



Annual Report 2004



Contents

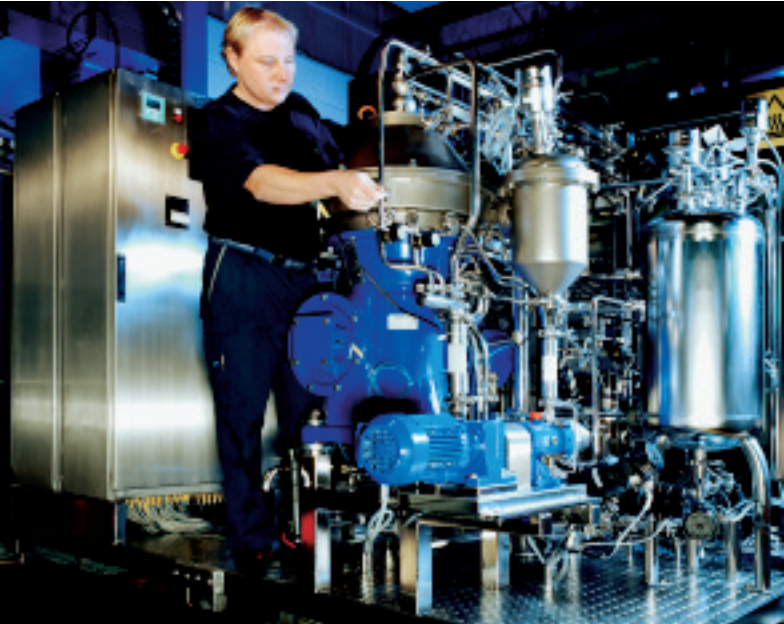
Highlights of the year 2004 in brief	
Under the flap Alfa Laval in 2 minutes	
2 Strong growth during 2004 President's Comments	
4 The Share The Alfa Laval share	
6 A business concept based on the customers Business concept and goals	32 Board of Directors' Report
8 Strategy for profitable growth Growth strategy	36 Eight-year overview
10 Alfa Laval's stable platform Our technologies	38 Consolidated cash-flow statement
12 Steady flow of new products strengthen leading positions Research and Development	40 Consolidated income statement
14 A market-oriented organization with global presence Alfa Laval meets the market	44 Consolidated balance sheet
16 Better development in 2003 in all five customer segments The Equipment Division	47 Change in consolidated equity capital financial statements
20 Very strong increase in order intake The Process Technology Division	49 Parent Company financial statements
24 Positive development in Western Europe, North America and Asia Parts and Service (aftermarket)	52 Comments to the accounts
26 Focus on capacity and quality The Operations Division	57 Risk management
28 Continued high activity within Alfa Laval University Human Resources	62 Notes to the accounts
	88 Proposed disposition of earnings
	89 Audit Report
	90 Board of Directors and Group management
	92 Board of Directors
	94 Group management
	96 Corporate governance
	100 Financial information in 2005
	101 Annual General Meeting
	Under the flap
	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.

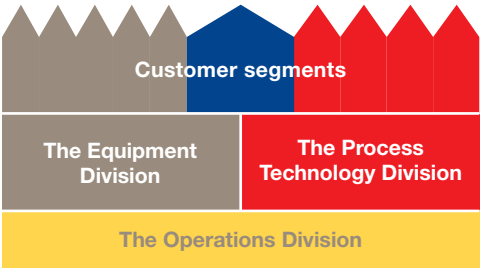
Industrial traditions from the 19th Century

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.



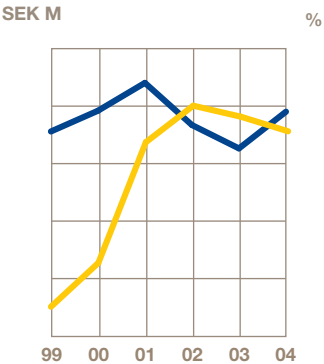
Global Alfa Laval

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.

Report  junction.com

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.

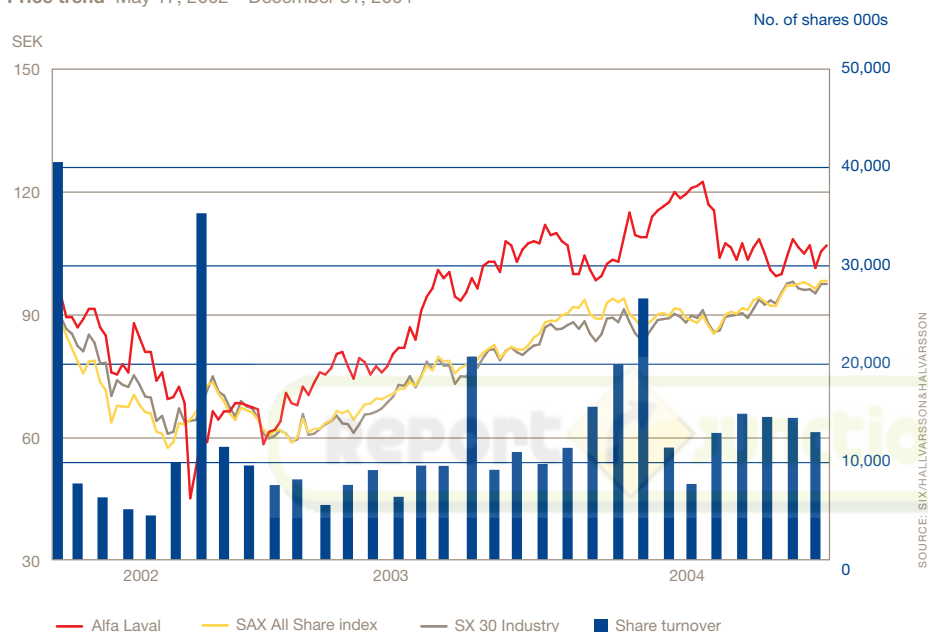
Finally, I would like to express my sincere thanks to all employees in the Alfa Laval Group for their excellent contributions during 2004. Our skilled and committed employees are the base for the Group's development. This was the case in 2004 and will continue to be so in the future!

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.

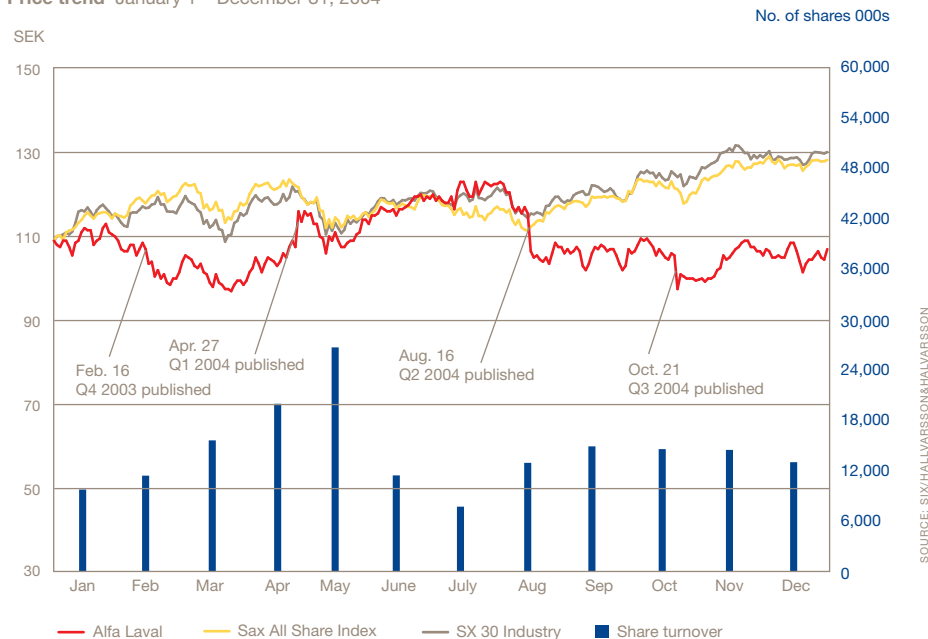
Change in number of shares and share capital

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

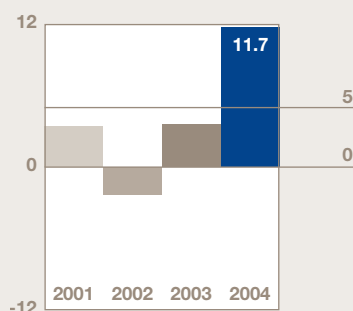
Accelerator is a tool for sales planning that all sales personnel use. The process is used to plan sales activities. It sums

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, %

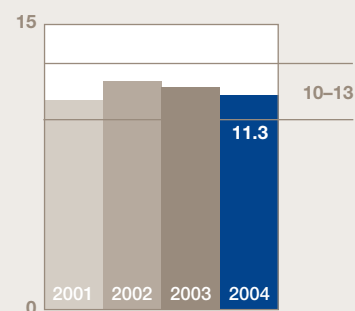


Goal: average of 5 percent annually over a business cycle.

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



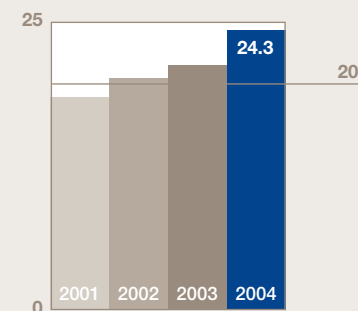
Goal: 10–13 percent.

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%