



# Alfa Laval AB (publ)

## Fourth quarter and full year 2004

"During the fourth quarter the order intake increased by five percent, excluding exchange rate variations, compared with the strong fourth quarter 2003.

For the full year 2004 the order intake increased by 15 percent, an unusually strong increase for Alfa Laval. During the first half of 2004 growth was prioritised, while profitability has been emphasized during the second half.

The operating result as well as the operating margin were on the same level as the fourth quarter 2003, in spite of adverse exchange rate variations of close to SEK 100 million."

*Lars Renström, President and CEO, Alfa Laval*

### **Summary of the fourth quarter 2004:**

- Order intake increased to SEK 3,771 (3,750) million, meaning an increase by 4.7 percent excluding exchange rate variations.
- Net sales increased to SEK 4,166 (4,086) million, meaning an increase by 5.8 percent excluding exchange rate variations.
- Adjusted EBITA increased to SEK 466 (463) million, including adverse foreign exchange effects of SEK 98 million.
- Adjusted EBITA-margin was 11.2 (11.3) percent.
- Result after financial items increased to SEK 303 (275) million.
- Cash flow from operating activities was SEK 302 (629) million.

### **Summary of the full year 2004:**

- Order intake increased to SEK 15,740 (14,145) million, meaning an increase by 15.2 percent excluding exchange rate variations.
- Net sales increased to SEK 14,986 (13,909) million, meaning an increased by 11.7 percent excluding exchange rate variations.
- Adjusted EBITA increased to SEK 1,695 (1,627) million, including adverse foreign exchange effects of SEK 322 million.
- Adjusted EBITA-margin was 11.3 (11.7) percent.
- Result after financial items increased to SEK 1,070 (817) million.
- Result after tax was SEK 603 (646) million.
- Earnings per share were SEK 5.40 (5.78).
- Cash flow from operating activities was SEK 1,118 (1,654) million.
- The Board of Directors will propose a dividend of SEK 4.75 (4.00) per share at the shareholders' meeting.

**Outlook for the near future**

"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."

The fourth quarter and full year report has been issued on February 14, 2005 by the Board of Directors.

SEK millions, unless otherwise stated	Oct 1 - Dec 31 2004	Oct 1 - Dec 31 2003	2004	2003	2002
<b>Order intake</b>	3,771	3,750	15,740	14,145	14,675
<b>Net sales</b>	4,166	4,086	14,986	13,909	14,595
<b>Adjusted EBITDA 1)</b>	536	539	1,956	1,920	2,087
<b>Adjusted EBITA 2)</b>	466	463	1,695	1,627	1,755
<b>Adjusted EBITA 2)- margin</b>	11.2%	11.3%	11.3%	11.7%	12.0%
<b>Result after financial items</b>	303	275	1,070	817	372
<b>Return on capital employed 3)</b>			24.3%	21.3%	20.2%
<b>Return on equity capital 3)</b>			12.1%	13.2%	2.7%
<b>Solidity</b>			35.7%	33.3%	29.2%
<b>Debt ratio, times</b>			0.38	0.49	0.78
<b>Cash flow from operations</b>	302	629	1,118	1,654	1,924
<b>Investments</b>	171	136	388	259	277
<b>No. of employees 4)</b>			9,527	9,358	9,125

- 1) Adjusted EBITDA – "Earnings before interests, taxes, depreciation, amortisation of goodwill and step up values and comparison distortion items."
- 2) Adjusted EBITA – "Earnings before interests, taxes, amortisation of goodwill and step up values and comparison distortion items."
- 3) Calculated on a 12 months' revolving basis. The new issue of shares in May 2002 has changed the basis for the calculation of return on equity capital, which has affected the comparison figure.
- 4) Number of employees at the end of the period.

Lund, February 14, 2005,

The Board of Directors  
Alfa Laval AB (publ)

## Management's discussion and analysis

### 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) 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 during 2004 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) million during 2004. Excluding exchange rate variations, the invoicing was 11.7 percent higher than last year.

## Comments on the Income Statement

As a basis for comments on the various main items of the income statement, please find a comparison between October – December for 2004 and 2003 and January – December for 2004 and 2003:

### Income statement analysis

SEK millions	Oct 1 - Dec 31 2004	Oct 1 - Dec 31 2003	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003
Net sales	4,166.1	4,086.3	14,985.8	13,909.3
Adjusted gross profit	1,392.4	1,385.0	5,342.2	5,235.8
- in % of net sales	33.4	33.9	35.6	37.6
Expenses *	-856.4	-846.5	-3,386.2	-3,315.7
- in % of net sales	20.6	20.7	22.6	23.8
Adjusted EBITDA	536.0	538.5	1,956.0	1,920.1
- in % of net sales	12.9	13.2	13.1	13.8
Depreciation	-70.0	-75.5	-260.9	-293.1
<b>Adjusted EBITA</b>	<b>466.0</b>	<b>463.0</b>	<b>1,695.1</b>	<b>1,627.0</b>
<b>- in % of net sales</b>	<b>11.2</b>	<b>11.3</b>	<b>11.3</b>	<b>11.7</b>
Amortisation of goodwill **	-119.4	-124.5	-484.9	-494.1
Comparison distortion items	2.7	2.0	36.7	5.6
<b>EBIT</b>	<b>349.3</b>	<b>340.5</b>	<b>1,246.9</b>	<b>1,138.5</b>

\* Excluding comparison distortion items

\*\* Including amortisation of step-up values

The year generated a gross profit of SEK 5,048.8 (4,933.0) million. Excluding the amortisation of SEK 293.4 (302.8) million on step-up values, the adjusted gross profit is SEK 5,342.2 (5,235.8) 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) 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) million, corresponding to 2.7 (2.6) 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) million for the year. The adjusted EBITA amounted to SEK 1,695.1 (1,627.0) million. The adjusted EBITA margin was

11.3 (11.7) percent. The adjusted result after tax, excluding amortisation of goodwill and step-up values and the corresponding tax, is SEK 8.67 (9.34) per share.

The result has been affected by comparison distortion items of SEK 36.7 (5.6) million. In the income statement these are reported gross as a part of other operating income and other operating costs, see specification on page 15. 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.

## 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.

	<b>Oct 1- Dec 31 2004</b>	Oct 1- Dec 31 2003	<b>Jan 1- Dec 31 2004</b>	Jan 1- Dec 31 2003
SEK millions				
Orders received	2,196.5	2,054.8	8,862.3	8,069.9
Order backlog *			2,097.3	1,598.9
Net sales	2,164.2	2,090.7	8,250.4	7,841.8
Operating income	230.1	288.6	1,002.4	1,022.6

\* At the end of the period.

*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)*

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 aftermarket segment Parts & Service.

	<b>Oct 1- Dec 31 2004</b>	Oct 1- Dec 31 2003	<b>Jan 1- Dec 31 2004</b>	Jan 1- Dec 31 2003
SEK millions				
Orders received	1,560.4	1,678.5	6,818.0	5,990.6
Order backlog *			2,640.6	2,398.0
Net sales	1,981.0	1,975.9	6,683.3	5,993.6
Operating income	189.3	102.9	540.8	363.3

\* At the end of the period.

*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)*

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.

### Operations and other division

	<b>Oct 1- Dec 31 2004</b>	Oct 1- Dec 31 2003	<b>Jan 1- Dec 31 2004</b>	Jan 1- Dec 31 2003
SEK millions				
Orders received	13.7	17.1	59.7	84.8
Order backlog *			25.5	24.2
Net sales	20.9	19.7	52.1	73.9
Operating income	-72.8	-53.0	-333.0	-253.0

\* At the end of the period.

## Reporting by geographical markets

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

### Orders received

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

#### Order received

Consolidated	Oct 1- Dec 31 2004	Oct 1- Dec 31 2003	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003
SEK millions				
Customers in				
Sweden	224.3	220.0	884.0	887.3
Other EU	1,382.2	1,324.0	5,804.4	5,143.3
Other Europe	339.6	351.2	1,280.7	1,234.5
USA	513.4	559.6	2,136.5	2,095.3
Other North America	58.6	99.2	334.1	326.7
Latin America	245.0	136.4	689.8	560.8
Africa	54.9	61.8	167.9	177.7
Asia	892.6	931.1	4,164.5	3,463.2
Oceania	60.0	67.1	278.1	256.5
Total	3,770.6	3,750.4	15,740.0	14,145.3

### 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.

#### Net sales

Consolidated	Oct 1- Dec 31 2004	Oct 1- Dec 31 2003	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003
SEK millions				
Customers in				
Sweden	272.2	269.4	887.6	893.2
Other EU	1,593.3	1,434.3	5,706.5	5,186.4
Other Europe	325.3	375.1	1,196.5	1,118.7
USA	545.9	700.7	2,197.4	2,159.0
Other North America	76.4	92.4	296.2	315.0
Latin America	190.4	154.3	583.9	553.6
Africa	59.7	74.2	177.3	182.7
Asia	1,005.3	905.8	3,619.9	3,242.6
Oceania	97.6	80.1	320.5	258.1
Total	4,166.1	4,086.3	14,985.8	13,909.3

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.

## Consolidated financial result and net income

The financial net has amounted to SEK -187.4 (-259.5) 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) million, interest on the bond loan of SEK -127.5 (-132.0) million and a net of dividends and other interest income and interest costs of SEK -21.9 (-11.9) 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 net of realised and unrealised exchange rate differences amounts to SEK 10.6 (-61.6) million, out of which SEK 7.4 (-20.5) million in the fourth quarter.

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

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

The parent company's result after financial items was SEK -2.6 (0.7) million, out of which net interests were SEK 2.8 (6.0) million, realised and unrealised exchange rate gains and losses SEK - (-0.1) million and fees to the Board and other administration costs the remaining SEK -5.4 (-5.2) 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) 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) million.

## 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.

## Cash flow

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

Working capital increased by SEK 554.5 (25.7) million during 2004.

Investments in property, plant and equipment amounted to SEK 387.5 (258.5) million during 2004. Out of this, acquired product concessions were SEK 36.6 million. Depreciation, excluding allocated step-up values, amounted to SEK 260.9 (293.1) million during the year.

## Cash and bank

The Group's cash and bank amounted to SEK 414.8 (554.6) million. The item cash and bank in the balance sheet and in the cash-flow statement is mainly relating to bank deposits.

## Borrowings and net debt

### Debt table

Consolidated SEK in millions	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

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.

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.

During 2004, Alfa Laval has re-purchased bonds at the prevailing market rate for a total face value of SEK 11.4 (50.6) million. The difference between the higher market value and the face value was SEK 1.8 (9.7) 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. Alfa Laval intends to redeem the outstanding bonds on November 15, 2005.

## **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.

## **Acquisitions and disposals**

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.

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.

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.

## Accounting principles

The same accounting principles and accounting estimates have been applied in the report for the fourth quarter and full year 2004 as for the annual report for 2003, except that comparison distortion items are now reported included in each line in the income statement and specified in a separate note.

## 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 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.

### IMPACT ON INCOME IF IFRS HAD BEEN IMPLEMENTED IN 2004

Amounts in SEK millions

#### Income statement

Consolidated	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**

Amounts in SEK millions

**Equity**

Consolidated	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

**Proposed disposition of earnings**

The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of SEK 52.4 (54.3) million. After deduction for this, the consolidated net available for distribution is thus SEK 970.7 (836.9) million. Within the parent company the unrestricted funds are SEK 807.5 (1,069.0) million.

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

**Financial Reports during 2005**

Alfa Laval will publish interim reports during 2005 at the following dates:

Interim report for the first quarter	April 27
Interim report for the second quarter	July 21
Interim report for the third quarter	October 25

**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.

**Annual General Meeting**

The Annual General Meeting will be held on Wednesday, April 27, at 4 pm at Star Hotel in Lund.

## **Annual Report 2004**

The Annual Report for 2004 is estimated to be published and distributed to shareholders that have asked for a copy during week 13. The Annual Report will also be available on [www.alfalaval.com](http://www.alfalaval.com).

### **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.

### **Review report**

We have reviewed this fourth quarter and full year 2004 report on an overall basis according to the statement issued by the Swedish Federation of Authorised Public Accountants "FAR". An overall review is considerably limited compared to an audit. Nothing has come to our attention that would indicate that the fourth quarter and full year 2004 report does not fulfil the requirements of the Stock Exchange and Swedish Annual Report's Acts.

Ingvar Ganestam  
Authorised Public Accountant

Kerstin Mouchard  
Authorised Public Accountant

**CONSOLIDATED CASH-FLOW STATEMENTS**

Amounts in SEK millions	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003
<b>Cash flow from operating activities</b>		
Operating income	1,246.9	1,138.5
Adjustment for depreciation	745.8	787.2
Adjustment for other non-cash items	15.4	22.1
	<u>2,008.1</u>	<u>1,947.8</u>
Taxes paid	-335.6	-268.6
Cash flow from operations before working capital	1,672.5	1,679.2
Changes in working capital:		
(Increase)/decrease of current receivables	-389.4	-25.4
(Increase)/decrease of inventories	-297.0	-17.2
Increase/(decrease) of liabilities	131.9	16.9
	<u>-554.5</u>	<u>-25.7</u>
<b>Cash flow from operating activities</b>	<u>1,118.0</u>	<u>1,653.5</u>
<b>Cash flow from investing activities</b>		
Investments in fixed assets	-387.5	-258.5
Divestment of fixed assets	361.5	40.1
Additional purchase price	-9.4	-7.6
Acquisition of businesses	0.0	-281.9
Reduction of purchase price	61.2	0.0
Divestment of businesses	10.0	0.0
Provisions	85.3	50.5
<b>Cash flow from investing activities</b>	<u>121.1</u>	<u>-457.4</u>
<b>Cash flow from financing activities</b>		
Financial net, paid	-201.4	-231.1
New issue of shares	0.0	0.0
Dividends	-446.7	-223.3
(Increase)/decrease of other financial assets	472.4	-256.9
Capitalised financing costs, acquisition loans	-7.3	0.0
Increase/(decrease) of liabilities to credit institutions	-1,170.2	-455.9
<b>Cash flow from financing activities</b>	<u>-1,353.2</u>	<u>-1,167.2</u>
<b>Net increase (decrease) in cash and bank</b>	-114.1	28.9
Cash and bank at the beginning of the year	554.6	605.9
Translation difference in cash and bank	-25.7	-80.2
<b>Cash and bank at the end of the period</b>	<u>414.8</u>	<u>554.6</u>
Free cash flow per share (SEK) *	11.10	10.71
Average number of shares	111,671,993	111,671,993

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

**CONSOLIDATED INCOME STATEMENT**

Amounts in SEK millions	Oct 1 - Dec 31 2004	Oct 1 - Dec 31 2003	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003
Net sales	4,166.1	4,086.3	14,985.8	13,909.3
Cost of goods sold	-2,845.1	-2,775.7	-9,937.0	-8,976.3
Gross profit	1,321.0	1,310.6	5,048.8	4,933.0
Sales costs	-485.3	-620.0	-2,132.4	-2,245.8
Administration costs	-249.0	-224.7	-929.5	-870.1
Research and development costs	-115.9	-100.6	-403.9	-368.1
Other operating income *	113.0	77.0	325.2	248.0
Other operating costs *	-186.5	-51.7	-469.8	-367.2
Amortisation of goodwill	-48.0	-50.1	-191.5	-191.3
Operating income	349.3	340.5	1,246.9	1,138.5
Dividends	0.8	4.5	3.1	6.9
Interest income	65.0	8.5	166.4	267.5
Interest expense	-112.0	-78.4	-346.3	-595.5
Result after financial items	303.1	275.1	1,070.1	817.4
Minority share in subsidiaries' income	-13.3	-10.7	-45.4	-41.6
Taxes on this year's result	-117.8	-26.6	-391.9	-110.2
Other taxes	-8.9	-4.8	-29.6	-19.8
Net income for the year	163.1	233.0	603.2	645.8
Earnings per share (SEK)	1.46	2.09	5.40	5.78
Average number of shares	111,671,993	111,671,993	111,671,993	111,671,993

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

**Comparison distortion items**

Amounts in SEK millions	Oct 1 - Dec 31 2004	Oct 1 - Dec 31 2003	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003
<b>Operational</b>				
Other operating income	110.0	75.0	271.3	242.4
Comparison distortion income	3.0	2.0	53.9	5.6
Total other operating income	113.0	77.0	325.2	248.0
Other operating costs	-186.2	-51.7	-452.6	-367.2
Comparison distortion costs	-0.3	-	-17.2	-
Total other operating costs	-186.5	-51.7	-469.8	-367.2

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

### 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
<b>Adjusted EBITA</b>	<b>466.0</b>	<b>426.4</b>	<b>420.0</b>	<b>382.7</b>	<b>463.0</b>	<b>430.2</b>	<b>412.5</b>	<b>321.3</b>	<b>535.0</b>	<b>413.6</b>
<b>- in % of net sales</b>	<b>11.2</b>	<b>11.1</b>	<b>11.1</b>	<b>12.0</b>	<b>11.3</b>	<b>12.6</b>	<b>12.1</b>	<b>10.7</b>	<b>12.8</b>	<b>11.8</b>
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

\* Excluding comparison distortion items

\*\* Including amortisation of step-up values



**CONSOLIDATED BALANCE SHEET**

Amounts in SEK millions	2004	2003
<b>ASSETS</b>		
Non-current assets:		
Intangible assets	3,718.5	4,200.0
Property, plant and equipment	2,480.3	2,756.5
Financial assets	601.4	670.7
Current assets		
Inventories	2,452.5	2,217.8
Accounts receivable	2,613.3	2,463.3
Other receivables	1,363.0	1,168.0
Other current deposits	257.2	658.6
Cash and bank	414.8	554.6
<b>TOTAL ASSETS</b>	13,901.0	14,689.5
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Shareholders' equity	4,967.0	4,897.0
Minority interest	119.2	104.2
Provisions for:		
Pensions and similar commitments	788.9	754.8
Deferred taxes	760.3	817.0
Other	948.2	891.2
	2,497.4	2,463.0
Non-current liabilities:		
Liabilities to credit institutions	1,262.7	2,427.0
Bond loan	1,044.4	1,064.8
	2,307.1	3,491.8
Current liabilities:		
Liabilities to credit institutions	239.4	103.7
Accounts payable	1,349.6	1,199.4
Advances from customers	542.0	512.1
Other liabilities	1,879.3	1,918.3
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	13,901.0	14,689.5

**CHANGES IN CONSOLIDATED EQUITY**

Amounts in SEK millions

	Jan 1 - Dec 31 2004	Jan 1 - Dec 31 2003	Jan 1 - Dec 31 2002
At the beginning of the period	4,897.0	4,512.3	1,445.1
New issue of shares	-	-	3,136.6
Dividends	-446.7	-223.3	-
Translation difference	-86.5	-37.8	-189.6
Net income for the period	603.2	645.8	120.2
At the end of the period	4,967.0	4,897.0	4,512.3

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