

Annual General Meeting 2006

Speech by President and CEO at the AGM on April 27, 2006

Ladies and gentlemen, shareholders and employees.

2005 was a very successful year, during which Alfa Laval focused on profitability, acquisitions and an improved production structure. Since our Annual General Meeting last year, the value of our shares has more than doubled.

Today, we have a market value of SEK 24 billion. I would now like to present the factors that contributed to the strong growth in 2005.

Order intake in 2005 increased by 18 percent. The strongest growth was achieved in Latin America and Asia. In Asia, order intake increased by approximately 25 percent, which I would like to highlight. Japan exceeded our expectations by reporting growth of 43 percent in a solid and broad-based upturn.

Order intake from the aftermarket increased by 8 percent, which clearly exceeds our goal of 5 percent. The maturing installed base in the rapidly expanding markets of China, India and Russia developed particularly favorably.

Profitability

The focus on profitability took the form of two main activities. The first was based on obtaining compensation from customers over the short term for increased raw materials prices. This was successful in the vast majority of cases, due to our strong market positions and the added value we create for our customers.

Secondly, price and profitability per customer and product were analyzed. A number of measures were implemented to further develop our ability to improve the customer and product mix, the effects of which are gradually making an impact.

Taken as a whole, Alfa Laval has demonstrated that the company has "pricing power," which resulted a recovery in margins during the second half of the year.

Acquired growth

During the year, priority was assigned to consolidating the sectors where we hold leading positions.

The French company Packinox has been a part of the Alfa Laval Group since January 1, 2005. The company is known globally for its niche applications within the large high-performance, welded-plate heat exchanger segment. Packinox customers can be found in the refinery and petrochemical industries where the demand is very high. The acquisition of Packinox broadens our product range and will generate favorable synergies.

During 2005, sales totaled approximately SEK 500 M and the operating margins exceeded the average for the Group. In total a very successful acquisition and a perfect timing.

Tranter was consolidated in the Alfa Laval Group on March 1, 2006. Through the acquisition of US-based Tranter, Alfa Laval strengthens its leading position in the market for heat exchangers. Tranter is a well-managed company with a strong brand for heat exchangers. In 2005, the company had sales of approximately SEK 900 M and the operating margin exceeded the average for Alfa Laval. The company has approximately 470 employees worldwide.

Tranter will remain a separate market channel and offer its product range under the Tranter brand via an independent distribution network in unrestricted competition with the Alfa Laval brand. The company will also retain its own R&D and production units, which are based in the US, Sweden and India.

Combined, Packinox and Tranter add 9 percent to profitable growth.

Improved production structure

During the first quarter of 2005, Alfa Laval's earnings were charged with SEK 125 M in restructuring costs, which should generate at least SEK 50 M per year in cost savings, commencing in the middle of 2006. Three units are being closed and production at two units is being transferred to existing facilities.

Alfa Laval is continually working to make its operations more efficient, even in strong business conditions. For the Group as a whole, the number of employees decreased by 300 between March 1, 2005 and March 1, 2006, for comparable units. In high-cost countries in Western Europe and North America, the number of employees was reduced by 380, while in Asia the number increased by 80.

Expansion of local production in India and China is continuing at a rapid rate, both to establish a closer presence in these fast-expanding markets and to utilize these countries as a base for global supply. In Lund an investment-program of SEK 200 M was finalized. It gives necessary capacity to meet the strong order intake.

Strong demand from energy industry

High energy prices throughout the world have resulted in strong demand from the energy industry and related sectors. These are the areas in which Alfa Laval holds a strong position and from which nearly 40 percent of order intake in 2005 derived.

A number of substantial orders with a combined value of approximately SEK 800 M have been booked. Most of the deliveries are for installations in the Middle East in oil, gas and petrochemical industries. The orders are for the delivery of products manufactured exclusively within the company, which has a positive effect on profitability.

Higher share of new products

An important step to speed up product development during the year was the creation of product centers to secure product dimension internally. Expertise is being assembled in a center for each product area, which will create a larger critical mass and higher efficiency. This is the largest organizational change undertaken in recent years.

An excellent example of the importance of new products is the T50 heat exchanger, which was introduced in 2005. A number of large orders received during the year were based on this product. The heat exchanger we see on the slide weighs the equivalent of 15 Volvo cars.

One of the most beautiful sights that we at Alfa Laval can imagine is 30 heat exchangers standing in an area the size of a football field in the desert in Saudi Arabia cooling a petrochemical industry.

Skill Development

We are convinced that a variety creates dynamic working groups and positive values that also reach our customers. With this basic view it is our distinct ambition to attract, develop and keep the best individuals irrespective of nationality or sex. With this we also mean that it must be attractive to make a career within Alfa Laval. Internally we call it "equal career opportunities", which among other means that the total amount of female managers shall increase to better reflect the women's share of the total amount of employees.

The Sales and Marketing Managers' Program is one of Alfa Laval's most important internal courses. The courses are carried out at Ashridge Business School in England. The goal is to train the next generation of Alfa Laval's leaders.

Another important training program, in which 250 workers participated in 2005, is an extensive compulsory introduction, in which all new Group employees involved in sales must participate.

In both training programs, all persons in Alfa Laval Corporate Management are involved and give lectures based on their roles in the Group. In this way, Alfa Laval ensures that everyone has a common basic view regarding the products and sales.

Share performance

During 2005, the Alfa Laval share rose by 60 percent, which is twice the rate of the Stockholm Stock Exchange as a whole. During 2006, the share has risen by a further 22 percent. This means that the share price has more than doubled since we met at last year's Annual General Meeting.

Finally I would like to extend my appreciation to all employees within the Alfa Laval Group for their excellent contribution during 2005.

THANK YOU!