-related claims under a large number of insurance policies issued by several insurance companies. Primary insurance policies issued in favour of Alfa Laval Inc. provide for coverage of defence costs. Most of these insurance carriers have confirmed that they will, taken together, provide coverage for a substantial majority of the costs arising from the claims. Alfa Laval is in the process of negotiating settlement agreements with certain of its insurance carriers. These negotiations primarily relates to the extent of coverage and/or the documentation concerning the existence of certain insurance policies.

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 company's financial condition or results of operation.

Result for the parent company

The parent company's result after finan-

cial items was SEK -2.6 (0.7) (-87.9) million, out of which comparison distortion costs were SEK - (-) (-14.1) million, net interests were SEK 2.8 (6.0) (-94.2) million, realised and unrealised exchange rate gains and losses SEK - (-0.1) (24.7) million and fees to the Board and other administration costs the remaining SEK -5.4 (-5.2) (-4.3) million. Appropriation to tax allocation reserve has been made with SEK -80.4 (-) (-) million. Income taxes amount to SEK -67.6 (-) (-) million. Tax on received Group contribution was SEK 95.3 (171.8) (15.0) million and deferred tax on unused tax losses SEK -4.5 (4.5) (-) million. Net income for the year was SEK -59.8 (177.0) (-72.9) million.

Unrestricted equity capital for the parent company and the Group

The unrestricted equity capital of Alfa Laval AB (publ) was SEK 807.5 (1,069.0) (673.7) million.

The unrestricted equity capital of the Alfa Laval Group was SEK 1,023.1 (891.2) (511.2) million. The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of SEK 52.4 (54.3) (22.0) million. After deduction for this, the net available for distribution is thus SEK 970.7 (836.9) (489.2) million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 4.75 (4.00) (2.00) per share corresponding to SEK 530.4 (446.7) (223.3) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 277.1 (622.3) (450.3) million be carried forward, see page 88.

Implementation of IFRS during 2005

In 2005 Alfa Laval will change to accounting according to IFRS (International Financial Reporting Standards). Since all IAS rules except IAS 39 have already been implemented at December 31, 2004, the transfer to IFRS will only affect the following areas.

As of January 1, 2005 the goodwill will not be depreciated any longer but instead be tested for impairment. Minority interests have earlier been reported under a separate heading next to equity, but shall now be reported as a separate item within equity. Since IAS 39 will be implemented first in 2005 it

Impact on income if ifrs had been implemented in 2004

Income statement Consolidated, SEK M	Adjusted EBITA	Operating income	Net income
Income statement 2004	1,695.1	1,246.9	603.2
Adjustments for:			
Depreciation of goodwill	-	191.5	191.5
Minority share in subsidiaries' income	-	-	45.4
Adjusted income for 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

Equity Consolidated, SEK M	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:	
Depreciation of goodwill	191.5
Minority interests	119.2
Equity at December 31, 2004	
according to IFRS	5,277.7
Adjustments for:	
Financial instruments	159.3
Equity at January 1, 2005	
according to IFRS	5,437.0

only has an effect on the opening balance for 2005 and not in the income statement for 2004. The effect is 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 (see above).

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 27, 2005.

In a news release on February 15, 2005 Alfa Laval communicated that an agreement had been signed to acquire Packinox S.A. in France. Packinox is a world leader in large welded plate heat exchangers for oil & gas and refinery applications, with expected sales of about SEK 450 million in 2005 and approximately 145 employees within R&D, manufacturing and sales.

The Board of Directors will propose to the 2005 Annual General Meeting that, subject to the approval of the court, the

premium fund within the restricted equity capital of Alfa Laval AB (publ) is reduced by SEK 1,500.0 million, which amount will be transferred to an unrestricted fund to be disposed of according to the decisions of the general meeting.

Outlook for the near future

In the fourth quarter and full year 2004 report issued on February 14, 2005, the President and Chief Executive Officer Lars Renström stated:

"In most of the markets that Alfa Laval serves the demand is expected to be on the same high level as during 2004.

Alfa Laval also believes that the current high price level for some raw materials will remain, at least short term."

Date for the next financial report

The interim report for the first quarter 2005 will be published on April 27, 2005.

New dividend policy

The Board of Directors intends to recommend regular dividends that reflect the performance, the financial position, the funding arrangements and expected capital needs of the Alfa Laval Group. Considering the cash generating capacity of the Group a dividend of 40 – 50 percent of net income, adjusted for step-up depreciations, calculated over a business cycle is targeted.

Review of the financial goals

The Board of Directors has reviewed the Group's financial goals. Both the growth goal (five percent per year on average over a business cycle) and the return goal (20 percent return on capital employed) are kept. The margin goal is adjusted to 10 – 13 percent, based on the fact that the foreign exchange rates have changed substantially since the old goal was set some years ago. This new margin target is in effect more ambitious considering fx variations.

Eight-year overview

	Alfa Laval		Successor		Alfa Laval		Predecessor	
	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval
SEK millions, unless otherwise stated	2004	2003	2002	2001	pro forma 2000	Holding 1999	Holding 1998	Holding 1997
PROFIT AND LOSS INFORMATION								
Net sales	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	36.7	5.6	-29.2	5.3	129.9	29.8	497.2	236.3
Operating income	1,246.9	1,138.5	1,219.5	1,231.4	810.1	248.9	772.4	562.5
Financial net	-176.8	-321.1	-542.6	-1,189.6	-1,106.6	-132.9	-204.8	-394.3
Result after financial items	1,070.1	817.4	372.1	41.8	-296.5	116.0	567.6	168.2
Minority share in income	-45.4	-41.6	-33.6	-32.0	-47.6	-26.7	-15.6	4.0
Taxes	-421.5	-130.0	-218.3	26.3	-60.6	-333.3	39.7	-278.8
NET INCOME FOR THE YEAR	603.2	645.8	120.2	36.1	-404.7	-244.0	591.6	-120.1
Balance sheet information								
Goodwill	2,794.6	3,098.5	3,369.0	3,372.9	3,314.2	1,692.2	2,069.1	2,758.8
Other intangible assets	923.9	1,101.5	1,334.3	1,640.4	1,805.4	22.9	24.8	32.6
Property, plant and equipment	2,480.3	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	601.4	670.7	751.9	1,102.4	1,094.5	324.4	635.1	135.9
Inventories	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	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	257.2	658.6	414.3	293.3	595.5	283.1	95.7	163.9
Cash and bank	414.8	554.6	605.9	666.4	634.5	677.0	550.7	506.2
TOTAL ASSETS	13,901.0	14,689.5	15,427.3	17,631.8	18,791.2	12,703.5	13,647.1	14,983.1
Equity capital	4,967.0	4,897.0	4,512.3	1,445.1	1,312.3	3,342.6	3,652.1	2,967.4
Minority interest	119.2	104.2	108.2	131.8	169.5	147.7	119.0	173.0
Provisions for pensions etc.	788.9	754.8	720.6	774.9	658.3	520.5	671.8	745.8
Provisions for taxes	760.3	817.0	990.3	1,143.6	1,413.1	199.1	182.0	240.0
Other provisions	948.2	891.2	989.3	1,063.2	1,179.1	949.7	0.0	0.0
Long-term liabilities	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	4,010.3	3,733.5	3,873.3	4,751.6	5,159.6	7,094.7	6,064.8	7,543.9
TOTAL EQUITY CAP. & LIAB.	13,901.0	14,689.5	15,427.3	17,631.8	18,791.2	12,703.5	13,647.1	14,983.1

	Successor					Predecessor		
	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval
					pro forma	Holding	Holding	Holding
SEK millions, unless otherwise stated	2004	2003	2002	2001	2000	1999	1998	1997
KEY RATIOS								
Orders received	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	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	1,731.8	1,632.6	1,726.2	1,743.3	1,289.8	964.0	1,462.1	1,252.2
EBITDA	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, %	11.6	11.7	11.8	11.0	8.6	6.7	9.9	8.0
EBITDA-margin, %	13.3	13.8	14.1	13.5	11.7	10.0	13.3	11.3
Adjusted EBITA	1,695.1	1,627.0	1,755.4	1,738.0	1,159.9	934.2	964.9	1,015.9
Adjusted EBITDA	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, %	11.3	11.7	12.0	11.0	7.7	6.5	6.5	6.5
Adjusted EBITDA-margin, %	13.1	13.8	14.3	13.5	10.8	9.8	9.9	9.8
Profit margin, %	7.1	5.9	2.5	0.3	-2.0	0.8	3.9	1.1
Excl. Goodwill and step-up values								
Capital turnover rate, times	5.3	5.0	4.4	4.1	3.4	3.2	3.4	3.7
Capital employed	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, %	61.4	58.2	52.6	44.7	29.4	21.5	33.5	29.2
Incl. Goodwill and step-up values								
Capital turnover rate, times	2.1	1.8	1.7	1.7	1.9	2.3	2.2	2.4
Capital employed	7,134.5	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, %	24.3	21.3	20.2	18.5	16.1	15.2	21.6	18.9
Return on equity capital, %	12.1	13.2	2.7	2.5	-30.8	-7.3	16.2	-4.0
Solidity, %	35.7	33.3	29.2	8.2	7.0	26.3	26.8	19.8
Net debt	1,883.5	2,401.1	3,498.5	7,777.5	8,422.4	2,854.5	2,808.7	4,079.5
Debt ratio, times	0.38	0.49	0.78	5.38	6.42	0.85	0.77	1.37
Interest coverage ratio, times	7.4	5.0	3.0	1.9	1.6	5.9	6.2	4.1
Cash flow from:								
operating activities	1,118.0	1,653.5	1,923.8	1,998.7	1,630.4	1,324.4	911.0	-83.0
investing activities	121.1	-457.4	-547.8	114.9	-8,284.0	-599.5	-256.4	-3,199.0
financing activities	-1,353.2	-1,167.2	-1,320.3	-2,095.0	6,617.9	-586.4	-625.7	3,042.1
Investments	387.5	258.5	276.7	274.9	311.7	431.2	438.4	485.9
Average number of employees	9,400	9,194	9,292	9,693	11,001	11,696	12,613	13,704
Earnings per share, SEK	5.40	5.78	1.41	0.96	-10.79	-19.52	47.30	-4.00
Free cash flow per share, SEK	11.10	10.71	16.10	56.37	-177.45	57.99	52.37	-109.40

Consolidated cash-flow statements

Amounts in SEK millions	Note	Jan 1–Dec 31 2004	Jan 1–Dec 31 2003	Jan 1–Dec 31 2002
Cash flow from operating activities				
Operating income		1,246.9	1,138.5	1,219.5
Adjustment for depreciation		745.8	787.2	838.0
Adjustment for other non-cash items		15.4	22.1	35.0
		2,008.1	1,947.8	2,092.5
Taxes paid		-335.6	-268.6	-396.2
Cash flow from operations before working capital		1,672.5	1,679.2	1,696.3
Changes in working capital:				
(Increase)/decrease of current receivables		-389.4	-25.4	339.3
(Increase)/decrease of inventories		-297.0	-17.2	140.4
Increase/(decrease) of liabilities		131.9	16.9	-252.2
		-554.5	-25.7	227.5
Cash flow from operating activities		1,118.0	1,653.5	1,923.8
Cash flow from investing activities				
Investments in fixed assets		-387.5	-258.5	-276.7
Divestment of fixed assets		361.5	40.1	120.7
Additional purchase price		-9.4	-7.6	-367.5
Acquisition of businesses	24	-	-281.9	-135.7
Reduction of purchase price	24	61.2	-	81.6
Divestment of businesses	24	10.0	-	-
Provisions		85.3	50.5	29.8
Cash flow from investing activities		121.1	-457.4	-547.8
Cash flow from financing activities				
Financial net, paid		-201.4	-231.1	-973.3
New issue of shares		-	-	3,136.6
Dividends		-446.7	-223.3	-
(Increase)/decrease of other financial assets		472.4	-256.9	-84.2
Capitalised financing costs, acquisition loans		-7.3	-	-39.7
Increase/(decrease) of liabilities to credit institutions	27	-1,170.2	-455.9	-3,359.6
Cash flow from financing activities		-1,353.2	-1,167.2	-1,320.3
Net increase (decrease) in cash and bank		-114.1	28.9	55.7
Cash and bank at the beginning of the year		554.6	605.9	666.4
Translation difference in cash and bank		-25.7	-80.2	-116.2
Cash and bank at the end of the period	23	414.8	554.6	605.9
Free cash flow per share (SEK) *		11.10	10.71	16.10
Average number of shares **		111,671,993	111,671,993	85,482,322

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

** The average number of shares has been changed through split and new issue of shares.

Comments to the consolidated cash-flow statements

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

Cash flow

Cash flow from operating and investing activities amounted to SEK 1,239.1 (1,196.1) (1,376.0) million during 2004, out of which divestments generated cash of SEK 371.5 (40.1) (120.7) million.

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 554.5 million during 2004. The corresponding figure for 2003 and 2002 was an increase by SEK 25.7 million and a decrease by SEK 227.5 million respectively.

Investments

Investments in property, plant and equipment amounted to SEK 387.5 (258.5) (276.7) million during 2004. Out of this, acquired product concessions were SEK 36.6 million in 2004. A major investment in 2004 is the earlier initiated expansion of the production facility in Lund, Sweden for plate heat exchangers, adding on capacity combined with a more efficient production. The growing product group of brazed heat exchangers has been supported by capacity as well as productivity enhancing investments at the Ronneby site. This site has also seen preparatory investments to support full-scale production of the newly

introduced Alfa Nova heat exchanger. Further investments intended for most product groups, have continued in both China and India, to support the overall growth in this region. In 2002 an expansion of the production facility was made in Richmond, Virginia in the US and capacity investments for manufacturing of brazed heat exchangers was made in Ronneby. In connection with the Group's restructuring programme a number of factories have been closed and fixed asset have been redistributed, which has resulted in a relatively lower investment level. Depreciation, excluding allocated step-up values, amounted to SEK 260.9 (293.1) (331.3) million during the year.

Additional purchase price

In 2004 an additional purchase price of SEK 7.9 (7.6) million has been paid for Danish Separation Systems and SEK 1.5 (-) million for Toftejorg.

In connection with the IPO in 2002 an additional purchase price of EUR 40.0 million, corresponding to SEK 367.5 million, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Holding AB Group. This has entirely been reported as goodwill in the Group and is amortised over the same period as the original acquisition.

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 has received a purchase price reimbursement of SEK 61.2 million related to the acquisition of bioKinetics in 2003.

In 2002 the Alfa Laval Group received SEK 81.6 million from Tetra Laval BV as a reduction of the purchase price for the acquisition of the Alfa Laval Holding

AB Group. The reduction was related to the guarantees issued by the vendor in relation to taxes. The amount did not have an impact on the goodwill for the acquisition but was instead reported against the increased tax cost that the Group experienced after the acquisition. The amount received during 2002 constituted a final settlement with Tetra Laval concerning these guarantees.

New issue of shares

See the statement over "Changes in consolidated equity capital" after the balance sheet for a further description of the capitalisation of the company.

Free cash flow per share

The free cash flow per share is SEK 11.10 (10.71) (16.10). The cash flows from operating activities calculated per share are SEK 10.01 (14.81) (22.51). Cash flows per share have been calculated based on the average number of shares, which has been changed through split and new issue of shares to 111,671,993 (111,671,993) (85,482,322). There is no dilution effect since all warrants were exercised in 2002, see Note 4.

Consolidated income statement

Amounts in SEK millions	Note	Jan 1–Dec 31 2004	Jan 1–Dec 31 2003	Jan 1–Dec 31 2002
Net sales	1	14,985.8	13,909.3	14,594.9
Cost of goods sold	9	-9,937.0	-8,976.3	-9,262.2
Gross profit	1	5,048.8	4,933.0	5,332.7
Sales costs	2, 3, 7	-2,132.4	-2,245.8	-2,115.1
Administration costs	2, 3, 6, 9	-929.5	-870.1	-1,030.7
Research and development costs		-403.9	-368.1	-355.2
Other operating income *	8	325.2	248.0	282.7
Other operating costs *	8, 9	-469.8	-367.2	-707.2
Amortisation of goodwill	9, 10	-191.5	-191.3	-187.7
Operating income		1,246.9	1,138.5	1,219.5
Dividends	11	3.1	6.9	7.8
Interest income	12	166.4	267.5	351.4
Interest expense *	8, 12	-346.3	-595.5	-1,206.6
Result after financial items		1,070.1	817.4	372.1
Minority share in subsidiaries' income	13	-45.4	-41.6	-33.6
Taxes on this year's result	14	-391.9	-110.2	-185.7
Other taxes	14	-29.6	-19.8	-32.6
Net income for the year		603.2	645.8	120.2
Earnings per share (SEK)		5.40	5.78	1.41
Average number of shares **		111,671,993	111,671,993	85,482,322

* The line has been affected by comparison distortion items, see specification in note 8.

** The average number of shares has been changed through split and new issue of shares. See a specification in the statement over "Changes in consolidated equity capital".

Comments to the consolidated income statement

For comments on the individual lines in the income statement, reference is made to Notes 1 to 14 and Note 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*

	Oct 1–Dec 31 2004	Oct 1–Dec 31 2003	Oct 1–Dec 31 2002	Jan 1–Dec 31 2004	Jan 1–Dec 31 2003	Jan 1–Dec 31 2002
SEK millions						
Net sales	4,166.1	4,086.3	4,175.1	14,985.8	13,909.3	14,594.9
Adjusted gross profit - in % of net sales	1,392.4 33.4	1,385.0 33.9	1,539.1 36.9	5,342.2 35.6	5,235.8 37.6	5,651.7 38.7
Expenses ** - in % of net sales	-856.4 20.6	-846.5 20.7	-922.3 22.1	-3,386.2 22.6	-3,315.7 23.8	-3,565.0 24.4
Adjusted EBITDA - in % of net sales	536.0 12.9	538.5 13.2	616.8 14.8	1,956.0 13.1	1,920.1 13.8	2,086.7 14.3
Depreciation	-70.0	-75.5	-81.8	-260.9	-293.1	-331.3
Adjusted EBITA - in % of net sales	466.0 11.2	463.0 11.3	535.0 12.8	1,695.1 11.3	1,627.0 11.7	1,755.4 12.0
Amortisation of goodwill ***	-119.4	-124.5	-125.9	-484.9	-494.1	-506.7
Comparison distortion items	2.7	2.0	-0.7	36.7	5.6	-29.2
EBIT	349.3	340.5	408.4	1,246.9	1,138.5	1,219.5

* For definitions, see backcover. ** Excluding comparison distortion items. *** Including amortisation of step-up values.

The year generated a gross profit of SEK 5,048.8 (4,933.0) (5,332.7) million. Excluding the amortisation of SEK 293.4 (302.8) (319.0) million on step-up values, the adjusted gross profit is SEK 5,342.2 (5,235.8) (5,651.7) million. This corresponds to 35.6 (37.6) percent of net sales.

Sales and administration expenses amounted to SEK 3,061.9 (3,115.9) (3,145.8) million. Excluding exchange rate variations and the acquisition of bioKinetics, sales and administration expenses were 3.1 percent higher than last year, which is considerably less than the increase in sales volume.

The costs for research and development have amounted to SEK 403.9 (368.1) (355.2) million, corresponding to 2.7 (2.6) (2.4) percent of net sales. This represents an increase by SEK 35.8 million or 9.7 percent between 2004 and 2003.

Adjusted EBITDA amounted to SEK 1,956.0 (1,920.1) (2,086.7) million for the year. The adjusted EBITA amounted to SEK 1,695.1 (1,627.0) (1,755.4) million. The adjusted EBITA margin was 11.3 (11.7) (12.0) percent. The adjusted result after tax, excluding amortisation of goodwill and step-up values and the corresponding tax, is SEK 8.67 (9.34) (6.17) per share.

Compared with last year Alfa Laval has been affected negatively during 2004 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The negative effect on adjusted EBITA has been calculated to totally about SEK 322 (273) (130) million, where of SEK 57 (121) (80) million represent translation differences, for the full year 2004 compared with last year. The main reason has been the depreciation of the USD

compared with SEK. 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 292.0 (268.8) (284.8) 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	2004				2003				2002	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net sales	4,166.1	3,837.5	3,798.3	3,183.9	4,086.3	3,426.3	3,402.0	2,994.7	4,175.1	3,503.7
Adjusted gross profit	1,392.4	1,348.7	1,357.9	1,243.2	1,385.0	1,318.9	1,334.5	1,197.4	1,539.1	1,394.7
- in % of net sales	33.4	35.1	35.8	39.0	33.9	38.5	39.2	40.0	36.9	39.8
Expenses **	-856.4	-863.5	-874.3	-792.0	-846.5	-818.0	-849.8	-801.4	-922.3	-902.5
- in % of net sales	20.6	22.5	23.0	24.9	20.7	23.9	25.0	26.8	22.1	25.8
Adjusted EBITDA	536.0	485.2	483.6	451.2	538.5	500.9	484.7	396.0	616.8	492.2
- in % of net sales	12.9	12.6	12.7	14.2	13.2	14.6	14.2	13.2	14.8	14.0
Depreciation	-70.0	-58.8	-63.6	-68.5	-75.5	-70.7	-72.2	-74.7	-81.8	-78.6
Adjusted EBITA	466.0	426.4	420.0	382.7	463.0	430.2	412.5	321.3	535.0	413.6
- in % of net sales	11.2	11.1	11.1	12.0	11.3	12.6	12.1	10.7	12.8	11.8
Amortisation of goodwill ***	-119.4	-120.6	-121.1	-123.8	-124.5	-124.1	-121.8	-123.7	-125.9	-128.7
Comparison distortion items	2.7	47.5	0.0	-13.5	2.0	0.0	0.0	3.6	-0.7	15.9
EBIT	349.3	353.3	298.9	245.4	340.5	306.1	290.7	201.2	408.4	300.8

* For definitions, see backcover. ** Excluding comparison distortion items. *** Including amortisation of step-up values.

The result has been affected by comparison distortion items of SEK 36.7 (5.6) (-29.2) 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 8.

During September 2004 the property in Kenosha, USA, has been 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 has generated a loss of SEK -15.0 million. The sale of some minor properties in Brazil and India has resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark has resulted in a realised loss of SEK -0.5 million.

On February 26, 2003 the property in Newmarket, Canada was sold for SEK 20.0 million, with a realised gain of SEK 3.6 million. In connection with the construction of a new headquarter building in Lund a piece of land was sold to the new landlord for SEK 3.8 million with a realised gain of SEK 2.0 million.

The sale of the property in Warminster, the United States was completed at the end of March 2002 at a price of SEK 62.1 million and with a realised loss of SEK -43.2 million. The divest-

ment of the operation called Industrial Flow was made on April 2, 2001. A few activities remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million.

The financial net has amounted to SEK -187.4 (-259.5) (-593.8) 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 -38.0 (-115.6) (-228.3) million, interest on the bond loan of SEK -127.5 (-132.0) (-219.4) million, interest on the loan from Tetra Laval Finance Ltd of SEK - (-) (-97.1) million and a net of dividends and other interest income and interest costs of SEK -21.9 (-11.9) (-49.0) million. The decrease in interests to the banking syndicate between 2004 and 2003 is due to the large amortisation during 2004 and the cancellation in September 2003 of the previous interest rate swaps that were requested by the first banking syndicate. The latter reason also explains the decrease in interests to the banking syndicate between 2003 and 2002. The decrease in interests on the bond loan is due to the large amortisation during 2002.

The net of realised and unrealised exchange rate differences amounts to SEK 10.6 (-61.6) (51.3) million, out of

which SEK 7.4 (-20.5) (130.4) million in the fourth quarter.

In connection with the dissolution of the pre-IPO capital structure in 2002, the income statement was charged with non-recurring financial costs of SEK -304.8 million. These consisted of the reversal of capitalised financing costs of totally SEK -219.6 million in connection with the repayment of the loan from Tetra Laval Finance Ltd, the replacement of the previous syndicated loans and the amortisation of the bond loan as well as the premium of SEK -85.2 million at the repayment of 35 percent of the bond loan of EUR 220 million.

The result after financial items was SEK 1,070.1 (817.4) (372.1) million.

Income taxes were SEK -391.9 (-110.2) (-185.7) million. The difference between 2004 and 2003 is primarily due to utilisation of loss carry forwards during 2003.

Earnings per share

Earnings per share are SEK 5.40 (5.78) (1.41). Earnings per share have been calculated based on the average number of shares, which has been changed through split and new issue of shares to 111,671,993 (111,671,993) (85,482,322). Any dilution does not exist since all warrants have been exercised, see Note 4.

Consolidated balance sheet

ASSETS

Amounts in SEK millions	Note	2004	2003
Fixed assets			
<i>Intangible assets</i>	15, 16		
Concessions, patents, licenses, trademarks and similar rights		923.1	1,100.8
Renting and similar rights		0.8	0.7
Goodwill		2,794.6	3,098.5
		3,718.5	4,200.0
<i>Property, plant and equipment</i>	15, 17		
Real estate		945.4	1,171.2
Machinery and other technical installations		753.9	858.5
Equipment, tools and installations		609.1	668.6
Construction in progress and advances to suppliers concerning property, plant and equipment		171.9	58.2
		2,480.3	2,756.5
<i>Financial long-term assets</i>			
Other long-term securities	18	2.9	22.5
Pension assets	25	123.5	126.7
Capitalised financing costs, acquisition loans		21.6	44.6
Deferred tax asset		453.4	476.9
		601.4	670.7
Total fixed assets		6,800.2	7,627.3
Current assets			
<i>Inventories</i>	19	2,452.5	2,217.8
<i>Current receivables</i>			
Accounts receivable	20	2,613.3	2,463.3
Other receivables	21	1,242.0	1,070.4
Prepaid costs and accrued income		89.9	85.4
Capitalised financing costs, acquisition loans		31.1	12.2
		3,976.3	3,631.3
<i>Current deposits</i>			
Other current deposits	22	257.2	658.6
<i>Cash and bank</i>	23	414.8	554.6
Total current assets		7,100.8	7,062.2
TOTAL ASSETS		13,901.0	14,689.5

EQUITY CAPITAL AND LIABILITIES

Amounts in SEK millions

	Note	2004	2003
Equity capital			
<i>Restricted equity capital</i>			
Share capital, 111,671,993 shares (par value SEK 10)		1,116.7	1,116.7
Restricted reserves		2,827.2	2,889.1
		3,943.9	4,005.8
Unrestricted equity capital			
Unrestricted reserves		419.9	245.4
Net income for the year		603.2	645.8
		1,023.1	891.2
Total equity		4,967.0	4,897.0
<i>Minority interest</i>	13	119.2	104.2
<i>Provisions</i>			
Provisions for pensions and similar commitments	25	788.9	754.8
Provisions for taxes	14	760.3	817.0
Other provisions	26	948.2	891.2
		2,497.4	2,463.0
<i>Long-term liabilities</i>	27		
Liabilities to credit institutions		1,262.7	2,427.0
Bond loan		1,044.4	1,064.8
		2,307.1	3,491.8
<i>Current liabilities</i>			
Liabilities to credit institutions	27	239.4	103.7
Advances from customers		542.0	512.1
Accounts payable		1,235.8	1,076.0
Notes payable		113.8	123.4
Tax liabilities		598.0	451.7
Other liabilities	28	479.5	648.7
Accrued costs and prepaid income	29	801.8	817.9
		4,010.3	3,733.5
TOTAL EQUITY CAPITAL AND LIABILITIES		13,901.0	14,689.5
<i>PLEDGED ASSETS AND CONTINGENT LIABILITIES</i>			
Pledged assets	30	50.6	45.4
Contingent liabilities	30	1,402.8	1,471.1

Changes in consolidated equity capital

Amounts in SEK millions	Share capital	Restricted equity	Unrestricted equity	Total
As of December 31, 2001	0.4	36.9	1,407.8	1,445.1
2002				
New issue of shares	366.8	2,769.8	-	3,136.6
Bonus issue of shares	749.5	-	-749.5	0.0
Transfer between restricted equity and unrestricted equity in Group companies	-	76.9	-76.9	0.0
Translation difference	-	0.8	-190.4	-189.6
Net income for 2002	-	-	120.2	120.2
As of December 31, 2002	1,116.7	2,884.4	511.2	4,512.3
2003				
Dividends	-	-	-223.3	-223.3
Transfer between restricted equity and unrestricted equity in Group companies	-	4.3	-4.3	0.0
Translation difference	-	0.4	-38.2	-37.8
Net income for 2003	-	-	645.8	645.8
As of December 31, 2003	1,116.7	2,889.1	891.2	4,897.0
2004				
Dividends	-	-	-446.7	-446.7
Transfer between restricted equity and unrestricted equity in Group companies	-	-62.9	62.9	0.0
Translation difference	-	1.0	-87.5	-86.5
Net income for 2004	-	-	603.2	603.2
As of December 31, 2004	1,116.7	2,827.2	1,023.1	4,967.0

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	-86.5	-311.2	The USD was depreciated by 9.0%	-13.8

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 at par value SEK 10 (10).

The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of SEK 52.4 (54.3) (22.0) million. After deduction for this, the net available for distribution is thus SEK 970.7 (836.9) (489.2) million.

The possibilities to distribute unappropriated profits from foreign subsidiaries are limited in certain countries due to currency regulations and other legislation.

Parent company cash-flow statement and income statement

PARENT COMPANY CASH-FLOW STATEMENT

Amounts in SEK millions	Jan 1–Dec 31 2004	Jan 1–Dec 31 2003	Jan 1–Dec 31 2002
Cash flow from operating activities			
Operating income	-5.4	-5.2	-4.3
Taxes paid	-	-	-
Cash flow from operations before changes in working capital	-5.4	-5.2	-4.3
Changes in working capital			
(Increase)/decrease of current receivables	-158.3	185.2	-62.7
Increase/(decrease) of liabilities	-5.8	-16.1	-94.3
	-164.1	169.1	-157.0
Cash flow from operating activities	-169.5	163.9	-161.3
Cash flow from investing activities			
Shares in subsidiaries	-	-	-819.0
Cash flow from investing activities	0.0	0.0	-819.0
Cash flow from financing activities			
Financial net, paid	2.8	6.0	-95.3
New issue of shares	-	-	3,136.6
Dividends	-446.7	-223.3	-
Received group contribution	613.4	53.4	-
Increase/(decrease) of loans	-	-	-2,061.0
Cash flow from financing activities	169.5	-163.9	980.3
Net increase (decrease) in cash and bank	0.0	0.0	0.0
Cash and bank at the beginning of the year	0.0	0.0	0.0
Cash and bank at the end of the period	0.0	0.0	0.0

PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	Note	Jan 1–Dec 31 2004	Jan 1–Dec 31 2003	Jan 1–Dec 31 2002
Administration costs		-4.6	-4.4	-3.9
Other operating costs		-0.8	-0.8	-0.4
Operating income/loss		-5.4	-5.2	-4.3
Interest income and similar result items	12	3.1	6.0	28.7
Interest costs and similar result items	12	-0.3	-0.1	-98.2
Comparison distortion items		-	-	-14.1
Result after financial items		-2.6	0.7	-87.9
Appropriation to tax allocation reserve		-80.4	-	-
Income tax		-67.6	-	-
Tax on received Group contribution		95.3	171.8	15.0
Deferred tax		-4.5	4.5	-
Net result for the year		-59.8	177.0	-72.9

Parent company balance sheet

Amounts in SEK millions	Note	2004	2003
ASSETS			
Long-term assets			
<i>Financial long-term assets</i>			
Shares in group companies	18	4,460.9	4,460.9
Total long-term assets		4,460.9	4,460.9
Current assets			
<i>Current receivables</i>			
Receivables on group companies		502.2	491.9
Other receivables		1.8	4.5
Accrued income and prepaid costs		0.1	0.5
		504.1	496.9
<i>Cash and bank</i>			
		0.0	0.0
Total current assets		504.1	496.9
TOTAL ASSETS		4,965.0	4,957.8
EQUITY CAPITAL AND LIABILITIES			
Equity capital			
<i>Restricted equity capital</i>			
Share capital, 111,671,993 shares (par value SEK 10)		1,116.7	1,116.7
Premium fund		2,769.8	2,769.8
		3,886.5	3,886.5
<i>Unrestricted equity capital</i>			
Profit brought forward		867.3	892.0
Net income for the year		-59.8	177.0
		807.5	1,069.0
Total equity capital		4,694.0	4,955.5
<i>Untaxed reserves</i>			
Tax allocation reserve, taxation 2005		80.4	-
<i>Current liabilities</i>			
Liabilities to group companies		122.0	0.3
Tax liabilities		67.6	-
Other liabilities	28	0.2	-
Accrued costs and prepaid income		0.8	2.0
		190.6	2.3
TOTAL EQUITY CAPITAL AND LIABILITIES		4,965.0	4,957.8
Pledged assets and contingent liabilities			
<i>Pledged assets</i>		None	None
<i>Contingent liabilities (for subsidiaries)</i>		None	None

Parent company's equity capital

Parent company Alfa Laval AB (publ), SEK millions	Share capital	Restricted equity	Unrestricted equity	Total
As of December 31, 2001	0.4	-	1,457.8	1,458.2
2002				
New issues of shares	366.8	2,769.8	-	3,136.6
Bonus issue of shares	749.5	-	-749.5	0.0
Group contribution	-	-	53.4	53.4
Tax on received Group contribution	-	-	-15.0	-15.0
Net result 2002	-	-	-72.9	-72.9
As of December 31, 2002	1,116.7	2,769.8	673.7	4,560.2
2003				
Dividends	-	-	-223.3	-223.3
Group contribution	-	-	613.4	613.4
Tax on received Group contribution	-	-	-171.8	-171.8
Net result 2003	-	-	177.0	177.0
As of December 31, 2003	1,116.7	2,769.8	1,069.0	4,955.5
2004				
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
As of December 31, 2004	1,116.7	2,769.8	807.5	4,694.0

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

Notes to the financial statements

Amounts in SEK millions, unless otherwise stated.

Applied recommendations/General

Alfa Laval follows Swedish GAAP as expressed in law, recommendations issued by accounting bodies and relevant good accounting practice. This differs in certain respects from US GAAP, see Note 35.

Alfa Laval follows 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 have not yet been issued corresponding to already issued International Accounting Standards, the IAS statement has been applied instead. This is referring to IAS 19 Employee Benefits for 2000 and 2001 and IAS 14 Segment Reporting for 2001. A comparison has been made with the draft recommendations issued by the Council, which have only been available in 2001 and 2002 respectively.

Alfa Laval does not report the depreciation on goodwill distributed on the different functions in the income statement since almost the entire goodwill depreciation is referring to the goodwill that appeared in a leveraged buy out transaction in 2000. The comparability with other companies will be severely suffering if the goodwill depreciation is allocated to the income statement functions. For this reason the goodwill depreciation is isolated to a specifically identified item. The specific financial construction used in the ownership change will otherwise result in a misleading income reporting during two decades. The change of ownership in 2000 in fact meant that the net assets of Alfa Laval were re-valued to market value, which does not apply generally for other listed companies. In anticipation of the new international accounting statements, where goodwill is not depreciated but instead tested for impairment, the current treatment avoids any problem with comparability between years.

Implementation of International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) is the new name for all new International Accounting Standards. IFRS are still issued by the International Accounting Standards Board (IASB). IFRS 1 covers the transitional provisions for the implementation of IFRS. All companies within the European Union are 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 are some minor differences between the Swedish recommendations and IAS, Alfa Laval has never claimed to be following IAS. Technically this means that Alfa Laval will be a first time applicant under IFRS 1 in 2005. The adoption to IFRS is however already in place since Alfa Laval has implemented all relevant IAS standards, except IAS 39. This statement will be implemented as of January 1, 2005.

The effects of implementing IFRS during 2005 are described under a separate section in the Board of Directors' report.

Changed/implemented accounting principles

During 2003 RR27 "Financial Instruments: Disclosure and Presentation" was implemented. This did not introduce any major changes or amendments to the disclosure and presentation in 2002. Chapter 5 § 18b in Swedish Annual Report's Acts (ÅRL) "Gender among managers" was also implemented. The definition of members of the Board and managers is not at all as clear as in the Industry and Commerce Stock Exchange Committee's statement concerning executive officers below. For this reason, several measures have been supplied in order to enlighten the subject.

During 2002 RR26 Events after the balance sheet date was implemented. The updated statement by the Industry and Commerce Stock Exchange Committee on information about remunera-

tions to executive officers (approved during 2002) was also implemented during 2002.

The application of these new accounting standards has not resulted in any change of accounting principles and has therefore not resulted in any effect on income or equity capital for 2004, 2003 or 2002.

During 2001 RR 15 Intangible Assets, RR 21 Borrowing Costs, RR22 Presentation of Financial Statements and RR23 Related Party Disclosures were implemented. Segment reporting is from the same point in time reported according to IAS 14 in the absence of a Swedish recommendation at the time (currently RR25 Segment Reporting – business and geographical segments).

During 2000, considerable work was devoted to the implementation of new accounting standards. As of the closing for 2000, deferred tax is accounted for according to RR9, impairments according to RR17, revenue recognition on large projects according to RR10 and provisions, contingent liabilities and contingent assets according to RR16. As of the same date, employee benefits are accounted for according to IAS 19 in the absence of a Swedish standard (currently RR29 Employee Benefits). The effect on equity of the changes in accounting principles for income taxes and pensions amounted to an increase of SEK 225 million for the predecessor the Alfa Laval Holding Group for 1999. Since the effect on the equity because of changed accounting principles changes the opening equity, the net asset value that was acquired by the new group increased correspondingly. Because the acquired equity is fully eliminated, the above adjustment to equity does not appear in the new Alfa Laval Group.

Implementation of the Swedish Financial Accounting Standards Council's recommendations before they become effective

The Swedish Financial Accounting Standards Council's recommendations RR 1:00 Business combinations, RR15 Intangible Assets, RR16 Provisions, Contingent Liabilities and Contingent

Assets, RR17 Impairment of Assets, RR21 Borrowing Costs and RR23 Related Party Disclosures became effective on January 1, 2002. RR22 Presentation of Financial Statements, RR25 Segment Reporting – business and geographical segments and RR26 Events After the Balance Sheet Date became effective on January 1, 2003. RR29 Employee Benefits became effective on January 1, 2004. Earlier application of all these recommendations was encouraged and the Group has also applied them earlier as described above.

Critical accounting principles

The Financial Accounting Standards Board in the US has issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. 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 group has adopted the provisions of FAS 142 as of January 1, 2002 in the US GAAP reconciliation. The effect of FAS 142 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 position of the Group according to US GAAP.

According to RR17 impairments on assets including goodwill shall be calculated if there is any indication that the value of the asset has decreased. This is different to FAS 142, which requires that the impairment test must be made annually irregardless of whether there is an indication or not. If a FAS 142 calculation shows an impairment, this can however be seen as such an indication that could trigger a write down even in the part of the financial reporting that is regulated by the recommendations from the Financial Accounting Standards Council. With the implemen-

tation of IFRS 3 Business Combinations as of January 1, 2005 this difference compared to US GAAP will disappear and goodwill will be tested for impairment both annually and when there is an indication.

The Group's reporting of provisions according to RR16 means that SEK 948.2 (891.2) million is reported as other provisions. This constitutes 6.8 (6.1) 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 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.

Advertising costs

Advertising costs are expensed as incurred.

Borrowing costs

Borrowing costs are accounted for according to the main principle in RR21 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 (including associates and joint ventures)

The consolidated financial statements have been prepared according to the RR1:00 recommendation issued by the Financial Accounting Standards Council in Sweden.

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. Accordingly, the unrestricted reserves in the subsidiaries at the time of acquisition are not included in the consolidated unrestricted reserves. 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 (renamed from Gigantissimo 2444 AB) with Haldex as partner. These companies are consolidated according to the proportional consolidation method in RR14 Joint Ventures. The Group has only one company that fulfils the definition of an associate in RR13 Accounting for Investments in Associates, that is that the ownership is between 20 and 50 percent, namely Dalian Haven Automation Co Ltd. This company is totally dormant. Since its net assets are not material, it is not consolidated.

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.

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.

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 a note. 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 RR29. 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 is 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.

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 and RR29. 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, 2004 of 128.0 (119.9) 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 RR26 under a separate heading in the Board of Directors' report.

Financial instruments

During 2003 RR27 "Financial Instruments: Disclosure and Presentation" has been implemented. This has not introduced any major changes or amendments to the disclosure and presentation in 2002. RR27 is based on IAS 32 and describes how financial instruments are presented in the balance sheet and the required disclosures to enable a reader of financial reports to understand how the financial instrument is influencing the income statement, balance sheet and cash flow of a company. It does not regulate when a financial instrument is reported in or removed from the balance sheet or the valuation of financial instruments. This will instead be covered by IAS 39.

Financial instruments are valued at acquisition value. If a derivative instrument has been used to fix the exchange rate to be used for settling a commercial or financial receivable or liability, the balance sheet item is valued at the forward rate. The accrued interest rate for loans is valued including the effect of interest rate swaps. Derivative instruments covering projected flows are not reported until maturity and this is

where the effect of IAS 39 will be most apparent.

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. The fair value of financial instruments is shown in Note 34.

Fixed 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 periods have been used:

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

The Predecessor: Alfa Laval Holding AB

Intangible assets	10 years
Goodwill, harmonisation	5 years
Goodwill, other	10 years

The Successor: Alfa Laval AB publ)

Patents and trademarks	20 years
Step-up values, technology	7.5 years
Goodwill, strategic	20 years
Goodwill, other	10 years

The acquisition of the Alfa Laval Holding AB Group and Danish Separation Systems A/S are considered as strategic acquisitions where the intangible assets have a lifetime of more than 20 years. The acquisition of Toftejorg and bioKinetics are complimentary to the existing business. The reason why the depreciation period is more than five years also for these acquisitions is that Toftejorg has a strong position in tank cleaning equipment and bioKinetics has a powerful modular process concept, both of which are perceived to have economic life expectancies of much more than five years.

Any additions to the purchase price in connection with investments in fixed 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.

When there are indications that the value of a fixed asset has decreased, there is a valuation made if it must be written down according to RR17. 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.

Income Taxes

Income taxes are reported in accordance with RR9 Income Taxes.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (receivables) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. In essence, this means that current tax is calculated according to the rules that apply in the countries where the profit was generated.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill and certain other items.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carry-forward of unused tax losses; and (c) the carry-forward of unused tax credits. Deferred tax assets are recognised for all deductible

temporary differences to the extent that it is probable (>50 percent) that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable (>50 percent) that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

If it is not any longer probable that sufficient taxable profits will be available against which a deferred tax asset can be utilised, then the deferred tax asset is reduced by increasing the valuation allowance accordingly.

Inflationary accounting

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 2004 Colombia, Indonesia, Mexico, Russia, Turkey and Venezuela are regarded as highly inflationary countries.

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, the valuation at net realisable value therefore constitutes a considerable part.

Leasing

Leasing is accounted for in accordance with RR6:99 Leasing agreements.

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 RR10 Construction projects. 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.

Other operating income and other operating costs

Other operating income in the income statement relates to commission, royalty and license income. Other operating costs refer mainly to restructuring costs and to royalty costs.

Provisions

The Group is applying RR16 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;
- 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 and development costs are charged to the income statement in the year in which they are incurred. RR15 Intangible Assets requires development costs to be capitalised if certain requirements are fulfilled. The development costs within Alfa Laval do normally not meet the requirements for capitalisation according to RR15 Intangible Assets.

Revenue recognition

Revenue recognition is made according to RR11 Revenue. Sales revenue for products and services is recognised at the time of delivery. 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.

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 or at the rate fixed by forward contract. 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 unrestricted 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.

Financial risks

Financial risks are referring to financial instruments. Alfa Laval has the following instruments: cash, deposits, bank loans, the bond loan and a limited number of derivative instruments to hedge currency rates or interests. These include currency forward contracts, currency options, interest-rate swaps and interest-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.

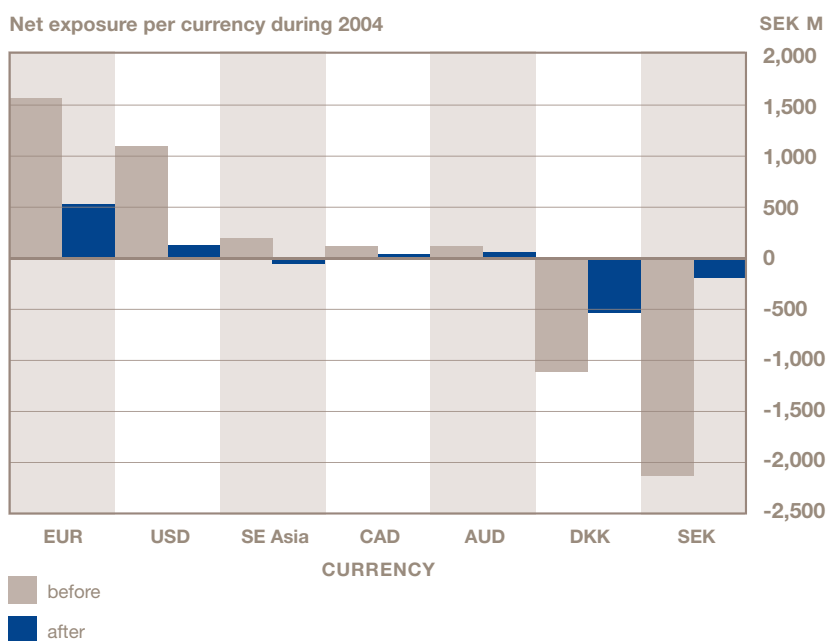
The Group normally has natural risk coverage through the sale as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contract based exposures 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 per-

cent of one year's commercial exposure for each currency.

The Group's net exposure in different currencies before and after derivatives during 2004 has amounted to:

Net exposure per currency during 2004



Currency contracts are entered into continuously during the year with 12 months maximum duration. This means that the company experiences the effects from the market currency rate movements with a varying degree of delay.

If the currency rates between SEK and the most important foreign currencies are changed by +/- 10 percent it has the following effect on operating income, if no hedging measures are taken:

Exchange rate change against SEK

In SEK millions	2004		2003		2002	
	+10%	-10%	+10%	-10%	+10%	-10%
Effect on operating income without hedging measure						
USD	113	-113	97	-97	101	-101
EUR	159	-159	152	-152	154	-154
DKK	-120	120	-127	127	-135	135
Other USD related currencies	15	-15	46	-46	29	-29
Other	45	-45	39	-39	58	-58
Total	212	-212	207	-207	207	-207

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

In millions	2004		2003		2002	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
Outflows						
EUR	-159.3	-1,431.9	-275.7	-2,499.0	-188.8	-1,729.4
USD	-285.6	-1,884.4	-161.5	-1,171.3	-190.2	-1,672.1
DKK	-817.1	-988.1	-750.3	-913.8	-558.0	-688.2
HKD	-	-	-	-	-173.3	-195.3
NOK	-136.2	-148.5	-165.8	-178.5	-133.3	-167.5
JPY	-	-	-765.7	-51.9	-1,713.3	-126.2
CAD	-17.0	-92.6	-17.8	-98.5	-7.7	-42.9
GBP	-16.4	-207.7	-7.6	-97.5	-0.9	-13.6
Other		-109.8		-70.2		-84.2
Total		-4,863.0		-5,080.7		-4,719.4
Inflows						
SEK	4,984.6	4,984.6	5,172.8	5,172.8	4,832.8	4,832.8
SGD	-	-	7.2	30.6	5.4	27.3
JPY	1,499.0	95.4	-	-	-	-
Other		0.0		4.9		10.6
Total		5,080.0		5,208.3		4,870.7
Net exposure		217.0		127.6		151.3

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 unrestricted 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 interest duration for the loans must be between 0 and 3 months for 66 percent

of the loans and between 6 and 36 months for 33 percent of the loans.

The loan with the new banking syndicate accrues interest at floating rate. The Group has chosen to hedge 26 (22) (64) percent of the loan, with a duration of 9 months. The subordinated loan from Tetra Laval Finance Ltd accrued interest at fixed rate, but has now been repaid. The bond loan accrues interest at fixed rate. Combined, 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 9 (17) (16) 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 all financial instruments, except the bond loan, the price risk only consists of currency risk and interest risk. For the bond loan there is a market risk, but as long as a market value that is higher than the booked value does not have to be reported in the balance sheet, this does not present a problem. IAS 39 will not change the reporting of the bond loan since it will still be valued at its acquisition value.

Liquidity risk

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

On April 15, 2004 Alfa Laval has signed a new senior credit facility with a banking syndicate. The former facility was transferred to a multi currency revolving credit facility. The new facility is USD 325 million and EUR 150 million, corresponding to SEK 3,492.2 million. At December 31, 2004, SEK 1,286.1 million of the facility are utilised. The new facility provides increased flexibility, improved terms and extended security of funding. The maturity of this facility is five years.

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. On April 15, 2004 Alfa Laval has signed a new senior credit facility with a banking syndicate. The former facility was transferred to a multi currency revolving credit facility. The new facility is USD 325 million and EUR 150 million, corresponding to SEK 3,492.2 million. At December 31, 2004, SEK 1,286.1 million of the facility are utilised. The new facility provides increased flexibility, improved terms and extended security of funding. The maturity of this facility is five years.

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 costs for bad debts are SEK 75.4 (42.2) (32.2) 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 claim costs have amounted to SEK 160.5 (151.5) (204.0) 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. The implemented split in divisions based on customer segments is a further step in the efforts to address this competition. The restructuring programme being implemented gives the Group a cost level that is very competitive.

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 2004 the Group has experienced higher prices for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium. The Group is considering starting 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.

Some of the Group's subsidiaries are involved in two so-called Desert Storm litigations, where war veterans from the Persian Gulf war have sued a large number of companies that are alleged to have delivered equipment to Iraq. The lawsuits, which were initiated in 1994, claim damages in excess of USD 1,000 million each. In Alfa Laval's opinion, adequate guarantees have been received from Tetra Laval, covering possible losses related to these litigations.

Alfa Laval's subsidiary in the United States, Alfa Laval Inc., was as of December 31, 2004, named as co-defendant in a total of 175 asbestos-related lawsuits with a total of approximately 13,800 plaintiffs.

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

During the fourth quarter 2004, Alfa Laval Inc. was named as co-defendant in an additional 29 lawsuits with a total of approximately 50 plaintiffs. During the fourth quarter 2004, 12 lawsuits involving approximately 680 plaintiffs have been resolved. Alfa Laval Inc. has in addition been dismissed from the proceedings in respect of 840 plaintiffs in ongoing multiple plaintiffs lawsuits.

Furthermore, the claims of approximately 5,700 plaintiffs pending against Alfa Laval Inc. in Mississippi were, during the fourth quarter 2004, transferred to a federal court in Pennsylvania responsible for asbestos matters. The transferred claims are in addition to the claims of 522 plaintiffs, which were previously transferred to the same federal court. The court will administratively treat these claims as inactive unless the plaintiffs are able to demonstrate that they have been injured by asbestos. Alfa Laval will treat these claims as effectively dismissed, although it cannot be ruled out that one or more of the claims might be reinstated.

Alfa Laval Inc. has insurance coverage for the asbestos-related claims under a large number of insurance policies issued by several insurance companies. Primary insurance policies issued in favour of Alfa Laval Inc. provide for coverage of defence costs. Most of these insurance carriers have confirmed that they will, taken together, provide coverage for a substantial majority of the costs arising from the claims. Alfa Laval is in the process of negotiating settlement agreements with certain of its insurance carriers. These negotiations primarily

relates to the extent of coverage and/or the documentation concerning the existence of certain insurance policies.

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 company'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	2004	2003	2002
Equipment	8,862.3	8,069.9	8,092.6
Process Technology	6,818.0	5,990.6	6,488.1
Operations and other	59.7	84.8	94.1
Total	15,740.0	14,145.3	14,674.8

Order backlog

Consolidated, SEK in millions	2004	2003	2002
Equipment	2,097.3	1,598.9	1,564.5
Process Technology	2,640.6	2,398.0	2,752.6
Operations and other	25.5	24.2	23.0
Total	4,763.4	4,021.1	4,340.1

Net sales

Consolidated, SEK in millions	2004	2003	2002
Equipment	8,250.4	7,841.8	8,129.6
Process Technology	6,683.3	5,993.6	6,377.1
Operations and other	52.1	73.9	88.2
Total	14,985.8	13,909.3	14,594.9

Operating income

Consolidated, SEK in millions	2004	2003	2002
Equipment	1,002.4	1,022.6	1,098.8
Process Technology	540.8	363.3	537.5
Operations and other	-333.0	-253.0	-387.6
Subtotal	1,210.2	1,132.9	1,248.7
Comparison distortion items	36.7	5.6	-29.2
Total	1,246.9	1,138.5	1,219.5

Consolidated, SEK in millions	Assets		Liabilities	
	2004	2003	2004	2003
Equipment	4,396.3	4,529.7	1,325.9	1,318.3
Process Technology	3,853.9	3,791.4	1,125.1	1,019.9
Operations and other	3,959.8	4,130.1	1,700.0	1,689.8
Subtotal	12,210.0	12,451.2	4,151.0	4,028.0
Corporate	1,691.0	2,238.3	4,663.8	5,660.3
Total	13,901.0	14,689.5	8,814.8	9,688.3

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

Consolidated, SEK in millions	Investments			Depreciation		
	2004	2003	2002	2004	2003	2002
Equipment	31.8	25.1	24.8	226.3	236.6	250.5
Process Technology	85.1	33.4	33.7	223.8	224.0	236.2
Operations and other	270.6	200.0	218.2	295.7	326.6	351.3
Total	387.5	258.5	276.7	745.8	787.2	838.0

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	2004		2003		2002	
	SEK in millions	%	SEK in millions	%	SEK in millions	%
Consolidated						
Customers in						
Sweden	887.6	5.9	893.2	6.4	835.1	5.7
Other EU	5,706.5	38.0	5,186.4	37.3	5,343.4	36.7
Other Europe	1,196.5	8.0	1,118.7	8.0	1,116.2	7.6
USA	2,197.4	14.7	2,159.0	15.5	2,638.7	18.1
Other North America	296.2	2.0	315.0	2.3	423.5	2.9
Latin America	583.9	3.9	553.6	4.0	626.7	4.3
Africa	177.3	1.2	182.7	1.3	69.6	0.5
Asia	3,619.9	24.2	3,242.6	23.3	3,287.9	22.5
Oceania	320.5	2.1	258.1	1.9	253.8	1.7
Total	14,985.8	100.0	13,909.3	100.0	14,594.9	100.0

Assets	2004		2003		2002	
	SEK in millions	%	SEK in millions	%	SEK in millions	%
Consolidated						
Sweden	2,524.1	18.2	2,252.2	15.3	2,202.4	14.3
Denmark	1,549.9	11.1	1,578.8	10.7	1,627.0	10.5
Other EU	3,763.8	26.9	4,032.9	27.5	4,316.2	28.0
Other Europe	289.2	2.1	278.6	1.9	334.0	2.2
USA	1,578.2	11.4	1,877.2	12.8	2,208.7	14.3
Other North America	206.7	1.5	323.6	2.2	247.2	1.6
Latin America	244.0	1.8	220.4	1.5	237.4	1.5
Africa	23.7	0.2	14.2	0.1	25.8	0.2
Asia	1,879.9	13.5	1,687.9	11.5	1,924.9	12.5
Oceania	150.5	1.1	185.4	1.3	167.3	1.1
Subtotal	12,210.0	87.8	12,451.2	84.8	13,290.9	86.2
Corporate	1,691.0	12.2	2,238.3	15.2	2,136.4	13.8
Total	13,901.0	100.0	14,689.5	100.0	15,427.3	100.0

Investments	2004		2003		2002	
	SEK in millions	%	SEK in millions	%	SEK in millions	%
Consolidated						
Sweden	166.2	42.8	85.4	32.9	62.8	22.7
Denmark	34.9	9.0	39.0	15.1	34.0	12.3
Other EU	96.9	25.0	59.0	22.8	56.6	20.5
Other Europe	4.2	1.1	3.3	1.3	6.9	2.5
USA	19.6	5.1	36.2	14.0	84.8	30.6
Other North America	1.6	0.4	1.2	0.5	1.9	0.7
Latin America	3.7	1.0	3.0	1.2	2.2	0.8
Africa	0.2	0.1	0.7	0.3	0.6	0.2
Asia	59.4	15.3	29.9	11.6	26.0	9.4
Oceania	0.8	0.2	0.8	0.3	0.9	0.3
Total	387.5	100.0	258.5	100.0	276.7	100.0

The values for the "Other EU" and "Other Europe" regions have been adjusted for all periods in order to reflect the extension of the European Union on May 1, 2004 with 10 new membership countries: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia.

Note 2. Average number of employees – total

	Number of female employees			Total number of employees		
	2004	2003	2002	2004	2003	2002
Consolidated						
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (7)	353	392	347	1,899	1,941	1,891
Total in Sweden (7)	353	392	347	1,899	1,941	1,891
Total abroad (76)	1,499	1,434	1,444	7,501	7,253	7,401
Total for the group (83)	1,852	1,826	1,791	9,400	9,194	9,292

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2004.

Average number of employees – in Sweden by municipality

Employees in Sweden	2004	2003	2002
Botkyrka	462	482	483
Eskilstuna	185	179	175
Göteborg	2	13	2
Lund	967	965	951
Malmö	3	3	3
Ronneby	242	234	240
Stockholm	4	3	3
Other municipalities *	34	62	34
Total	1,899	1,941	1,891

* Municipalities with less than 10 employees and employees at branch offices abroad.

Sick leave among Swedish employees

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

Consolidated	2004	2003
Sick leave for:		
all employees	4.5	4.5
all employees during 60 consecutive days or more	2.8	2.8
female employees	5.8	6.0
male employees	4.2	4.2
employees at the age of 29 or younger	3.4	2.3
employees between 30 and 49 years of age	3.6	4.1
employees at the age of 50 or more	6.3	6.0

Distribution of men/women among managers

	2004			2003		
	Number	Male	Female	Number	Male	Female
Consolidated						
Board members (excluding deputies)	12	75.0%	25.0%	12	83.3%	16.7%
President and other executive officers	11	100.0%	0.0%	10	100.0%	0.0%
Managers in Sweden	241	85.0%	15.0%	226	85.8%	14.2%
Managers outside Sweden	731	87.3%	12.7%	724	86.9%	13.1%
Managers total	972	86.7%	13.3%	950	86.6%	13.4%
Employees in Sweden	1,899	81.4%	18.6%	1,941	79.8%	20.2%
Employees outside Sweden	7,501	80.0%	20.0%	7,253	80.2%	19.8%
Employees total	9,400	80.3%	19.7%	9,194	80.1%	19.9%

With the decisions taken at the Annual General Meeting in April 2004, the percentage of female members of the Board reached 25.0 percent.

Average number of employees – by country

	Number of female employees			Total number of employees		
	2004	2003	2002	2004	2003	2002
Consolidated						
Argentina	11	8	6	42	35	31
Australia	17	19	21	63	66	72
Austria	6	6	6	21	21	21
Belgium	27	28	23	127	128	134
Brazil	20	21	23	104	104	111
Bulgaria	4	4	4	12	14	14
Canada	41	59	28	228	150	111
Chile	5	5	4	23	22	21
China	100	88	75	479	411	378
Colombia	5	5	2	12	12	10
Czech Republic	13	14	13	60	59	58
Denmark	281	269	253	1,126	1,098	1,054
Estonia	2	2	2	3	4	4
Finland	28	28	28	111	111	111
France	118	119	120	583	599	610
Germany	66	51	56	242	256	256
Greece	0	5	12	1	11	34
Hong Kong	7	7	15	17	18	44
Hungary	5	5	5	23	24	26
India	32	32	29	1,045	1,031	1,042
Indonesia	13	13	13	68	68	73
Iran	3	2	2	12	9	9
Italy	79	69	63	506	484	488
Japan	39	31	41	164	158	165
Korea	18	15	15	77	75	77
Latvia	4	5	4	9	8	7
Lithuania	4	4	4	4	4	4
Malaysia	26	25	24	70	70	68
Mexico	5	5	9	35	40	50
Netherlands	15	17	32	106	107	108
New Zealand	5	4	6	24	27	32
Norway	15	15	16	53	54	60
Peru	7	6	6	24	23	26
Philippines	3	3	3	20	21	21
Poland	23	24	25	118	117	123
Portugal	4	3	3	13	13	14
Romania	4	5	5	13	12	16
Russia	97	98	112	236	235	244
Singapore	21	21	21	46	48	46
Slovakia	1	1	1	8	9	11
South Africa	8	9	9	36	37	38
Spain	36	31	33	202	202	210
Sweden	353	392	347	1,899	1,941	1,891
Switzerland	3	2	2	16	15	15
Taiwan	12	12	12	31	32	32
Thailand	12	13	13	38	38	37
Turkey	8	8	7	32	30	28
UK *	55	53	55	320	334	344
United Arab Emirates	7	7	7	55	50	49
USA	180	154	172	826	742	849
Venezuela	4	4	4	17	17	15

* of which employed by the joint venture Rolls Laval 0 0 1

Note 3. Salaries and remunerations – total

Consolidated, SEK in millions	2004	2003	2002
Board of Directors, Presidents and Vice Presidents	123.3	120.8	133.8
of which, bonus	18.1	20.7	18.3
Other	2,995.9	2,887.3	2,815.9
Total salaries and remunerations	3,119.2	3,008.1	2,949.7
Social security costs	559.0	609.6	548.5
Pension costs, defined benefit plans	145.1	157.9	161.9
Pension costs, defined premium plans	237.6	206.1	222.8
Total costs of personnel	4,060.9	3,981.7	3,883.0

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 43.3 (33.8) (46.8) million and SEK 300.9 (339.0) (346.9) million respectively. SEK 186.2 (201.3) (223.0) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Chief Executive Officer/Managing Director

The Chief Executive Officer and Managing Director Lars Renström receives a remuneration of SEK 1,624,501, of which bonus was -. The former Chief Executive Officer and Managing Director Sigge Haraldsson received a remuneration of SEK 7,189,029 (5,076,417) (5,098,854), 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 4,000,000 per annum. He has a bonus opportunity with an un-guaranteed target bonus of 25 percent of the base salary and with a maximum opportunity of 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 he dies during the first two years of service these contributions to the defined contribution pension scheme will total at least SEK 4,000,000. 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 1.2 million.

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. In a press release on January 27, 2004 Sigge Haraldsson communicated his intention to retire in accordance with the agreement in connection with his sixtieth birthday in October 2004. He retired on September 30, 2004. The agreement provided a pension level of 70 percent of the salary at the time of retirement after the age of 58. 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 Alfa Laval has 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 percent 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 (4.9) (7.2) million, of which SEK 1.4 (1.7) (3.4) million relates to pension premiums for early retirement that are paid during a short period of time. There was no separate agreement on severance pay.

Board of Directors

The Chairman of the Board receives a remuneration of SEK 600,000 (600,000) (500,000) per year. He does not have any agreement on future retirement or severance pay with Alfa Laval.

For 2004, the Board of Directors receive a total fee of SEK 2,475,000 (2,225,000) (2,250,000), which is distributed among the members elected at the Annual General Meeting.

Other executive officers

Other executive officers are the ten members of Group Management in addition to the Chief Executive Officer. Their remunerations amount to SEK 19.1 (20.8) (21.3) million, of which bonuses were SEK 2.2 (4.5) (4.1) million. The bonus refers to bonus paid during the year.

For these executive officers, early retirement can be offered from the age of 60. The agreement normally gives a pension level of 75 percent of the salary at the time of retirement up to 30 base amounts and above that 50 percent of the salary.

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. They have a special family pension that represents a supplement between the old age pension and the family pension according to ITP. In addition to that 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.

Decision procedures for remunerations to Group Management

The remunerations to the Chief Executive Officer/Managing Director and other members of Group Management are decided in the remunerations' committee within the Board. 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 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.

Salaries and remunerations – by country

Consolidated, MSEK	Board of Directors, Presidents and Vice Presidents			Other employees		
	2004	2003	2002	2004	2003	2002
Argentina	0.6	0.6	0.5	3.1	2.8	3.6
Australia	2.9	2.7	2.6	20.6	20.2	19.9
Austria	1.0	1.0	1.7	9.2	9.1	8.2
Belgium	3.5	3.1	3.3	55.1	52.3	48.8
Brazil	1.3	1.3	1.1	13.1	13.0	16.4
Bulgaria	0.3	0.3	0.2	1.2	1.4	1.1
Canada	2.0	3.5	3.3	71.9	59.0	41.5
Chile	0.0	0.0	0.0	3.6	2.7	3.2
China	0.2	0.0	0.0	37.2	28.7	21.6
Colombia	0.6	0.5	0.4	1.6	0.9	0.9
Czech Republic	2.2	0.7	0.8	7.5	7.1	7.0
Denmark	9.1	11.9	9.1	566.2	527.9	409.0
Estonia	0.1	0.0	0.0	0.3	0.2	0.5
Finland	2.4	2.5	2.6	41.3	38.7	38.8
France	1.9	2.8	3.4	181.1	180.5	178.0
Germany	5.9	7.3	13.9	105.9	136.3	133.7
Greece	0.0	0.0	0.0	0.6	3.8	10.6
Hong Kong	2.1	2.8	3.4	14.8	14.2	22.7
Hungary	0.9	0.8	0.7	3.9	2.9	3.4
India	1.7	1.5	1.2	38.4	36.4	39.7
Indonesia	1.0	0.6	0.5	4.1	4.3	4.6
Iran	0.0	0.0	0.0	1.3	6.5	4.1
Italy	2.5	3.1	4.5	149.2	133.4	125.2
Japan	10.5	6.9	8.8	80.4	77.3	84.9
Korea	1.3	1.3	1.0	20.3	19.4	19.9
Latvia	0.5	0.5	0.4	1.3	1.0	1.0
Lithuania	0.0	0.0	0.0	0.8	0.7	0.7
Malaysia	1.0	1.4	1.5	9.4	9.3	10.5
Mexico	1.5	1.5	1.7	7.6	8.8	11.1
Netherlands	3.1	2.6	2.3	48.7	45.9	46.4
New Zealand	0.9	0.6	0.4	6.7	6.6	7.7
Norway	1.3	1.6	1.3	30.6	29.3	36.4
Peru	0.0	0.6	1.1	3.0	2.9	3.7
Philippines	0.3	0.4	0.4	1.3	1.5	1.8
Poland	1.7	2.4	4.0	12.6	11.9	14.1
Portugal	0.0	0.4	1.8	4.2	3.3	3.2
Romania	0.4	0.0	0.0	1.5	1.6	2.3
Russia	0.0	0.0	1.4	29.1	24.3	25.8
Singapore	1.3	1.4	1.4	10.1	10.3	11.8
Slovakia	0.0	0.0	0.1	1.1	1.1	1.2
South Africa	1.6	1.6	0.6	6.8	7.4	6.0
Spain	1.8	1.8	1.8	68.8	67.4	64.0
Sweden	20.7	22.5	21.6	732.5	715.7	676.4
Switzerland	1.5	1.5	1.9	10.9	10.3	10.5
Taiwan	0.8	0.7	0.9	6.5	6.6	7.9
Thailand	1.1	1.1	1.3	3.8	3.9	4.4
Turkey	1.4	1.4	1.1	6.9	6.6	5.1
UK	2.3	0.0	4.8	124.0	114.9	124.7
United Arab Emirates	1.5	1.2	1.7	10.6	10.5	14.5
USA	24.2	20.4	17.0	423.4	404.0	475.6
Venezuela	0.4	0.0	0.0	1.8	2.5	2.0
Total for the group	123.3	120.8	133.8	2,995.9	2,887.3	2,815.9

Note 4. Equity compensation benefits

The shares held by management at the end of 2001 were linked to warrants to subscribe for new ordinary shares. The warrants had been acquired at market value, based on the transaction on August 24, 2000.

At the IPO on May 17, 2002 all warrants could be exercised. No warrants were outstanding at the end of 2002.

Alfa Laval reported the payments of SEK 3.6 million received for the warrants as a deposit from the shareholders at the end of 2001. When the warrants were exercised, the corresponding credit was transferred to equity capital.

At December 31, 2004 no equity related benefits existed.

Note 5. Information about the members of the Board and the work procedures of the Board

The members of the Board of Directors

The Board presently has 12 members including the Chairman. Six of these were elected at the Annual General Meeting on June 1, 2001, one at the Annual General Meeting on April 8, 2002 and one at the Annual General Meeting on April 27, 2004. The Board also has four members, with deputies, elected by the trade unions.

Name	Member since	Born	Function
Anders Narvinger	May 2003	1948	Chairman
Björn Savén	August 2000	1950	Deputy Chairman
Gunilla Berg	April 2004	1960	Member
Per Olov Jakobsson	December 2000	1942	Member
Arne Kastö	December 2000	1948	Member
Susanna Holmqvist Norrby	May 2003	1967	Member
Jan Nilsson	December 2000	1952	Member
Finn Rausing	August 2000	1955	Member
Jörn Rausing	August 2000	1960	Member
Christian Salamon	August 2000	1961	Member
Waldemar Schmidt	August 2000	1940	Member
Lena Olving Öhberg	May 2002	1956	Member
Magnus Christersson	May 2003	1973	Deputy member
Gunnar Karlsson	December 2000	1941	Deputy member
Kalevi Houtari	December 2000	1951	Deputy member
Salvador Pay Ortiz	May 2002	1940	Deputy member

The former President and Chief Executive Officer Sigge Haraldsson was not re-elected as a member of the Board on the annual general meeting of shareholders in April 2004. Gunilla Berg was elected as member of the Board at the same meeting. The current President and Chief Executive Officer Lars Renström is not a member of the Board.

For a presentation of the members of the Board, see page 92–93.

Work procedures of the Board

The Board has held eight (twelve) (thirteen) meetings during 2004.

The Board has issued rules of procedures for the Board of Directors and an instruction regarding the allocation of work between the Board of Directors and the Managing Director. The rules of procedure establish, among other things, how often the Board of Directors shall meet and how the work shall be organised.

The Board has a remuneration committee, consisting of the Chairman, Björn Savén and Jörn Rausing, with Lars Renström as presenting. The committee shall handle remuneration matters for the members of Group Management.

Matters that the Board has been discussing during the year include liquidity and funding, financial performance, share and ownership developments, dividends, asbestos litigations, larger capacity investments and development projects, acquisition of businesses, purchase and divestment of real estate, raw material prices, corporate governance, internal audit, external audit planning and the strategic positioning of the Group.

The Board has issued a code of ethics for senior financial officers based on the requirements in section 406 of the Sarbanes-Oxley Act, a pre-approval policy for all auditing and non-auditing services provided by audit firms in accordance with Section 202 of the Sarbanes-Oxley Act, an updated communication policy and updated internal rules for prevention of misuse of insider information. The code of ethics for senior officers applies to the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer of the Group. The pre-approval policy stipulates what audit and non-audit services provided by Ernst & Young that the Board has pre-approved and what services that needs to be approved separately by the Board. The update of the communication policy is due to changes in the contract with the Stockholm Stock Exchange. The update of the insider rules relates mainly to the trading prevention periods prior to financial reports.

Since the Group has a bond loan that is registered with the Securities and Exchange Commission (SEC) in the US, the question of appointing an audit committee according to the "Sarbanes-Oxley Act" has been discussed. The Board has chosen not to appoint an audit committee since the judgement is that the financial reporting and control within the Group, the Group's policies concerning internal control, the external and internal audit and the reporting to the Board in these matters are such that a special audit committee within the Board would not increase the Board's insight and control over the operations. At four Board meetings during 2004 the Board has received reports from and met the external auditors of the Group. At one Board meeting during 2004, the Board has received reports from and met the internal auditor of the Group.

Section 407 of the Sarbanes-Oxley Act requires the company to disclose whether it has a financial expert on the audit committee. The Board has decided not to elect a financial expert.

Note 6. Information on auditors and auditors' fee

Anders Scherman has resigned from his assignment as auditor of the Alfa Laval Group and has been replaced by Kerstin Mouchard in connection with the Annual General Meeting of shareholder in April 2004.

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	2004	2003	2002
<i>Audit</i>			
Ernst & Young	10.9	10.9	12.7
Other audit firms	1.0	1.1	1.1
Total	11.9	12.0	13.8

Fees and expense compensation

Consolidated, SEK in millions	2004	2003	2002
<i>Other projects</i>			
Ernst & Young	6.3	2.7	2.8
Other audit firms	5.8	4.8	6.6
Total	12.1	7.5	9.4

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 7. Advertising costs

Advertising costs have amounted to SEK 49.0 (47.3) (40.0) million. These refer to costs for advertisements in newspapers and technical press, participation in trade fairs and brochures.

Note 8. Comparison distortion items

Consolidated, SEK in millions	2004	2003	2002
<i>Operational</i>			
Other operating income	271.3	242.4	268.7
Comparison distortion income	53.9	5.6	14.0
Total other operating income	325.2	248.0	282.7
Other operating costs	-452.6	-367.2	-664.0
Comparison distortion costs	-17.2	0.0	-43.2
Total other operating costs	-469.8	-367.2	-707.2
<i>Financial</i>			
Interest expense	-346.3	-595.5	-901.8
Comparison distortion costs	-	-	-304.8
Total interest expense	-346.3	-595.5	-1,206.6

Specification of operational gains and losses

Consolidated, SEK in millions	2004	2003	2002
Gain on:			
Sale of real estate	53.9	5.6	-
Sale of Industrial Flow	-	-	14.0
Subtotal gains	53.9	5.6	14.0
Loss on:			
Sale of real estate	-2.2	-	-43.2
Sale of Tri-Lad	-15.0	-	-
Subtotal losses	-17.2	-	-43.2
Net total	36.7	5.6	-29.2

During September 2004 the property in Kenosha, USA, has been 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 has generated a loss of SEK -15.0 million. The sale of some minor properties in Brazil and India has resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark has resulted in a realised loss of SEK -0.5 million.

On February 26, 2003 the property in Newmarket in Canada was sold for SEK 20.0 million, with a realised gain of SEK 3.6 million. In connection with the construction of a new headquarter building in Lund a piece of land was sold to the new landlord for SEK 3.8 million with a realised gain of SEK 2.0 million.

The sale of the property in Warminster, the United States was completed in March 2002 at a price of SEK 62.1 million and with a realised loss of SEK -43.2 million. The divestment of the operation called Industrial Flow was made on April 2, 2001. A few activities remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million.

In connection with the dissolution of the pre-IPO capital structure in 2002, the income statement was charged with non-recurring financial costs of SEK -304.8 million. These consisted of the reversal of capitalised financing costs of totally SEK -219.6 million in connection with the repayment of the loan from Tetra Laval Finance Ltd, the replacement of the previous syndicated loans and the amortisation of the bond loan as well as the premium of SEK -85.2 million at the repayment of 35 percent of the bond loan of EUR 220 million.

Note 9. Depreciation by function

Consolidated, SEK in millions	2004	2003	2002
Cost of goods sold	-423.5	-455.9	-478.0
Sales	-51.8	-50.8	-60.1
Administration	-67.8	-72.8	-97.9
Research and development	-6.1	-7.2	-7.5
Other income and costs	-5.1	-9.2	-6.8
Goodwill	-191.5	-191.3	-187.7
Total	-745.8	-787.2	-838.0

Note 10. Depreciation by type of assets

Consolidated, SEK in millions	2004	2003	2002
Goodwill	-191.5	-191.3	-187.7
Patents, trademarks, etc.	-194.9	-204.7	-208.3
Machinery and equipment	-287.4	-316.1	-351.4
Financial leasing machinery and equipment	-3.3	-4.7	-7.8
Buildings and ground installations	-68.7	-70.4	-82.8
Total	-745.8	-787.2	-838.0

Note 11. Result from other securities and receivables accounted for as fixed assets

Consolidated, SEK in millions	2004	2003	2002
Dividends from other	3.1	6.9	7.8
Total	3.1	6.9	7.8

Note 12. Interest income/costs and similar result items

Consolidated, SEK in millions	2004	2003	2002
<i>Interest income</i>			
Financial leasing	0.3	0.8	0.1
Other interest	91.1	132.9	143.4
Exchange gains			
Unrealised	45.1	42.6	46.6
Realised	29.9	91.2	161.3
Total	166.4	267.5	351.4
<i>Interest costs</i>			
Financial leasing	-0.8	-1.4	-2.7
Other interest	-281.1	-398.8	-742.5
Comparison distortion items	-	-	-304.8
Exchange losses			
Unrealised	-11.4	-101.9	-26.0
Realised	-53.0	-93.4	-130.6
Total	-346.3	-595.5	-1,206.6

In the Group, reported net exchange differences of SEK -19.2 (194.8) (164.9) million relating to debts in foreign currencies have been charged to unrestricted equity. These debts finance the acquisition of shares in foreign subsidiaries and act as a hedge to the acquired net assets. Since 2003 the amount is charged with tax, due to the estimated absorption of tax losses in Sweden, resulting in a net after tax equity impact of SEK -13.8 (140.3) million.

Parent company, SEK in millions	2004	2003	2002
<i>Interest income</i>			
Subsidiaries	3.1	6.0	4.0
Exchange gains			
Unrealised	-	-	0.3
Realised	-	-	24.4
Total	3.1	6.0	28.7
<i>Interest costs</i>			
External companies	-	-	-98.2
Subsidiaries	-0.3	-	-
Exchange losses			
Realised	-	-0.1	-
Total	-0.3	-0.1	-98.2

Note 13. Minority interest

The minority share in subsidiaries' result and minority interests in the balance sheet relate to four subsidiaries in India and Russia where minority owners exist.

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

Consolidated, SEK in millions	2004	2003	2002
The major components of the Group's tax costs			
Current tax cost	-389.6	-341.6	-336.0
Adjustment for current taxes on prior periods	-8.2	38.1	72.1
Deferred tax costs/income on changes in temporary differences	-1.3	153.3	95.0
Deferred tax costs/income on changes in tax rates or new taxes	0.0	-14.0	3.4
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	10.2	40.4	6.0
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	0.0	30.6	0.3
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-3.0	-17.0	-26.5
Other taxes	-29.6	-19.8	-32.6
Total tax cost	-421.5	-130.0	-218.3

Consolidated, SEK in millions	2004	2003	2002
The difference between the tax costs of the group and the tax cost based upon applicable tax rates, can be explained as follows:			
Result before minority interests and tax	1,070.1	817.4	372.1
Tax according to applicable tax rates	-253.3	-194.9	-133.6
Tax effect of:			
Non-deductible effect of depreciation of goodwill	-63.2	-63.1	-61.9
Equity hedge (tax effect not booked prior to 2003)	-	-	-46.2
Non-deductible costs	-161.5	-26.8	-127.1
Non-taxable income	86.1	44.2	131.4
Differences between reported official depreciation and depreciation according to tax rules	1.1	-16.0	-7.2
Differences between reported other official appropriations and other appropriations according to tax rules	-12.3	-50.8	-40.7
Tax losses and tax credits	19.4	159.1	2.8
Other	-29.6	-19.8	-7.9
Adjustment for current tax on prior periods	-8.2	38.1	72.1
Total tax costs	-421.5	-130.0	-218.3

Since 2003 the equity hedge is charged with tax, due to the estimated absorption of tax losses in Sweden. For 2002 and earlier this means that the tax effect calculated on result before minority interests and tax has been adjusted. Tax losses and tax credits for 2003 are referring to used tax losses in Sweden.

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:

Consolidated, SEK in millions	2004		2003	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	34.5	272.1	51.3	338.3
Tangible assets	19.4	337.6	45.8	404.9
Inventory	70.5	15.9	79.5	18.0
Other current assets	2.9	14.8	3.7	1.2
Financial assets	0.0	7.6	-	-
Short term liabilities	373.7	60.6	332.8	65.4
Tax losses and tax credits *	8.7	0.0	12.5	-
Other	1.4	109.4	2.9	40.8
Subtotal	511.1	818.0	528.5	868.6
Possible to net	-57.7	-57.7	-51.6	-51.6
Total deferred taxes	453.4	760.3	476.9	817.0

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 29.9 (41.0) 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 1,491.4 (1,317.4) 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 2002.

	Tax rates in percentage				Tax rates in percentage		
	2004	2003	2002		2004	2003	2002
Austria	25	34	34	Latvia	15	22	22
Belgium	34	34	40	Peru	30	27	25
Bulgaria	20	24	20	Poland	19	19	28
Canada	37	37	39	Portugal	35	32	32
China	13	11	11	Singapore	20	22	22
Czech Republic	28	28	31	Slovakia	19	25	29
Hong Kong	18	16	16	Switzerland	20	24	24
Hungary	16	18	18	Turkey	30	30	28
Iran	25	40	40	United Arab Emirates	10	0	7

The Group's normal effective tax rate is approximately 33 (33) (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. Due to non deductible depreciation of goodwill the actual tax rate was 36.6 (13.5) percent during 2004.

Note 15. Goodwill and step-up values related to the acquisition on August 24, 2000

When Industri Kapital acquired the Alfa Laval Group from Tetra Laval on August 24, 2000, the acquisition value for the shares was SEK 8,213.8 million. Below is shown a summary of the goodwill and the group step-up or step down values that the acquisition resulted in per type of asset at August 24, 2000 and at December 31, 2004. The goodwill is amortised over 20 years. The corresponding presentation by asset type is found in Notes 16 and 17.

Consolidated SEK in millions	Allocated August 24, 2000	Opening balance	Acquired	Alfa Laval 2004		Translation difference	Closing balance
				Realised	Planned amortisation		
Buildings	1,058.5	553.8	-	-90.1	-23.8	-8.6	431.3
Land and land improvements	-228.4	-110.2	-	22.2		9.0	-79.0
Machinery	548.3	369.8	-	-2.1	-55.4	-5.7	306.6
Equipment	452.1	310.9	-	-0.8	-28.6	-6.6	274.9
Construction in progress	15.9	-	-	-	-	-	-
Inventory	340.2	-	-	-	-	-	-
Patent and trademarks	461.3	378.2	5.1	-	-20.7	-14.8	347.8
Technology	1,279.8	683.1	-	-	-164.9	-11.5	506.7
Research and development	53.6	-	-	-	-	-	-
Capital gain (Industrial Flow)	41.8	-	-	-	-	-	-
Subtotal step-up values	4,023.1	2,185.6	5.1	-70.8	-293.4	-38.2	1,788.3
Goodwill	3,276.6	3,098.5	-27.6	-	-191.5	-84.8	2,794.6
Total	7,299.7	5,284.1	-22.5	-70.8	-484.9	-123.0	4,582.9

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.

The difference between the purchase price paid and the net assets acquired in Biokinetics has due to the settlement decreased. SEK 23.8 million of the remaining amount has been allocated to patents and un-patented know-how, while the residual SEK 84.3 million has been allocated to goodwill. The goodwill is amortised over 10 years.

The off-setting increase of SEK 9.4 million in goodwill is related to purchase price adjustments during 2004 concerning the acquisitions of Danish Separation Systems A/S in 2002 and Toftejorg in 2003.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 554.7 (686.3) million.

Note 16. Intangible fixed assets

Consolidated, SEK in millions	2004	2003	Consolidated, SEK in millions	2004	2003
Concessions, patents, licenses, trademarks and similar rights			Goodwill		
Opening balance, accumulated acquisition values	2,076.7	2,132.8	Opening balance, accumulated acquisition values	3,653.8	3,768.6
Purchases	48.1	5.0	Goodwill in connection with acquisition of businesses	-	161.9
Acquisition of businesses	4.6	22.3	Additional purchase price	9.4	-
Sales/disposals	-0.2	-	Reduction of purchase price	-37.0	-
Reclassifications	-12.7	-	Translation difference for the year	-113.2	-276.7
Step-up values, patents and trademarks	-	21.0	Closing balance, accumulated acquisition values	3,513.0	3,653.8
Translation difference for the year	-49.5	-104.4	Opening balance, accumulated depreciation	-555.3	-399.6
Closing balance, accumulated acquisition values	2,067.0	2,076.7	Depreciation for the year	-191.5	-191.3
Opening balance, accumulated depreciation	-975.9	-799.2	Translation difference for the year	28.4	35.6
Reclassifications	0.1	-	Closing balance, accumulated depreciation	-718.4	-555.3
Depreciation of step-up value, patent & trademarks	-20.7	-22.3	Closing balance, net book value	2,794.6	3,098.5
Depreciation of step-up value, technology	-164.9	-168.5			
Depreciation for the year	-9.2	-13.8	Renting rights and similar rights		
Translation difference for the year	26.7	27.9	Opening balance, accumulated acquisition values	1.2	1.1
Closing balance, accumulated depreciation	-1,143.9	-975.9	Purchases	0.2	0.1
Closing balance, net book value	923.1	1,100.8	Closing balance, accumulated acquisition values	1.4	1.2
			Opening balance, accumulated depreciation	-0.5	-0.4
			Depreciation for the year	-0.1	-0.1
			Closing balance, accumulated depreciation	-0.6	-0.5
			Closing balance, net book value	0.8	0.7

Note 17. Property, plant and equipment

Consolidated, SEK in millions	2004	2003
Real estate		
Opening balance, accumulated acquisition values	1,828.6	1,971.2
Purchases	26.9	13.6
Acquisition of businesses	-	9.0
Sales/disposal	-92.1	-46.3
Reclassifications	1.9	29.8
Realisation of step-up values due to sale	-84.0	-0.8
Translation difference for the year	-53.8	-147.9
Closing balance, accumulated acquisition values	1,627.5	1,828.6
Opening balance, accumulated depreciation	-745.4	-750.7
Sales/disposals	35.1	6.6
Acquisition of businesses	-	-2.3
Reclassifications	-1.3	-3.9
Realisation of step-up values due to sale	16.0	-
Depreciation of step-up value	-23.8	-26.0
Depreciation for the year	-44.1	-43.6
Translation difference for the year	22.0	74.5
Closing balance, accumulated depreciation	-741.5	-745.4
Opening balance, accumulated revaluations, net	88.0	89.4
Sales/disposals	-28.5	-
Reclassifications	-	-0.6
Revaluation for the year	0.7	-
Depreciation for the year on revaluations	-0.8	-0.8
Closing balance, accumulated revaluations, net	59.4	88.0
Closing balance, net book value	945.4	1,171.2
Machinery and other technical installations		
Opening balance, accumulated acquisition values	2,500.8	2,611.6
Purchases	88.4	85.1
Acquisition of businesses	-	14.1
Sales/disposal	-103.0	-40.4
Reclassifications	7.9	-10.4
Realisation of step-up values due to sale	-3.2	-
Translation difference for the year	-66.4	-159.2
Closing balance, accumulated acquisition values	2,424.5	2,500.8
Opening balance, accumulated depreciation	-1,645.3	-1,628.5
Sales/disposals	81.7	37.4
Reclassifications	-6.4	8.2
Realisation of step-up values due to sale	1.1	-
Depreciation of step-up value	-55.4	-56.7
Depreciation for the year	-97.7	-116.1
Translation difference for the year	49.2	110.4
Closing balance, accumulated depreciation	-1,672.8	-1,645.3
Closing balance, net book value	751.7	855.5
Equipment, tools and installations		
Opening balance, accumulated acquisition values	1,969.1	2,024.6
Purchases	86.7	71.9
Acquisition of businesses	-	25.2
Sales/disposal	-93.6	-71.6
Reclassifications	-	26.2
Translation difference for the year	-65.0	-107.2
Closing balance, accumulated acquisition values	1,897.2	1,969.1

Consolidated, SEK in millions	2004	2003
Equipment, tools and installations (continued)		
Opening balance, accumulated depreciation	-1,325.0	-1,317.3
Sales/disposals	97.8	67.2
Acquisition of businesses	-	-11.7
Reclassifications	7.8	5.8
Depreciation of step-up value	-28.6	-29.3
Depreciation for the year	-105.7	-113.7
Translation difference for the year	49.8	74.0
Closing balance, accumulated depreciation	-1,303.9	-1,325.0
Opening balance, accumulated revaluations, net	14.2	15.9
Sales/disposals	-	-1.3
Reclassifications	-	-0.2
Revaluation for the year	0.1	0.1
Depreciation for the year on revaluations	-	-0.3
Closing balance, accumulated revaluations, net	14.3	14.2
Closing balance, net book value	607.6	658.3
Construction in progress and advances to suppliers concerning property, plant and equipment		
Opening balance, accumulated acquisition values	58.2	40.8
Purchases	137.2	76.1
Sales/disposal	-	-0.2
Reclassifications	-19.6	-52.5
Translation difference for the year	-3.9	-6.0
Closing balance, accumulated acquisition values	171.9	58.2
Closing balance, net book value	171.9	58.2
Leased machinery		
Opening balance, accumulated acquisition values	8.3	14.1
Sales/disposal	-	-5.6
Translation difference for the year	-0.1	-0.2
Closing balance, accumulated acquisition values	8.2	8.3
Opening balance, accumulated depreciation	-5.3	-7.1
Sales/disposals	-	3.1
Depreciation for the year	-0.7	-1.4
Translation difference for the year	-	0.1
Closing balance, accumulated depreciation	-6.0	-5.3
Closing balance, net book value	2.2	3.0
Leased equipment, tools and installations		
Opening balance, accumulated acquisition values	22.6	44.7
Purchases	1.2	6.7
Acquisition of businesses	-	0.6
Sales/disposal	-13.1	-10.5
Reclassifications	1.8	-15.3
Translation difference for the year	0.1	-3.6
Closing balance, accumulated acquisition values	12.6	22.6
Opening balance, accumulated depreciation	-12.3	-25.9
Sales/disposals	6.1	9.1
Acquisition of businesses	-	-0.2
Reclassifications	-2.5	6.5
Depreciation for the year	-2.6	-3.3
Translation difference for the year	0.2	1.5
Closing balance, accumulated depreciation	-11.1	-12.3
Closing balance, net book value	1.5	10.3

Leased 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.

The tax assessment value of the Swedish real estate at December 31, 2004 amounted to SEK 126.8 (124.5) million, out of which SEK 49.1 (47.2) million referred to land and land improvements and SEK 77.7 (77.3) million buildings. The book values of the Swedish real estate amounted to SEK 72.0 (72.6) million, out of which land and land improvements were SEK 21.7 (18.7) million and buildings SEK 50.3 (53.9) million.

Note 18. Financial long-term assets

Book value, SEK in millions	Consolidated		Parent company	
	2004	2003	2004	2003
Shares in subsidiaries	-	-	4,460.9	4,460.9
Shares in other companies	2.9	22.5	-	-
Total	2.9	22.5	4,460.9	4,460.9

Specification of shares in subsidiaries

Company name	Registration number	Domicile	Number of shares	Share Of capital, %	Book value SEK in millions
Alfa Laval AB	556587-8054	Lund			
Alfa Laval Special Finance AB	556587-8062	Lund		100	4,460.9
Alfa Laval Holding AB	556025-2792	Lund		100	0.0
Alfa Laval Holding AB	556025-2792	Lund	12,500,000	100	0.0
Alfa Laval NV		Maarssen	227,754	100	0.0
Alfa Laval Inc		Newmarket	1,000,000	67	0.0
Tri-Lad Inc		Brantford	4,000	100	0.0
Alfa Laval BioKinetics Inc		Toronto	1,800	100	0.0
Alfa Laval S.A. DE C.V.		Tlalnepantla	45,057,057	100	0.0
Alfa Laval S.A.		San Isidro	699	100	0.0
Alfa Laval Ltda		Sao Paulo		100	0.0
Roston do Brasil Ltda		Sao Paulo	5,249	100	0.0
Alfa Laval S.A.C.I.		Santiago	2,735	100	0.0
Alfa Laval S.A.		Bogota	12,195	100	0.0
Alfa Laval S.A.		Lima	4,346,832	100	0.0
Alfa Laval Venezolana S.A.		Caracas	10,000	100	0.0
Alfa Laval Oilfield C.A.		Caracas	203	81	0.0
Alfa Laval Phe Co Ltd		Jiang Yin		100	0.0
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		75	0.0
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		25	0.0
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai		100	0.0
Alfa Laval Taiwan Ltd		Taipei	1,499,994	100	0.0
Alfa Laval (China) Ltd		Hong Kong	79,999	100	0.0
PT Alfa Laval Separatama		Jakarta	1,000	80	0.0
Alfa Laval Iran Ltd		Teheran	2,199	100	0.0
Alfa Laval KK		Tokyo	1,200,000	100	0.0
Alfa Techno Service KK		Kanagawa	200	100	0.0
Alfa Laval Industry (PVT) Ltd		Lahore	119,110	100	0.0
Alfa Laval Philippines Inc		Makati	72,000	100	0.0
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	0.0
Alfa Laval (Thailand) Ltd		Bangkok	792,000	100	0.0
Alfa Laval Middle East Ltd		Nicosia	40,000	100	0.0
Alfa Laval Benelux NV/SA		Brussels	33,811	100	0.0
Alfa Laval Ltd		Sofia	100	100	0.0
Alfa Laval Slovakia S.R.O.		Bratislava		1	0.0
Cetetherm SR spol S.R.O.		Liptovsky Mikulas		15	0.0
Alfa Laval Spol S.R.O.		Hradec Kralove		20	0.0
Cetetherm S.R.O.		Prague		5	0.0
Alfa Laval Denmark Holding A/S		Kolding		100	0.0
Alfa Laval Kolding A/S		Kolding	100,000	100	0.0
Alfa Laval Nordic A/S		Rødovre	1	100	0.0
Alfa Laval Copenhagen A/S		Søborg	1	100	0.0
Alfa Laval Nakskov A/S		Nakskov	1	100	0.0
Alfa Laval Tank Equipment A/S		Ishøj	1	100	0.0
Alfa Laval Nordic OY		Espoo	20,000	100	0.0
Cetetherm OY		Tuusula	5,000	100	0.0
Alfa Laval Nederland B.V.		Maarssen	10,000	100	0.0
Alfa Laval Benelux B.V.		Maarssen	1,475	100	0.0
Alfa Laval Merco B.V.		Hoofddorp	1,475	100	0.0
Alfa Laval Holding A/S		Oslo	520,000	100	0.0
Alfa Laval ExCell AB	556306-2404	Skogstorp	2,500	100	0.0
Alfa Laval Nordic AB	556243-2061	Tumba	1,000	100	0.0
Cetetherm AB	556058-3162	Ronneby	20,000	100	0.0
Alfa Laval Corporate AB	556007-7785	Lund	13,920,000	100	0.0
Alfa Laval (India) Ltd		Poona	11,640,118	64	0.0
Skansen Engineering & Consultancy Co Ltd		Poona	50,000	64	0.0
Alfa Laval Korea Ltd		Seoul	3,640,000	100	0.0
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam	10,000	100	0.0
Alfa Laval Nordic A/S		Oslo	10,000	100	0.0
CTC Ronneby AB	556092-3194	Ronneby	138,000	100	0.0
Alfa Laval Tank Equipment AB		Gothenburg	100,000	100	0.0
Gunclean Toftejorg Pte Ltd		Singapore	300,000	100	0.0
Mosgormash Alfa Laval Moloko		Moscow		55	0.0
Alfa Laval Oilfield C.A.		Caracas	47	19	0.0

Specification of shares in subsidiaries (continued)

Company name	Registration number	Domicile	Number of shares	Share Of capital, %	Book value SEK in millions
Alfa Laval Treasury International AB	556432-2484	Lund	50,000	100	0.0
Alfa Laval Europe AB	556128-7847	Lund	500	100	0.0
Alfa Laval Lund AB	556016-8642	Lund	100	100	0.0
Alfa Laval International Engineering AB	556039-8934	Lund	4,500	100	0.0
Alfa Laval Tumba AB	556021-3893	Tumba	1,000	100	0.0
Bitec Enterprise AG		Volketswil	97,900	100	0.0
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	27,001,755	99	0.0
OÜ Cetetherm		Tallinn	100	100	0.0
Alfa Laval SIA		Riga	125	100	0.0
SIA Cetetherm		Riga	200	100	0.0
Alfa Laval UAB Ltd		Vilnius	2,009	100	0.0
UAB Cetetherm		Vilnius	100	100	0.0
Alfa Laval Australia Pty Ltd		Homebush	2,088,076	100	0.0
Alfa Laval New Zealand Ltd		Hamilton	1,000	100	0.0
Alfa Laval Holding BV		Maarsse	70,000,000	100	0.0
Alfa Laval (Pty) Ltd		Isando	2,000	100	0.0
Alfa Laval Slovakia S.R.O.		Bratislava		99	0.0
Cetetherm SR spol S.R.O.		Liptovsky Mikulas		85	0.0
Alfa Laval Spol S.R.O.		Hradec Kralove		80	0.0
Cetetherm S.R.O.		Prague		95	0.0
Alfa Laval France SAS		Les Clayes	920,000	100	0.0
Alfa Laval SAS		Les Clayes	560,000	100	0.0
Alfa Laval Moatti SNC		Les Clayes	24,000	100	0.0
Alfa Laval Spiral SNC		Nevers	79,999	100	0.0
MCD SAS		Guny	71,300	100	0.0
Alfa Laval Vicarb SAS		Grenoble	200,000	100	0.0
Canada Inc		Newmarket	480,000	100	0.0
Alfa Laval Inc		Newmarket	481,600	33	0.0
SCI du Companil		Grenoble	32,165	100	0.0
Cetetherm SA		Lyon	150,000	100	0.0
Alfa Laval Holding GmbH		Glinde		100	0.0
Alfa Laval Mid Europe GmbH		Wiener Neudorf		100	0.0
Alfa Laval Mid Europe GmbH		Glinde	1	100	0.0
Cetetherm Wärmetauschersysteme GmbH		Glinde	1	100	0.0
Alfa Laval Mid Europe AG		Dietlikon	647	100	0.0
Alfa Laval AEBE		Holargos	10,000	100	0.0
Alfa Laval Kft		Budapest	1	100	0.0
Cetetherm - Vicarb Hungary Kft		Budapest		100	0.0
Alfa Laval SpA		Monza	1,930,500	99	0.0
Alfa Laval Polska Sp.z.o.o.		Warsaw	6,862	100	0.0
Cetetherm Polska Sp.z.o.o.		Warsaw		100	0.0
Wytwornia Separator Krakow Sp.z.o.o.		Krakow		100	0.0
Alfa Laval (Portugal) Ltd		Linda-A-Velha		1	0.0
Alfa Laval SRL		Bucharest	61,435	100	0.0
Alfa Laval Iberia SA		Madrid		100	0.0
Alfa Laval (Portugal) Ltd		Linda-A-Velha	1	99	0.0
Alfa Laval Holdings Ltd		Camberley	28,107,000	100	0.0
Alfa Laval 2000		Camberley	28,106	100	0.0
Alfa Laval Ltd		Camberley	12,710,000	100	0.0
Alfa Laval Finance Co Ltd		Camberley	856,000	100	0.0
Alfa Laval Oilfield Ltd		Aberdeen	500,000	100	0.0
Alfa Laval Flow Ltd		Sutton Coldfield	100	100	0.0
Alfa Laval Pumps Ltd		Eastbourne	100	100	0.0
Alfa Laval Thermal Ltd		Camberley	1,000	100	0.0
Alfa Laval Separation Ltd		Camberley	375,000	100	0.0
Rolls Laval Heat Exchangers Ltd		Wolverhampton	5,000	50	0.0
Toftejorg Ltd		Camberley	50,000	100	0.0
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	1	1	0.0
Alfa Laval USA inc		Kenosha		100	0.0
Alfa Laval US Holding Inc		Kenosha	180	100	0.0
Alfa Laval Inc		Kenosha	44,000	100	0.0
Alfa Laval BioKinetics Inc		Philadelphia	100	100	0.0
Kinetics Engineering P C		Durham	100	100	0.0
Hynetics Inc		Logan		50	0.0
Alfa Laval US Treasury Inc		Kenosha	1,000	100	0.0
AO Alfa Laval Potok		Koroljov	31,057,529	100	0.0
OÜ Alfa Laval		Tallinn	1	100	0.0
Alfdex AB	556647-7278			50	0.0
Alfa Laval SpA		Monza	1		0.0
Total					4,460.9

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		31.8
Orugano	Japan	769		6.4
Asahi Denka	Japan	11,267		426.3
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		9.6
Alfa Laval Copenhagen A/S				
Green City Denmark A/S	Denmark	1		0.0
Alfa Laval France SAS				
SEMACLA	France	10		9.0
Alfa Laval Vicarb SAS				
SAEM SMD	France	17	0.85	27.0
Alfa Laval Moatti SNC				
FELTON	France	100		143.8
Cetetherm SA				
Thermothec	France	9,130		1,249.2
Point Piscine	France	210		35.9
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		134.8
Alfa Laval NV				
Dalian Haven Automation Co Ltd	Hong Kong	102	42.5	799.9
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		0.0
AO Alfa Laval Potok				
Unicombank	Russia	800	1.6	13.2
MAX	Russia	100	0.25	6.6
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	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
Total				2,893.5

Note 19. Inventories

Consolidated, SEK in millions	2004	2003
Raw materials and consumables	798.2	654.5
Work in progress	677.2	592.3
Finished goods & goods for resale, new sales	617.5	622.7
Finished goods & goods for resale, spare parts	323.0	307.5
Advance payments to suppliers	36.6	40.8
Total	2,452.5	2,217.8

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

Obsolescence

Consolidated, SEK in millions

Year	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2003	499.0	-36.4	104.3	-87.9	-10.1	-	468.9
2004	468.9	-14.2	93.8	-64.1	-49.4	-	435.0

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 2004 amounts to SEK 129.4 (135.8) million.

Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 153.5 (120.9) 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	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2003	242.3	-15.6	72.3	-72.5	-30.1	-	196.4
2004	196.4	-4.5	101.2	-35.9	-25.8	-	231.4

Note 21. Other short-term receivables

Consolidated, SEK in millions	2004	2003
Notes receivable	371.1	263.2
Tax receivable	385.4	336.8
Financial leasing receivables	8.6	0.0
Other receivables	476.9	470.4
Total	1,242.0	1,070.4
Of which, receivables not due within one year		
Notes receivable	48.1	44.3
Other receivables	18.7	18.8
Total	66.8	63.1

Note 22. Other current deposits

Consolidated, SEK in millions	2004	2003
Loan receivables	171.7	573.9
Bonds and other securities	78.8	78.0
Other deposits	6.7	6.7
	257.2	658.6
Of which, deposits not due within one year		
Loans receivable	67.2	35.9
Other deposits	5.2	5.2

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 33.2 (30.8) 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 business

Additional purchase price

In 2004 an additional purchase price of SEK 7.9 (7.6) million has been paid for Danish Separation Systems and SEK 1.5 (-) million for Toftejorg, see more under the section "Acquisitions" below.

In connection with the IPO in 2002 an additional purchase price of EUR 40.0 million, corresponding to SEK 367.5 million, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Holding AB Group. This has entirely been reported as goodwill in the Group and is amortised over the same period as the original acquisition.

Acquisitions

On October 2, 2003, Alfa Laval acquired the Life Science division, Biokinetics, from Kinetics Group Inc. in the US for SEK 215 million. Alfa Laval made public in December 2003 that the company had decided to initiate new negotiations with the former owner of Biokinetics Inc. This decision was based on the fact that Alfa Laval suspected irregularities in the accounting of certain customer projects in the acquired US-company. The parties were originally unable to resolve the matter, leading Alfa Laval to file a lawsuit against the former owner Kinetics Group Inc and certain individuals. On July 2, 2004 Alfa Laval announced that a settlement agreement had been reached between the parties. The terms of the agreement are confidential. Out of the difference between the purchase price paid and the net assets acquired SEK 23.8 million has been allocated to patents and un-patented know-how, while the residual SEK 84.3 million has been allocated to goodwill. The goodwill is amortised

over 10 years. Biokinetics had approximately 400 employees and net sales of approximately SEK 550 million.

On January 31, 2003, the Danish Toftejorg A/S Group was acquired, with effect from January 1, 2003. The operations cover R&D, assembly and sales of advanced tank cleaning equipment, targeting the Food and Marine industries. In addition to the operations in Denmark, the Toftejorg Group had sales companies in Sweden, Norway, Germany, the UK, France, Singapore, the United States and its own representation in South Korea. The operations are integrated into the Equipment Division. During 2004 an additional purchase price of SEK 1.5 million has been paid. The difference between the purchase price paid and the net assets acquired has thereby increased to SEK 34.7 million. SEK 0.9 million of this has been allocated to a property in the US, while the residual SEK 33.8 million has been allocated to goodwill. The goodwill is amortised over 10 years. Toftejorg had annual sales of about SEK 210 million and approximately 100 employees.

On September 4, 2002, Alfa Laval acquired Danish Separation Systems A/S, specialists within membrane filtration in the biotechnology, pharmaceutical and food industries. During 2004 an additional purchase price of SEK 7.9 (7.6) million has been paid. The difference between the purchase price paid and the net assets acquired has thus increased to SEK 115.1 million. This has entirely been allocated to goodwill. This goodwill is amortised over 20 years. The company had annual sales of about SEK 90 million and 65 employees within R&D, manufacturing and sales.

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

Consolidated, SEK in millions	2004	2003	2002
Property, plant and equipment	-	51.4	22.6
Inventory	-	49.9	21.6
Accounts receivable	-	175.3	11.9
Other receivables	-	73.2	30.2
Liquid assets	-	5.9	7.4
Long-term liabilities	-	-23.3	-8.5
Accounts payable	-	-107.9	-6.2
Other liabilities	-43.9	-130.7	-38.3
Goodwill	-27.6	161.9	102.4
Other surplus values	5.1	23.2	-
Deferred tax	14.6	16.5	-
Purchase price	51.8	-295.4	-143.1
Liquid assets in the acquired business	-	5.9	7.4
Effect on the Group's liquid assets	51.8	-289.5	-135.7

Purchase price reimbursement

In 2004 Alfa Laval has received a purchase price reimbursement of SEK 61.2 million related to the acquisition of Biokinetics in 2003, see comments under the section "Acquisitions" above.

In 2002 the Alfa Laval Group received SEK 81.6 million from Tetra Laval BV as a reduction of the purchase price for the acquisition of the Alfa Laval Holding AB Group. The reduction was related to the guarantees issued by the vendor in relation to taxes. The amount did not have an impact on the goodwill for the acquisition but was instead reported against the increased tax cost that the Group experienced after the acquisition. The amount received during 2002 constituted a final settlement with Tetra Laval concerning these guarantees.

Divestments

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. Industrial Flow was divested on April 2, 2001 to Crane Co in the US. A few activities have remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million. This result item had however no cash flow impact during 2002.

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	2004	2003	2002
Property, plant and equipment	12.1	-	-
Inventory	21.4	-	-
Accounts receivable	5.0	-	-
Other receivables	0.3	-	-
Long-term liabilities	-14.5	-	-
Accounts payable	-15.4	-	-
Other liabilities	-3.9	-	-
Realised result	-15.0	-	-
Purchase price	10.0	-	-
Liquid assets in the sold business	-	-	-
Effect on the Group's liquid assets	10.0	-	-

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.

Consolidated, SEK in millions	2004	2003	2002
<i>(-) liability/(+) asset</i>			
Present value of the defined benefit obligation, unfunded	-935.2	-808.3	-833.2
Present value of the defined benefit obligation, funded	-2,609.7	-2,552.7	-2,196.1
Present value of the defined benefit obligation at year end	-3,544.9	-3,361.0	-3,029.3
Unrecognised actuarial losses	1,045.9	971.5	567.6
Unrecognised past service cost	2.7	5.1	0.9
Fair value of plan assets	1,830.9	1,761.5	1,853.1
Defined benefit liability	-665.4	-622.9	-607.7
less amount disallowed	0.0	-5.2	-6.1
Net defined benefit liability	-665.4	-628.1	-613.8
<i>(-) cost/(+) income</i>			
Current service cost	-49.0	-31.0	-49.0
Interest cost	-174.7	-145.8	-171.0
Expected return on plan assets	121.0	144.2	90.3
Recognised actuarial losses	-63.1	-80.6	-82.4
Recognised past service cost	-14.8	-52.0	-8.2
Effect of any curtailments or settlements	18.5	-1.3	67.7
Net plan cost	-162.1	-166.5	-152.6
<i>(-) liability/(+) asset</i>			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1	-3,361.0	-3,029.3	-3,183.5
Reclassification	-187.7	-	-
Translation difference	185.3	410.3	226.3
Current service cost	-49.0	-31.0	-49.0
Interest cost	-174.7	-145.8	-171.0
Employee contributions	-5.2	-8.0	-5.9
Current year change in actuarial losses	-142.9	-677.8	-82.4
Recognised past service cost	-14.8	-52.0	-8.2
Effect of any curtailments or settlements	18.5	-1.3	67.7
Benefit payments	186.6	173.9	176.7
Present value of defined benefit liability at December 31	-3,544.9	-3,361.0	-3,029.3
<i>(-) liability/(+) asset</i>			
Change in plan assets:			
Fair value of plan assets at January 1	1,761.5	1,853.1	2,338.2
Reclassification	100.4	-	-
Translation difference	-97.8	-229.3	-222.6
Employer contributions	149.0	67.6	71.4
Employee contributions	5.2	8.0	5.9
Actual return on plan assets	99.2	236.0	-163.1
Benefit payments	-186.6	-173.9	-176.7
Fair value at December 31	1,830.9	1,761.5	1,853.1
<i>(-) liability/(+) asset</i>			
Change in defined benefit liability/asset			
Defined benefit liability/asset at January 1	-628.1	-613.8	-599.5
Reclassification	-82.1	-	-
Translation difference	41.9	104.5	71.9
Net plan cost	-162.1	-166.5	-152.6
Employer contributions	149.0	67.6	71.4
Change in unrecognised actuarial gains/losses	17.8	-18.5	-7.3
Change in unrecognised past service cost	0.0	0.0	0.6
Change in disallowed asset amount	-1.8	-1.4	1.7
Defined benefit liability/asset at December 31	-665.4	-628.1	-613.8

These defined benefit plans are in place in Austria, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, 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 two plans that have been reclassified as defined benefit plans under IAS 19. They were previously reported as part of other liabilities.

Note 25. Defined benefit obligations (continued)

Consolidated, SEK in millions	2004	2003	2002
<i>(-) liability/(+) asset</i>			
Assets			
Fair value of plan assets	1,830.9	1,761.5	1,853.1
Less amount disallowed	0.0	-5.2	-6.1
	1,830.9	1,756.3	1,847.0
Netting	-1,707.4	-1,629.6	-1,740.2
Assets in balance sheet	123.5	126.7	106.8
Liabilities			
Present value of the defined benefit obligation at year end	-3,544.9	-3,361.0	-3,029.3
Unrecognised actuarial gains (less losses)	1,045.9	971.5	567.6
Unrecognised past service costs	2.7	5.1	0.9
	-2,496.3	-2,384.4	-2,460.8
Netting	1,707.4	1,629.6	1,740.2
Provision in balance sheet	-788.9	-754.8	-720.6

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

Consolidated	2004	2003	2002
Discount rate	5	6	7
Expected return on investment	7	8	8
Expected wage increase	4	4	4
Change in health care costs	10	9	9
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 2004:

Consolidated, SEK in millions	2004		2003	
	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-7.8	6.2	-8.4	6.9
Present value of the defined benefit obligation	-91.3	74.0	-86.1	69.4

Note 26. Other provisions

Consolidated, SEK in millions	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2003							
Claims & warranty	413.7	-19.8	181.1	-149.1	-29.6	-	396.3
Deferred costs	104.0	-1.3	22.2	-18.2	-15.3	-	91.4
Restructuring	207.1	-5.5	61.1	-100.8	-6.2	-	155.7
Onerous contracts	9.5	-	4.0	-3.5	-	-	10.0
Environmental	3.2	-0.6	-	-1.3	-	-	1.3
Litigations	116.0	-0.4	17.8	-17.2	-1.3	-	114.9
Other	135.8	-9.5	63.9	-61.1	-7.5	-	121.6
	989.3	-37.1	350.1	-351.2	-59.9	-	891.2
2004							
Claims & warranty	396.3	-8.7	214.7	-201.2	-54.2	-	346.9
Deferred costs	91.4	-0.8	30.7	-12.2	-19.9	-	89.2
Restructuring	155.7	-2.3	141.8	-99.5	-4.9	-	190.8
Onerous contracts	10.0	-	27.7	-6.0	-	-	31.7
Environmental	1.3	-0.1	-	-0.4	-	-	0.8
Litigations	114.9	-0.3	4.2	-5.6	-0.3	-	112.9
Other	121.6	-3.4	110.9	-44.0	-9.2	-	175.9
	891.2	-15.6	530.0	-368.9	-88.5	-	948.2

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 175 (160) employees.

Note 27. Loans

Consolidated, SEK in millions	2004	2003
Credit institutions	1,502.1	2,530.7
Bond loan	1,044.4	1,064.8
Capitalised financial leases	4.2	13.6
Interest-bearing pension liabilities	4.8	5.2
Total debt	2,555.5	3,614.3
Cash, bank and current deposits	672.0	1,213.2
Net debt	1,883.5	2,401.1

As a consequence of the IPO of Alfa Laval in 2002, the structure of the financial debt changed considerably with the repayment of the loan from Tetra Laval Finance Ltd, the replacement of the previous syndicated loans and the amortisation of the bond loan. In connection with the dissolution of this pre-IPO capital structure, the income statement in 2002 was charged with non-recurring financial costs of SEK -304.8 million. These consisted of the reversal of capitalised financing costs of totally SEK -219.6 million in connection with the repayment of the loan from Tetra Laval Finance Ltd, the replacement of the previous syndicated loans and the amortisation of the bond loan as well as the premium of SEK -85.2 million at the repayment of 35 percent of the bond loan of EUR 220 million. These costs were reported as a comparison distortion financial item in 2002.

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 112.0 (108.8) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 64.1 percent.

Loan from credit institutions

Since April 15, 2004 Alfa Laval has a new senior credit facility with a banking syndicate. The new multi currency revolving credit facility is USD 325 million and EUR 150 million, corresponding to SEK 3,492.2 million. At December 31, 2004, SEK 1,286.1 million of the facility are utilised. During the fourth quarter SEK 87.5 million were amortised. The new facility provides increased flexibility, improved terms and extended security of funding. The maturity of this facility is five years.

The average interest and currency duration including derivatives is 7.2 (3.5) months at the end of 2004. 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	0.70%
2.00 – 2.50	0.525%
1.50 – 2.00	0.475%
1.00 – 1.50	0.45%
<1.00	0.40%

At year end the mark up is 45 (65) (80) interest points. At the end of 2004 the loans are accruing interest in the range of 0.49%–2.79% (0.72%–4.60%) (0.86%–4.82%). The average interest rate at the end of 2004 was 2.26 (1.96) (5.58) percent. The decrease in average interest rates between 2003 and 2002 is due to the cancellation in September 2003 of the previous interest rate swaps that were requested by the first banking syndicate.

At the end of December 2004, 26 (22) percent of the syndicated loans are hedged to a fixed interest rate.

Transaction costs totalling SEK 28.1 (27.3) million have been capitalised and are being amortised over the maturity of the loan. The current year's cost for the fee amortisation is SEK -6.5 (-7.8) (-16.8) million.

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 2004.

Bond loan

On August 24, 2000, Alfa Laval Special Finance AB borrowed EUR 220 million from Donaldsson, Lufkin & Jenrette and UBS Warburg. On November 9, 2000, this loan was replaced by a bond loan placed with institutional investors of EUR 220 million. It was registered with the Stock Exchange in Luxembourg in December 2000. In July 2001, the loan was registered with the SEC (Securities and Exchange Commission) in the US. The loan accrues interest at 12.125 percent and falls due 2010. Interest payments are due May 15 and November 15 each year. Since the bond is denominated in EUR all payments are made in EUR. Transaction costs totalling SEK 24.6 (29.2) million have been capitalised and are being amortised over the maturity of the loan. The current year's cost for the fee amortisation is SEK -4.6 (-5.9) (-12.3) million.

During 2004, Alfa Laval has re-purchased bonds at the prevailing market rate for a total face value of SEK 11.4 (50.6) (181.5) million. The difference between the higher market value and the face value was SEK 1.8 (9.7) (23.3) million, which has been reported as an interest cost. The bond loan accrues interest at 12.125 percent, which is considerably more than the Group's current cost for other external financing.

Before November 15, 2003 up to 35 percent of the principal amount could be redeemed with the proceeds of a public equity offering. Such a post IPO-redemption was made on June 24, 2002, where 35 percent of the bond loan of EUR 220 million was amortised. This corresponded to EUR 77.0 million or SEK 703.6 million.

Prior to November 15, 2005 all, but not part of, the notes may be redeemed at a premium plus accrued and unpaid interest. At any time on or after November 15, 2005 all or part of the notes are redeemable at the following redemption prices plus accrued and unpaid interest:

Year starting	Percentage (%)
November 15, 2005	106.063
November 15, 2006	104.042
November 15, 2007	102.021
November 15, 2008 and thereafter	100.000

Alfa Laval intends to redeem the outstanding bonds on November 15, 2005. This will incur an additional interest cost during the fourth quarter 2005 of approximately SEK 63.3 million for the premium and SEK 20.6 million for the outstanding capitalised transaction costs, totalling SEK 83.9 million.

The loans are distributed among currencies as follows:

Consolidated Currency, SEK in millions	Short-term		Long-term	
	2004	2003	2004	2003
CAD	1.4	3.7	-	-
DKK	6.0	2.1	7.7	13.7
EUR	115.9	55.3	1,054.0	1,074.1
GBP	0.6	1.8	-	216.3
INR	0.9	-	8.8	10.5
JPY	-	1.0	233.8	248.6
PLN	2.2	17.1	-	-
SEK	100.8	5.4	-	-
USD	9.4	12.2	1,002.8	1,925.3
Other	2.2	5.1	-	3.3
Total	239.4	103.7	2,307.1	3,491.8
Of which, not due within five years:			1,044.4	1,064.8

Note 28. Other liabilities

SEK in millions	Consolidated		Parent company	
	2004	2003	2004	2003
Financial lessee payable	4.2	13.6	-	-
Other non-interest bearing liabilities	475.3	635.1	0.2	-
Total	479.5	648.7	0.2	-

Note 29. Accrued costs and prepaid income

Consolidated, SEK in millions	2004	2003
Accruals for social security	151.3	146.9
Reserve for severance pay	164.4	212.2
Accrued interest expenses	20.8	27.7
Other accrued expenses and prepaid income	465.3	431.1
Total	801.8	817.9

Of which, accrued costs and prepaid income not due within one year

Accruals for social security	22.5	21.0
Reserve for severance pay	72.0	119.8
Other accrued expenses and prepaid income	6.7	7.7
Total	101.2	148.5

Note 30. Pledged assets and contingent liabilities

Consolidated, SEK in millions	2004	2003
Pledged assets		
Other pledges and similar commitments	50.6	45.4
Total	50.6	45.4
Contingent Liabilities		
Discounted bills	96.5	113.7
Performance guarantees	688.1	688.4
Other contingent liabilities	618.2	669.0
Total	1,402.8	1,471.1

In the new syndicate loan there are no pledges or restrictions.
Other contingent liabilities are among other items referring to leased assets.

Note 31. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 5.4 (5.7) (5.7) 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, 2003. 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.

Until March 31, 2003 Alfa Laval has purchased services from Tetra Laval Group Transport & Travel for SEK - (0.3) (2.2) million to optimise forwarding, freight and delivery terms and purchase forwarding, freight and person transportation. In addition, Alfa Laval purchases facilities management services relating to the real estate in Lund in Sweden from Tetra Pak Business Support AB for SEK 3.3 (3.3) (3.3) million. Alfa Laval rents premises to Tetra Pak and DeLaval in Russia and in Germany for SEK 12.5 (13.6) (13.8) million. Tetra Pak has 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	2004	2003
<i>Assets:</i>		
Accounts receivable	19.5	47.3
Other receivables	102.3	78.9
<i>Liabilities:</i>		
Accounts payable	13.8	11.3
Other liabilities	1.2	2.5

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

Consolidated, SEK in millions	2004	2003	2002
<i>Income statement:</i>			
Net sales	805.8	789.8	830.0
Other operating income	12.5	13.6	13.8
Other operating costs	-3.3	-3.6	-5.5
Interest costs	-	-	-97.1
Additional purchase price, increasing goodwill	-	-	367.5
Purchase price reimbursement leading to reduced tax costs/increased tax liabilities	-	-	81.6

Note 32. Work in progress

Consolidated, SEK in millions	2004	2003	2002
Gross amount of project sales revenue recognised in the period	636.8	467.6	357.4
Aggregated amount of costs incurred and recognised profits (including deduction for reported losses)	769.2	599.0	390.5
Advances received	288.1	219.9	179.4
Retentions	34.4	42.4	11.4
Gross amount due from customers for plant projects	112.1	175.2	80.8
Gross amount due to customers for plant projects	0.0	0.7	0.7

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 232.4 (207.4) (232.9) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 1.2 (6.7) 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	Operationella leasar		
	2004	2003	2002
Year			
2003	N/A	N/A	96.0
2004	N/A	77.3	75.5
2005	65.5	64.7	58.4
2006	51.5	47.0	31.1
2007	37.0	29.2	18.7
2008	25.6	20.2	N/A
2009	7.7	N/A	N/A
Later	26.5	35.8	48.5
Total	213.8	274.2	328.2

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

Consolidated, SEK in millions	Financial leases			Present value of financial leases		
	2004	2003	2002	2004	2003	2002
Year						
2003	N/A	N/A	11.3	N/A	N/A	10.6
2004	N/A	7.1	6.0	N/A	6.8	5.5
2005	1.2	3.2	4.0	1.2	3.0	3.5
2006	0.9	2.0	2.5	0.8	1.8	2.1
2007	0.9	0.9	0.9	0.8	0.8	0.8
2008	0.8	0.4	N/A	0.7	0.3	N/A
2009	0.4	N/A	N/A	0.3	N/A	N/A
Later	0.0	0.0	0.0	0.0	0.0	0.0
Total	4.2	13.6	24.7	3.8	12.7	22.5

Note 34. Fair value of financial instruments

For certain instruments, including cash and bank, other current deposits, accounts receivable, trade accounts payable and short-term debt, the carrying values approximate fair values as the majority of these instruments have short maturity periods. Obligations under capital leases are carried at amounts approximating their fair values since the discount rate applicable to lease contracts in deriving the net present value of lease payments approximates market rates.

The average interest and currency duration including derivatives is 7.2 (3.5) months for the syndicated loans at the end of 2004. The majority of the syndicated loans were rolled with new interest rates during December. In total, this means that the carrying value approximates the fair value. The fair value of the bond loan is arrived at by applying the market rate at the last trading date in December.

The estimated fair values of the Group's long-term debt as of December 31 are shown below:

Consolidated, SEK in millions	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Syndicated bank loans	1,286.1	1,286.1	2,390.2	2,390.2
Bond loan	1,044.4	1,237.8	1,064.8	1,283.2

The fair values of the Group's foreign currency contracts and interest rate swaps 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 values of the Group's derivative financial instruments as of December 31 were:

Consolidated, SEK in millions	2004		2003	
	Nominal amount	Fair value	Nominal amount	Fair value
Forward exchange contracts	8,987.1	211.4	8,286.0	157.6
Currency options	-	-	90.7	0.2

Note 35. Reconciliation to US GAAP

Consolidated income statement

SEK in millions	Note	2004	2003	2002
Net income/(loss) under Swedish GAAP		603.2	645.8	120.2
<i>US GAAP adjustments:</i>				
Goodwill and other intangibles with indefinite useful lives	<i>a</i>	191.5	191.3	187.7
Leveraged buy-out accounting	<i>b</i>	15.9	7.1	2.1
Derivative instruments and hedge accounting	<i>c</i>	37.4	266.7	271.2
Tooling costs	<i>d</i>	-18.1	-4.4	11.0
Capitalised software	<i>e</i>	-5.8	-16.7	-20.2
Other	<i>f</i>	-0.3	-0.3	-0.3
Deferred taxes:				
Tax effect of US GAAP adjustments	<i>g</i>	-2.8	-67.6	-26.7
Sum of adjustments		217.8	376.1	424.8
Net income under US GAAP		821.0	1,021.9	545.0
Earnings per share (SEK)		7.35	9.15	6.38
Average number of shares		111,671,993	111,671,993	85,482,322

Consolidated equity capital

SEK in millions	Note	2004	2003
Equity capital under Swedish GAAP		4,967.0	4,897.0
<i>US GAAP adjustments:</i>			
Goodwill and other intangibles with indefinite useful lives	<i>a</i>	540.6	365.3
Leveraged buy-out accounting	<i>b</i>	397.3	403.8
Derivative instruments and hedge accounting	<i>c</i>	154.6	98.1
Tooling costs	<i>d</i>	73.9	91.4
Capitalised software	<i>e</i>	0.0	5.8
Other	<i>f</i>	4.5	4.8
Deferred taxes:			
Tax effect of US GAAP adjustments	<i>g</i>	-2.8	-67.6
Sum of adjustments		1,168.1	901.6
Shareholder's equity under US GAAP		6,135.1	5,798.6

Change in consolidated equity capital according to US GAAP

Consolidated, SEK in millions

As per balance sheet on December 31, 2001	1,915.1
2002	
New issue of shares	3,136.6
Translation difference	-329.6
Net income for 2002 according to US GAAP	545.0
As per balance sheet on December 31, 2002	5,267.1
2003	
Dividends	-223.3
Translation difference	-267.1
Net income for 2003 according to US GAAP	1,021.9
As per balance sheet on December 31, 2003	5,798.6
2004	
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

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. The Statement is effective for fiscal years beginning after December 15, 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.

An impairment test has been performed at the end of 2004 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. Subse-

quent 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:

Alfa Laval's basis in the net assets of Alfa Laval Holding

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
	8,432.0
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 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 values 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 do not meet the definition of intangible assets in accordance with Swedish GAAP and such value is thus recorded as goodwill under Swedish GAAP.

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

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

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 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends 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.

Prior to the effective date of FAS 133, US GAAP accounting for foreign exchange contracts was governed by Financial Accounting Standards No. 52, "Foreign Currency Translation" (FAS 52), which allows for foreign exchange contracts to be reported as hedges only to the extent that they are specifically matched to underlying firm commitments. Otherwise, such contracts are marked to market and

recorded on the balance sheet, with unrealised gains and losses included in the reported results of each year.

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. Upon initial adoption of FAS 133 the Group recognised a cumulative effect of accounting change of SEK 61.9 million (net of tax benefit of SEK 33.0 million) in the income statement related to the fair value of interest rate swap contracts in existence as of January 1, 2001. 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.

For periods prior to adoption of FAS 133, the Group was not able under FAS 52 to account for any of its derivative foreign exchange contracts as hedges as these contracts did not relate to underlying firm commitments and therefore the adoption of FAS 133 did not result in a translation adjustment related to these instruments.

The Group has issued long-term debt in various currencies that for Swedish GAAP 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. During 2000 and earlier, this treatment was consistent with US GAAP under FAS 52. 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 have not been met, the change in value of the long-term debt because of currency fluctuations is reported in earnings for US GAAP purposes.

The US GAAP reconciliation items can be summarized as follows:

Consolidated, SEK in millions	2004	2003	2002
Hedges of net investments in foreign subsidiaries under Swedish GAAP not qualifying for hedging under FAS 133	-19.1	194.8	164.9
Change in fair market value of interest rate swaps not recognized under Swedish GAAP	0.0	61.1	50.0
Change in fair market value of foreign exchange derivatives not recognized under Swedish GAAP	56.5	10.8	56.3
Total	37.4	266.7	271.2

d) Tooling costs

Under Swedish GAAP, the Group generally expenses the cost of replacement tools acquired. 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". SOP No. 98-1 is effective for financial statements for fiscal years beginning after December 15, 1998; however, early adoption is encouraged. 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) Other

Under 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 deprecia-

tion. Adjustments to periodic depreciation charges have also been reflected.

Under 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 Swedish GAAP, 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 Swedish GAAP, 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 difference 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, 2004 the Group had sold receivables with recourse totalling SEK 96.5 (113.7) million. These are disclosed as discounted bills in the footnote describing contingent liabilities. 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 an 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 would be 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 mainly relating to real estate and more precisely to properties in Belgium, Brazil, France, Wales and Peru. Accounting under FAS 144 does not mean any difference compared to Swedish GAAP. US GAAP is however requiring a reporting of assets for sale according to the below:

Assets for sale

Consolidated, SEK in millions	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Real estate for sale	39.4	127.1	169.1	403.2

g) 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.

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

Consolidated, SEK in millions	2004	2003	2002
Swedish	593.3	744.0	228.8
Foreign	653.7	474.8	564.6
Total	1,247.0	1,218.8	793.4

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

Consolidated, SEK in millions	2004	2003	2002
<i>Current:</i>			
Swedish	-82.4	-7.0	-4.2
Foreign	-335.0	-276.0	-282.3
<i>Deferred:</i>			
Swedish	-84.1	5.3	-20.4
Foreign	75.5	80.8	58.6
Total	-426.0	-196.9	-248.3

Cash Flow Information

The definitions of "cash flows" differ between Swedish GAAP and US GAAP. Cash flow under Swedish GAAP 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 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 Swedish GAAP and US GAAP. Both Swedish

GAAP and US GAAP segregate cash flows between operating activities, investing activities and financing activities, however, certain items are included in different categories for Swedish GAAP 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 provisions and 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 item included in other comprehensive income and loss that is excluded from net income is currency translation adjustment. There are no tax effects relating to this item. Comprehensive income is not a required disclosure under Swedish GAAP.

Comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	2004	2003	2002
According to US GAAP:			
Net income	821.0	1,021.9	545.0
Foreign currency translation	-37.8	-267.1	-329.6
Comprehensive income	783.2	754.8	215.4

Accumulated comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	2004	2003	2002
According to US GAAP:			
Accumulated net income	1,730.8	909.8	-112.1
Foreign currency translation	-621.3	-583.5	-316.4
Accumulated comprehensive income	1,109.5	326.3	-428.5

Proposed disposition of earnings

The consolidated net available for distribution is SEK 970.7 (836.9) million, whereas the unrestricted equity in Alfa Laval AB (publ) is SEK:

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

Unrestricted equity capital	622,250,147
Received Group contribution, net after tax	245,007,047
Net income for 2004	-59,773,391
	807,483,803

The income available for disposition by the shareholders at the Annual General Meeting is thereby restricted by the unrestricted equity of the parent company.

The Board of Directors propose a dividend of SEK 4.75 (4.00) per share corresponding to SEK 530,441,967 (446,687,972) and that the remaining income of SEK 277,041,836 (622,311,282) be carried forward.

Lund, March 7, 2005

Board of Directors

Anders Narvinger
Chairman

Björn Savén
Deputy Chairman

Gunilla Berg

Per Olov Jakobsson

Arne Kastö

Susanna Holmqvist Norrby

Jan Nilsson

Finn Rausing

Jörn Rausing

Christian Salamon

Waldemar Schmidt

Lena Olving Öhberg

Lars Renström
Managing Director

Audit Report

To the general 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 2004. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles

used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair

view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the Annual Accounts and the consolidated accounts.

We recommend to the general meeting of the 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.

Our Auditors' Report concerning this Annual Report has been issued on March 7, 2005.

Ingvar Ganestam
Authorised Public Accountant

Kerstin Mouchard
Authorised Public Accountant



Creating the perfect Micro-climate

20°C (68°F). The ideal temperature for your home or workplace. Your comfort and productivity both depend on having the right indoor climate. Alfa Laval has long been a leading name in the field of climate control, balancing heat and cold so as to optimize your own performance.

Our plate heat exchangers are used worldwide in district heating and cooling systems as well as air conditioning for factories, offices and shopping malls. They are also critical in refrigeration for maintaining the ideal temperatures for everything from cold food counters to indoor ice rinks.

Board of Directors and Group management

Board of Directors

Anders Narvinger (1)

Chairman since 2003.

Born: 1948. President of Teknikföretagen and formerly President and CEO of ABB Sweden. Education: BSc Eng and Econ. Chairman of Trelleborg AB, Ireco Holding AB, Exportrådet and the Lund University of Technology. Board member of the Volvo Car Corporation. Number of shares in Alfa Laval AB: 10,000*.

Björn Savén (2)

Deputy Chairman since 2000.

Born: 1950. President of Industri Kapital. Education: BSc Econ, MBA Harvard Business School and Hon PhD Econ. Vice Chairman of Dynea Oy and KCI Konecranes International Oy, Syd-

svenska Kemi AB (Perstorp) and the German-Swedish Chamber of Commerce. Board member of Gardena AG, Orkla ASA and the Finnish-Swedish Chamber of Commerce.

Gunilla Berg (3)

Board member since 2004.

Born: 1960. CFO SAS Group, formerly Executive Vice president CFO KF Group. Education: BSc Econ. Experience from various positions in banking and industry. Board member of LE Lundberg-företagen AB.

Lena Olving (4)

Board member since 2002.

Born: 1956. Education: BSc Eng. Senior Vice President of Volvo Car

Corporation, responsible for Quality. Board member of Gunnebo AB.

Finn Rausing (5)

Board member since 2000.

Born: 1955. Board member of the Tetra Laval Group and De Laval Holding AB. Chairman of R.R. Institute of Applied Economics AB. Board member of Swedeship Marine AB.

Jörn Rausing (6)

Board member since 2000.

Born: 1960. Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group. Board member of the Tetra Laval Group and DeLaval Holding AB.



Christian Salamon (7)*Board member since 2000.*

Born: 1961. Education: BSc Eng, MBA Harvard Business School. Director of Industri Kapital. Board member of Oriflame Cosmetics SA, Intrum Justitia AB and Telefonos AB.

Waldemar Schmidt (8)*Board member since 2000.*

Born: 1940. Former President and CEO of the ISS Group. Chairman of Superfos Industries A/S and Thrane & Thrane A/S. Board Member of Enodis plc, Group 4 Securior plc, Welzorg Group BV and Cicorel S/A. Number of shares in Alfa Laval: 21,749*.

Per Olov Jacobsson (9)*Union representative since 2003.*

Born: 1942. Employed by Alfa Laval since 1959. Union representative of the Association of Management and Professional Staff.

Susanna Norrby (10)*Union representative since 2003.*

Born: 1967. Alfa Laval employee since 1992. Union representative of the Swedish Association of Graduate Engineers (CF).

Arne Kastö (11)*Union representative since 2000.*

Born: 1948. Employed by Alfa Laval since 1980. Union representative of the Swedish Union of Clerical and Technical Employees in Industry (SIF)

Jan Nilsson (12)*Union representative since 2000.*

Born: 1952. Employed by Alfa Laval since 1974. Union representative of the Swedish Metal Workers Union (Metall)

Deputy members**Kalevi Huotari***Deputy union representative since 2000.*

Born: 1951. Employed by Alfa Laval since 1973. Deputy union representative of the Swedish Metal Workers Union (Metall).

Gunnar Karlsson*Deputy union representative since 2000.*

Born: 1941. Employed by Alfa Laval subsidiary Cetetherm AB since 1962. Deputy union representative of the Association of Management and Professional Staff (Ledarna).

Magnus Christersson*Deputy union representative since 2003.*

Born: 1973. Employed by Alfa Laval since 1999. Deputy union representative of the Swedish Association of Graduate Engineers (CF).

Salvador Pay-Ortiz*Deputy union representative since 2002.*

Born: 1940. Employed at Alfa Laval since 1965. Deputy union representative of the Swedish Association of Graduate Engineers (CF).

* As of December 31, 2004.



Group management

Lars Renström (1)

President and CEO

Born: 1951. CEO since October 1, 2004

Lars Renström served most recently with the publicly listed company Seco Tools AB, where he was President and CEO between 2000 and 2004. Previously he served as a division manager within Ericsson and Atlas Copco. Board member of Profilgruppen AB. Number of shares in Alfa Laval AB: 10,100*.

Thomas Thuresson (2)

Executive Vice President, Chief Financial Officer

Born: 1957. Employed by Alfa Laval since 1988 and has served in his current role since 1995. Former controller of Flow business area and Group controller of the Alfa Laval Group. Board member of Dynapac AB. Number of shares in Alfa Laval AB: 52,000*.

Göran Mattiasson (3)

President, Operations Division

Born: 1953. Employed by Alfa Laval since 1979. Göran Mattiasson has been president of the Operations Division since April 2003. Previously in charge of Alfa Laval manufacturing and prior to that, of thermal technology, including research and development, production development, system development and purchasing. Number of shares in Alfa Laval AB: 13,647*.

Svante Karlsson (4)

President, Equipment Division

Born: 1955. Employed by Alfa Laval since 1984. Svante Karlsson has been President of the Equipment Division since 2001. Former head of the Thermal business area. Before that was President of the Marine and Power business segment. Number of shares in Alfa Laval AB: 44,086*.



Ulf Granstrand (5)*President, Process Technology Division*

Born: 1947. Employed by Alfa Laval since 1975. President of the Process Technology Division since 2003. Previously responsible for the Operations Division, parts of the regional sales operations and head of the Thermal business area. Number of Alfa Laval shares: 83,572*.

Peter Leifland (6)*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. Number of shares in Alfa Laval AB: 114,716*.

Lars Henriksson (7)*Executive Vice President in charge of the Central and Eastern Europe and Latin America Region*

Born: 1950. Employed by Alfa Laval since 1977. Lars Henriksson has been 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. Number of shares in Alfa Laval AB: 9,000*.

Ray Field (8)*Executive Vice President Asia, Oceania and Middle East Region.*

Born: 1954. Employed by Alfa Laval since 1985. Ray Field has been responsible for the Asia, Oceania and Middle East Region since September 1, 2004. Formerly he served as president of Alfa Laval China for slightly more than 10 years. Number of shares in Alfa Laval AB: 13,647*.

Jesper Bulskov (9)*Senior Vice President, Human Resources*

Born: 1956. Employed by Alfa Laval since 2002 and Senior Vice President, Human Resources since January 1, 2005. Jesper Bulskov holds a degree in economics and was previously responsible for personnel matters within SAS Service Partner (currently Gate Gourmet Int.) and Rockwool.

Peter Torstensson (10)*Senior Vice President, Corporate Communications*

Born: 1955. Employed by Alfa Laval since 1999. Peter Torstensson has served in his current position since joining Alfa Laval in 1999. Formerly president of Borstahusen Informationsdesign. Member of Advisory Board for Bona Kemi AB. Number of shares in Alfa Laval AB: 29,000*.

Nils Olof Björk (11)*Senior Vice President, Corporate Development*

Born: 1947. Employed by Alfa Laval since 1975. Nils Olof Björk has served in his current position since 2002. Previously head of Thermal in Canada, marketing director of Alfa Laval in Lund, head of Alfa Laval Thermal in Asia, Hong Kong, and president of Alfa Laval Japan. Board member of Österlens Kraft AB. Number of shares in Alfa Laval AB: 15,944*.



* As of December 31, 2004.

Corporate governance

Alfa Laval intends to develop the existing routines for corporate governance in accordance with the Code group's proposal for "Swedish Code of Corporate Governance." Alfa Laval will monitor how the Stockholm Stock Exchange updates its regulations taking the Code into account and its goal is to comply with the new regulatory system well within the timetable established by the Exchange.

Articles of Association

Alfa Laval AB (publ), in accordance with the Articles of Association, has as the objective of its operations, directly or through subsidiary and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, preferably within the areas of separation, heat exchange and flow technology, to administer fixed and movable property, and other related operations. The registered office of the Board of Directors of the company shall be in Lund municipality in Sweden. The Articles of Association are available in their entirety on the Alfa Laval website, www.alfalaval.com

Annual General Meeting 2004

The Annual General Meeting (AGM) is the Alfa Laval Group's highest-level decision-maker. The AGM takes place at the end of April or beginning of May each year, and was held April 27, 2004 in Lund. Anders Narvinger was elected the meeting chairman. Following the President's report, the Board Chairman spoke about the Board's activities and the remuneration committee's work and function.

Decisions

The AGM adopted the income state-

ment and balance sheet as well as the consolidated income statement and balance sheet, decided in favor of disposing of the company's profits in accordance with the Board's proposal in the Board of Directors' Report, that is, that the dividend shall be, as for 2003, SEK 4 per share 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, and that the number of auditors shall be two, with two deputy auditors.

The AGM approved the nominating committee's proposal that remuneration to the Board shall be SEK 2,475,000, that it be distributed by the Board among the members chosen by the AGM, and decided that auditor remuneration shall be in accordance with invoices submitted.

Election of members was in accordance with the nominating committee's proposal of Lena Olving, Anders Narvinger, Finn Rausing, Jörn Rausing, Christian Salamon, Björn Savén and Waldemar Schmidt. The nominating committee recommended that Anders Narvinger be elected Board Chairman. Sigge Haraldsson declined reelection, announcing that he intended to resign with pension in autumn 2004. Gunilla Berg was newly elected.

As ordinary auditor, Ingvar Ganestam was reelected and Kerstin Mouchard was newly elected. As deputy auditors, Håkan Olsson was reelected and Thomas Swenson was newly elected. All are authorized public accountants with Ernst & Young AB. Ingvar Ganestam, born 1949, auditor for Alfa Laval

since 2000. Kerstin Mouchard, born 1952, auditor for Alfa Laval since 2004.

The AGM also decided, in accordance with a proposal from shareholders representing 48% of the total number of votes, that there be a nominating committee for preparing and presenting of proposals at the AGM pertaining to election of Board members and, as the case may arise, auditors and matters related to Board and audit fees.

Nominating committee

The nominating committee shall consist of five members, who shall be representatives of the five largest shareholders at the close of the third quarter. The Board Chairman shall at the close of the third quarter contact the company's five largest shareholders. These can then appoint one member each of the nominating committee. In addition, the nominating committee can decide that the Board Chairman shall be part of the nominating committee. If any of the five shareholders abstains from the right to appoint a member, no more than eight of the largest shareholders need be consulted, if this is required in order that the nominating committee consists of at least three members. The nominating committee should be under the direction of a shareholder representative, but the Board Chairman can also be appointed as committee chairman. The Board Chairman, in line with the nominating committee's work, shall report on conditions pertaining to the Board's work, need for particular expertise, and other matters that can be relevant to nominating work. Individual shareholders shall be entitled to submit proposals on Board members to the nominating committee for further consideration within the framework of

its work. The nomination committee has the right to charge costs to the company for recruitment consultants if it is deemed necessary for achieving proper selection of candidates to the Board.

Information about the nominating committee's composition shall be made available in Alfa Laval's interim report for the third quarter. The nominating committee shall report on its activities at the AGM.

In accordance with Alfa Laval AB's decision at the AGM held April 27, 2004, Alfa Laval's major shareholders appointed the following members to the nominating committee prior to the 2005 AGM: Jörn Rausing, Tetra Laval; Björn Savén, Industri Kapital; Björn Lind, SEB; Pernilla Klein, Third AP Fund; and Björn Franzon, Fourth AP Fund. The nominating committee reached the decision that Board Chairman Anders Narvinger shall be included in the nominating committee. Anders Narvinger was appointed chairman of the nominating committee.

The nominating committee's responsibility is to prepare and present proposals for the AGM with respect to selection of Board members and, as the case may arise, auditors as well as Board and audit remuneration. The auditors are to be two authorized public accountants and the deputy auditors are to be authorized public accountants, which are selected at the AGM for a period of four years. Ernst & Young has the audit assignment until the 2008 AGM.

The nominating committee meets as often as required to reach a consensus on proposals for the AGM. In advance of the 2005 AGM, the nominating committee has met three times. As the basis for its work, information was provided regarding the company's operations, financial and strategic trend, the Board's work during the fiscal year, including the Board Chairman's evaluation of the Board members', the work of the Board's remuneration committee and the Board's sessions with the auditors.

The Board Chairman, in line with nominating committee's work, shall report the major conclusions from the annual evaluation of the Board's work that is to be carried out in accordance with the "Swedish Code of Corporate

Governance." The Board Chairman shall also report on other conditions affecting the Board's work, such as the need for particular expertise, which can be of importance for the nominating work.

The Board and its work

General




The Board shall consist of eight members appointed by the AGM, and no deputies. These are selected annually for the time until the conclusion of the next AGM. Four members and four deputies are appointed by the employees. The Board members are presented on page 92. Key persons within the company are also invited to the Board meetings as consultants and experts. The President of the company participates in all meetings, with the Chief Financial Officer serving as Board secretary. Effective January 1, 2005, the company's chief counsel will serve as Board secretary.

The work of the Board is regulated by annually updated rules of procedure that set 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 on an ongoing basis to the Board to enable the latter to properly judge the financial situation. The Board was assigned by the 2004 AGM to form a remuneration committee, within itself, and to act, in its entirety, as an audit committee (see page 98).

The Board appoints the President and exercises ongoing monitoring of operations during the year. It is responsible that the organization, management and guidelines for management of the company's assets are rationally established. The Board is also responsible for development and monitoring of the company's strategies through evaluating plans and establishing goals. It decides on acquisitions and divestments of operations and on major investments. It procures auditing services and maintains ongoing contact with the company's auditors. The Board also determines salaries and remuneration to the President and the company's senior executives.

Present at Board meetings and committee meetings

	Main Board	Remuneration committee	Audit committee		
					
	8	4	8	Anders Narvinger	Elected at AGM
	8	4	8	Björn Savén	
	5	-	5	Gunilla Berg *	
	7	-	7	Lena Olving	
	8	-	8	Finn Rausing	
	8	4	8	Jörn Rausing	
	7	-	7	Christian Salamon	
	7	-	7	Waldemar Schmidt	
	5	-	5	Per Olov Jacobsson	Employee representatives**
	7	-	7	Susanna Norrby	
	8	-	8	Arne Kastö	
	8	-	8	Jan Nilsson	
Average duration (No. of hours)	4	1	1		
No. of meetings	8	4	8		

* Selected at April 27 AGM.

** With deputy Board members Gunnar Karlsson, Magnus Christersson, Salvador Pay-Ortiz and Kalevi Houtari.

Independent Board members

All Board members selected by the AGM (eight persons) are considered to be independent of the company. Two members, Finn Rausing and Jörn Rausing, are considered to have a relationship of dependence to the principal shareholder, Tetra Laval who, effective December 31, 2004, owned 17.68 percent of shares outstanding. The other members are independent of the main shareholders, defined as a shareholder with more than 10 percent of shares outstanding. Board members Björn Savén and Christian Salamon are considered to have a relationship of dependence to Industri Kapital who, effective December 31, 2004, owned 8.52 percent of shares outstanding. At the May 17, 2002 public listing, Industri Kapital owned 26.87 percent of shares outstanding and, effective December 31, 2003, owned 17.92 percent of shares outstanding.

Chairman

At a Board meeting following election April 27, 2004, Anders Narvinger was elected Alfa Laval AB's Chairman, and Björn Savén Vice Chairman. The Board Chairman directs the work in a manner to ensure that it accords with the Swedish Companies Act and other relevant legislation. 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 directs the evaluation of the Board's work, and reports on it in the nominating committee and participates in evaluation and development matters with respect to the Group's senior executives. During the year, an evaluation was performed of the Board's work. The Board intends to initiate such an evaluation on an annual basis. The Chairman represents the company in ownership matters.

Work during 2004

The Board normally meets at least six times annually and, in addition to scheduled meetings, may convene as the situation demands. During the

year, there were eight meetings, all of which were regularly scheduled. During 2004, the Board, in addition to the regular agenda items such as trend of order intake, investments, earnings outcome, the acquisition situation and the trend among shareholders, was involved in matters such as overall financing, corporate governance, asbestos-related court cases in the U.S., reports from management's strategy meeting, audit planning and raw materials prices.

Audit committee

During the whole of 2004, the Board acted as an audit committee.

The Board's monitoring is to safeguard the Group's assets and ensure that the systems are in compliance with laws and ordinances, thereby resulting in operational efficacy, to ensure that accurate accounting documents are prepared and that financial information is reliable. The Board examines the reporting routines and financial control, the auditors' work, their qualifications and their independence. The monitoring also encompasses other vital matters related to financial reporting. The Board assists management in identifying and evaluating the primary operational risks and ensures that management focuses on these matters.

The Board has, at four meetings during 2004, received reports from the company's external auditors. Internal audit, which is organized directly under the Board, issued reports to the Board on one occasion (see page 99).

Remuneration committee

Alfa Laval's remuneration committee is appointed on an annual basis within the Board. It is comprised of Anders Narvinger, Chairman, Björn Savén and Jörn Rausing. The remuneration committee's task is to establish remuneration and terms of employment for the President and senior executives reporting directly to the President. During the year, the committee met four times and also maintained ongoing contacts in connection with hirings and conditions of employment.

Remuneration to the Board

Remuneration to Board members elected at the AGM is determined by the AGM from the proposals submitted by the nominating committee. No extra remuneration is paid for the work in the nominating committee and committees.

The table below summarizes the remuneration received from Alfa Laval by all Board members.

Reporting

The Board monitors the financial reporting through instructions to the President. The latter has instituted a reporting committee consisting of the company's financial director, corporate communication director, senior attorney and the Group controller. The committee has the task of examining and approving all external financial reporting, including year-end reports, annual reports, press releases with financial content, as well as presentation material in connection with meetings with, for example, media, analysts and investors.

Remuneration to the Board

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

	Main Board	Remuneration committee	Audit committee
Anders Narvinger (Chairman)	600,000	0	0
Björn Savén (Vice Chairman)	375,000	0	0
Gunilla Berg	250,000	0	0
Lena Olving	250,000	0	0
Finn Rausing	250,000	0	0
Jörn Rausing	250,000	0	0
Christian Salamon	250,000	0	0
Waldemar Schmidt	250,000	0	0

Policy documents

As a governance instrument, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples include finance policy and information policy documents.

Group management

The President of Alfa Laval AB, who is also CEO for the Alfa Laval Group, directs daily operations and is responsible for the Board receiving information and the necessary decision foundation. The President is responsible that the company's accounting complies with applicable legislation and agreements.

The Group management staff consists of the CEO and those individuals who, on recommendation by the CEO, have been appointed by the Board. The management staff consists at present of 11 persons (see pages 94–95).

The individuals on the management staff are responsible both for their own area of operation as well as the Group's as a whole. The management held 11 minuted meetings during 2004. In addition, quarterly reviews of operations are held with division- and geographically responsible individuals. These deal with the business situation, profit and loss, earnings projection for the upcoming 12 months and specific questions for the various operating components.

broad spectrum of functions and areas of inquiry. The scope is determined by the Board.

The internal audit reports twice annually to the Board on the results of the audits performed. On these occasions, the planning parameters for the next six to eight months are established. The internal audit reports are also distributed to the management members concerned.

To ensure that concrete effects result from the internal audit, a routine for follow-up using agreed upon measures has been established.

Security and Exchange Commission (SEC)/Sarbanes Oxley Act

In connection with the issuance of a high-yield bond loan in the autumn of 2000, Alfa Laval was registered with the SEC (Security and Exchange Commission) in the U.S. Through registration Alfa Laval becomes subject to legislation referred to as the Sarbanes Oxley Act, which is mainly intended to improve shareholder governance. Alfa Laval has during the year informed the financial market that the company intends to redeem outstanding elements of the bond loan per November 15, 2005, and then to initiate delisting from the SEC.

Remuneration to Group management, SEK K

	Fixed	Variable	Pension commitment
Lars Renström, President	4,000	max. 50% *	page 65
Others** (during 2004)	16,900	2,200	page 65

* of fixed remuneration

**Other members of Group management are Thomas Thuresson, Ulf Granstrand, Svante Karlsson, Göran Mathiasson, Peter Leifland, Lars Henriksson, Ray Field, Nils-Olof Björk, Peter Torstensson and Jesper Bulskov.

Internal audit

The internal audit consists of two auditors supplemented by specialist resources internal to the company and auditors from the KPMG organization for internal auditing.

During 2004, 16 internal audits were carried out. The audits encompass a

Financial information in 2005

Alfa Laval will publish financial reports during 2005 on the following dates:

First-quarter report 2005	April 27
Annual General Meeting in Lund	April 27
Second-quarter report 2005	July 21
Third-quarter report 2005	October 25

Analysts tracking Alfa Laval

ABG Sundahl Collier	Anders Jegers
Alfred Berg	Gustaf Lindskog
Carnegie	Oscar Stjerngren
Chevreux	Patrik Sjöblom
Credit Suisse First Boston	Patrick Marshall
Danske Securities	Søren Samsøe
Deutsche Bank	Peter Reilly
Dresdner Klienwort Wasserstein	Nick Wilson
Enskilda Securities	Anders Eriksson
Evli Bank	Magnus Axén
Hagströmer & Qviberg	Patrick Lindqvist
Handelsbanken	Markus Almerud
JP Morgan	Julia Varesko
Kaupthing	Peder Frölén
Lehman Brothers	Brian Hall
Standard & Poor's	Johan Wettergren
Swedbank	Mats Liss
UBS Warburg	Fredrik Liljewall
Öhmans	Anders Roslund

Shareholder information

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Annual General Meeting

The Annual General Meeting of Alfa Laval AB will be held on Wednesday, April 27, 2005 at 4.00 p.m. Swedish time in the Scandic Star Hotel, Glimmervägen 5, Lund, Sweden.

AGM program

- | | |
|--------------------------|--|
| 1:30 p.m. (Swedish time) | Bus departs Star Hotel to Alfa Laval's production unit for heat exchangers in Lund |
| 3.00 p.m. (Swedish time) | Registration |
| 4.00 p.m. (Swedish time) | 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 Friday, April 15, 2004, and register their intention to participate – along with any assistants – not later than Thursday, April 21, 2004 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 15. 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 153, SE-231 22 Lund, Sweden
- By e-mail to bolagsstamma.lund@alfalaval.com
- By fax to +46-46-36 71 87
- On the website: www.alfalaval.com
- By phone, No. +46-46-36 72 22, +46-46-36 65 26 or +46-46-36 65 00.

Shareholders shall state their name, personal ID number and telephone number on their notice of participation. If participation is by proxy, this power of attorney or authorization shall be submitted to the company prior to the Meeting.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 4.75 per share be paid and that the record date for this dividend should be May 2, 2005. If the Meeting approves the proposal, the dividend will be distributed by VPC on Friday, May 6, 2005.

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 gathering 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.

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.

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.

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. In connection with the Group's change programme, a number of factories have been closed and fixed assets have been possible to redistribute, which has resulted in a relatively lower level of investments.

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 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.

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 nearly 100 countries to help them stay ahead.

More information on the Internet

Contact details for all countries are continually updated on Alfa Laval's website.

Please visit www.alfalaval.com for more information.