CEO Lars Renström’s speech at the AGM in Lund April 27, 2005.

Ladies and gentlemen, shareholders and employees

Robust growth in 2004
Alfa Laval showed strength in 2004, with order intake exceeding the company’s expectations and rising by 15% in fixed currency to SEK 15.7 billion.

2004
Operating income was approximately SEK 1.7 billion and the operating margin was 11.3%.

Two external factors during 2004
The external factor that impacted Alfa Laval’s earnings the most during 2004 was the weakening USD.
The operating margin was more than SEK 300 M lower than in 2003 due to exchange-rate movements, with the greatest impact coming from the weaker USD.
To counter the effects of the weaker USD, we are gradually increasing our production and purchasing in countries whose currencies are tied to the USD.
Rising material prices have also been a significant factor during the year. In the past, Alfa Laval has been able to transfer price increases over to its customers.
Also in 2004, we have managed to compensate for the majority of price increases in materials. However, this has taken place with a certain time lag in several customer segments.
We are also working to diminish the effect of price increases by redesigning products and substituting materials.

Financial goals
At the start of 2005, the Board reviewed the company’s financial goals, retaining the growth and profitability targets.

The margin goal was adjusted to 10-13%, based on the considerable changes in exchange rates that have occurred since the goal was set several years ago.

Taking current exchange rates into account, this in effect entails an upward adjustment of the target since a direct translation would have given a target of 9-12%.

Strong geographical presence
One of Alfa Laval’s main strengths is its strong geographical presence.
Our largest markets include the fast-growing markets of China, India and Russia.
Order intake in Asia rose by 21% in 2004.
Growth amounted to 30% in India and 39% in China, making China our second largest market after the US.
An important priority is to further strengthen our presence in these fast-growing markets.
The expansion of local production is being accelerated in India and China to gain greater access to these fast-growing markets and to use these countries as a global supply base.
Both the Indian and the Chinese currencies mirror movements in the USD, providing a means of balancing our dollar exposure.
Direct production hours in Asia
At year-end 2004, production in Asia accounted for nearly 40% of total direct production hours. By the end of 2007, this figure will be closer to 45%.

Packinox
In March 2005, Alfa Laval acquired the French company Packinox. Packinox’ customers are companies in the refinery and petrochemical industry. The company is known globally for its niche applications within high-performance large welded plate heat exchangers. Packinox is a good example of a complementary acquisition. The acquisition of Packinox broadens our product range and will provide favorable synergies. Estimated sales for 2005 are SEK 450 M and the company’s earnings will contribute to the Group’s earnings per share the same year.

Plate heat exchangers
The image shows how Packinox is broadening our range for high pressure and temperatures. At the bottom left, we see Alfa Laval’s traditional heat exchangers for moderate pressure and temperatures. Five to ten years ago, we took the step up to higher temperatures and pressure with our internally designed AlfaRex heat exchanger and also the Compabloc heat exchanger through a French acquisition. The acquisition of Packinox gives Alfa Laval a product for extremely high temperatures and pressure. It also entails opportunities for additional sales of Alfa Laval’s products through Packinox’ network of contacts in the refinery and petrochemical industry.

New products serve as the foundation of profitable growth
We are continually developing our products in order to strengthen our leading market positions. We invest 2.5-3% of our sales proceeds in R&D activities. This level is sustainable in the longer term. Alfa Laval will increase the proportion of sales proceeds from new products by speeding up the process from feasibility study to product installation at the customer. This is the foundation of stable growth and stable prices. Each year, Alfa Laval launches between 25 and 30 new products.

Environmental applications create growth
Alfa Laval has several environmental product applications that clean liquids and gases. One such example is marine industry applications that help shipping lines to comply with increasingly stringent environmental standards for vessel emissions. Shipping company demand for products to meet these requirements is rising and Alfa Laval offers products in the following three environmental areas:

- Bilge water: Alfa Laval’s separator module removes oil from the pump water in a higher efficient manner.
- Ballast water: Last summer, we saw newspaper articles about how the vegetation on the seabed off the western coast of Sweden was being taken over by Asian plant species.
The fact that ships pump large volumes of seawater on board in one part of the world and then pump the same water back out in another part of the world is a major global problem since it means that plant and animal species are introduced in new and foreign environments. In 2009, legislation will enter into force requiring mandatory cleaning of ballast water. Alfa Laval cooperates with a Swedish company to sell a product that can clean and manage ballast water on board.

Continued focus on the aftermarket
Alfa Laval's aftermarket business accounted for 24% of order intake in 2004. In recent years, Alfa Laval has continued to develop its aftermarket business, which displayed organic growth of about 7% in 2004, beating our long-term growth targets for aftermarket sales. This safeguards our customers’ processes and also makes Alfa Laval less sensitive to economic fluctuations. It also means that we increase our revenues per customer and bring customers closer to Alfa Laval.

Aftermarket potential
We do this by expanding our service content in our (tryck) established markets and by linking new sales of our products to sales of aftermarket services and products. In addition, we have an ageing installed equipment base in our fast-growing markets that will require spare parts and service within the next few years.

Economies of scale with the customer in focus
Alfa Laval's organization by customer segment during the past few years has strengthened our customer focus. Product centers were set up at the beginning of 2005 to secure the product dimension for high-speed separators, decanters, plate heat exchangers and fluid handling equipment. Gathering competence in one center for each product area allows us to achieve a greater critical mass and better penetration.

New members of Group management
Changes in Group management during the autumn of 2004 meant that Ray Field and Lars Henriksson were appointed regional managers. They have broad experience of working within the Group and have both successfully managed sales companies for many years. Jesper Bulskov has been appointed the new Senior Vice President of Human Resources from January 1, 2005. Jesper was employed by Alfa Laval two years ago and has previous experience from several companies, primarily SAS Service Partner.

Structural rationalization
Alfa Laval works continuously with structural rationalization as an integral part of our normal activities.
In March 2005, we also decided to completely shut down the production unit for marine separators in Spain and the module assembly unit for the biotech and pharmaceutical industry in Canada. The closures affect a total of about 250 people and have resulted in non-recurring costs of SEK 125 M being charged to first-quarter earnings. The saving will be SEK 50 M during the first twelve months, and even higher subsequently.

**Share price performance**
Between May 17, 2002, when the company was first listed, and the closing on April 22, the Alfa Laval share has risen by more than 25%. Over the same period, the Stockholm Stock Exchange in general has risen by more than 15% and the industry index by 18%.
In 2004, the Alfa Laval share dropped 2%, while the Stockholm Stock Exchange rose 17% and the industry index rose 19%.

**60% more shareholders during 2004**
Alfa Laval is pleased to announce that the number of shareholders in 2004 rose by 60% to nearly 12,000.
A contributory factor is that Alfa Laval has successfully repositioned and vitalized its brand in a series of activities showing the breadth of the company. Here, we see several examples of advertisements from Alfa Laval. As proof of this, Alfa Laval received an award during 2004 for long-term brand care.

**Strong financial position**
To conclude, I can state that Alfa Laval enjoys a strong financial position. We have a debt/equity ratio of only 38% and the company generates free cash flow of approximately SEK 1 billion annually. This provides us with the scope to act. We shall provide our shareholders with a competitive direct return compared with our peers in the Nordic engineering sector.
In early 2005, the Board approved a new dividend policy, entailing that between 40% and 50% of our net profit, adjusted for surplus values, will be distributed to the shareholders. Furthermore, the cash flow shall be used to generate growth, both organically and through acquisitions.

Acquisitions shall, in the first instance, complement Alfa Laval’s existing business in terms of products, geographical locations or new sales channels. These types of acquisitions entail limited risk, rapid integration in Alfa Laval and early contribution to profitable growth.

**Thanks**
Finally, I would like to thank all the employees of the Alfa Laval Group for their fine contributions during 2004.