



Annual Report 2005



Contents

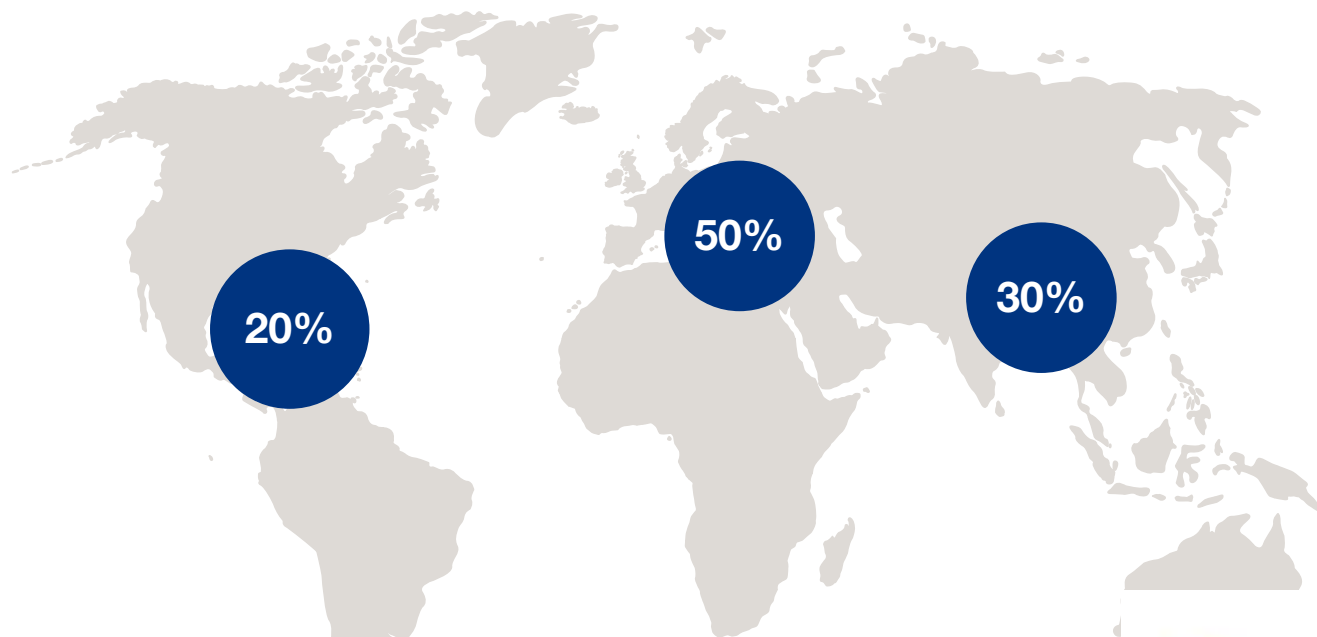
	Under the flap Alfa Laval in two minutes	
1	Highlights 2005 in brief	
2	Focus on profitability, acquisitions and production structure President's comments	34 Board of Directors' Report
4	The share	40 Consolidated cash-flow statements
6	An energy-filled year – worldwide	42 Consolidated income statement
8	Shareholder value is created through increased customer value Business concept and financial goals	46 Consolidated balance sheet
10	Leading positions within three global core technologies Our core technologies	49 Changes in consolidated equity capital
14	Focus on growth in selected markets Growth strategy	51 Parent company financial statements
16	Specialized product centers reduce time to market Research and Development	54 Notes to the financial statements
18	Alfa Laval's greatest strength – presence on growth markets Alfa Laval meets the market	60 Risk management
21	Record year for the shipbuilding industry – favorable positions in expanding construction market The Equipment Division	64 Notes to the accounts
25	Acquisition enhances positions in energy sector The Process Technology Division	91 Proposed disposition of earnings
29	High activity in marine and energy Parts & Service (After-market)	92 Audit Report
30	Focus on stability and quality The Operations Division	<hr/>
32	Competence + Business Principles= sustainable growth Human Resources	93 Corporate Governance Report 2005
		100 Board of Directors and Auditors
		102 Group Management
		<hr/>
		104 Board of Directors' report on internal report for fiscal year 2005
		108 Nine-year overview
		On the flap Annual General Meeting Financial information 2006
		Under the flap Definitions

Cover:

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 as well. 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 in two minutes



Global sales and production

One of Alfa Laval's greatest strengths is its global coverage. The company sells its products 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 approximately 9,500 employees (9,400). The largest numbers of employees are in Sweden (1,938), Denmark (1,113), India (1,063), the US (799) and France (717).

Profitable growth

Alfa Laval's growth strategy means that the company shall grow faster than the competition. Growth shall be achieved with favorable profitability. The aim is an annual average growth rate of at least five percent over a business cycle.

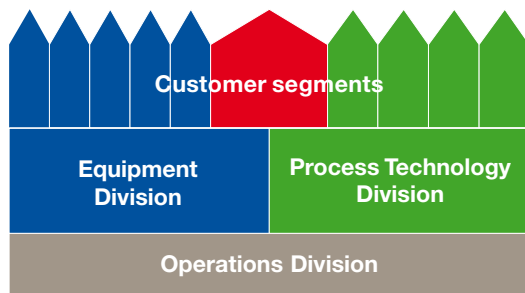


Market-leading positions that are developed continuously

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, between 2.5 and 3.0 percent of sales is invested in research and development, which results in 25-30 new products each year. During 2005, specific product centers were established to shorten the time to market of new products.



utes



An organization near the customers

The market strategy at Alfa Laval is based on a sales organization that works close to the customers. The company's organization is based on a number of 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 aimed at different customer segments. The Operations Division is responsible for production procurement, manufacturing and logistics.

Strengthened market positions through acquisition

To further strengthen its position in selected markets, Alfa Laval continuously searches for companies with which to cooperate or to acquire. Alfa Laval seeks companies that:

- strengthen the existing core technologies
- supply new key products
- complement current products and strengthen the offering made to the customer

The Group has the management capacity as well as the financial strength to achieve this. In 2005, Alfa Laval conducted two major acquisitions – Packinox and Tranter, which combined have annual sales of about SEK 1.4 billion.

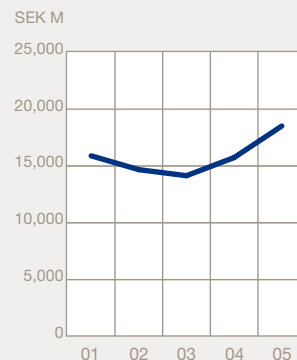
Industrial traditions from the 19th Century



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.

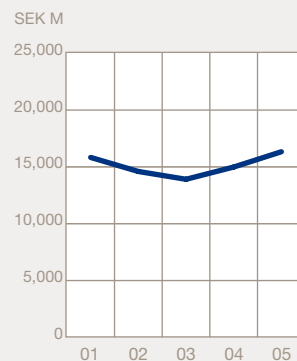
Order intake

Order intake during the year rose by 18 percent to SEK 18.5 billion (15.7).



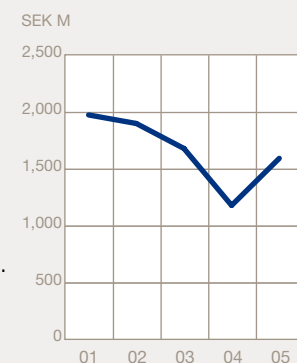
Sales

In 2005, Alfa Laval had sales of SEK 16.3 billion (15.0), an increase of nine percent.



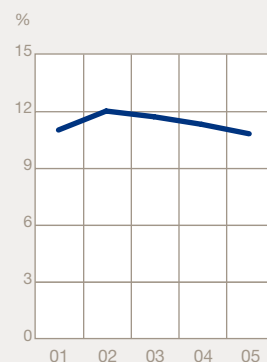
Operating cash flow

During 2005, Alfa Laval generated an operating cash flow of SEK 1,617 M, corresponding to ten percent of consolidated sales.



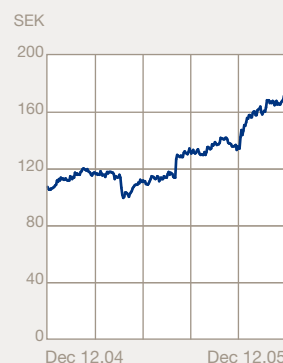
Operating margin

During 2005, the operating margin was 10.8 percent (11.3). The target is a margin of 10–13 percent.



Share up 60%

The Alfa Laval share rose during the year by 60 percent, closing at SEK 171(107).



Highlights

- Acquisition of Tranter from Dover Corporation in the US. This company is an established brand within both gasketed and welded heat-exchanger products for a range of applications. Tranter has annual sales of about SEK 900 M, with 470 employees.
- Acquisition of French company Packinox. This company is a world leader in the field of large, welded plate heat exchangers for use in refineries and other oil and gas applications. Packinox had annual sales in 2005 of about SEK 500 M, with approximately 150 employees.
- Several major orders* secured within the energy and process industry and marine fields totaling approximately SEK 800 M. The majority will be delivered in 2007 and 2008.
- Development and delivery contracts signed with the Volvo Group for the Alfdex system produced within Alfdex AB, a joint-venture company owned by Alfa Laval and Haldex. The order value is approximately SEK 400 M over a five-year period, with the first delivery at the end of 2005.
- Program to enhance efficiency of the Group's global production structure, including the closure of units in Madrid, Toronto and Tuusula (Finland). The measures will result in annual savings of at least SEK 50 M as of mid-year 2006 and generated a total non-recurring expense of SEK 125 M for 2005.
- The repurchase of the high-yield bond loan is expected to improve net interest expense by approximately SEK 80 M per year as of 2006. The transaction generated a non-recurring expense of approximately SEK 85 M in 2005.
- The Board proposes a dividend of SEK 5.10 (4.75) per share for 2005.

* "Major orders" refers to orders with a value in excess of SEK 50 M.

Amounts in SEK M unless otherwise stated	2005	+/- % ⁶⁾	2004 ⁷⁾	2003	2002	2001
Order intake	18,516	+18	15,740	14,145	14,675	15,894
Net sales	16,330	+9	14,986	13,909	14,595	15,830
Adjusted EBITDA ¹⁾	2,030	+4	1,956	1,920	2,087	2,138
Adjusted EBITA ²⁾	1,766	+4	1,695	1,627	1,755	1,738
Operating margin (adjusted EBITA ²⁾), %	10.8	-4	11.3	11.7	12.0	11.0
Profit/loss after financial items	1,099	-13	1,262	817	372	42
Return on capital employed, %	22.7	-4	23.7	21.3	20.2	18.5
Return on shareholders' equity, %	16.0	+1	15.9	13.2	2.7	2.5
Earnings per share, SEK	7.92	+11	7.12	5.78	1.41	0.96
Dividend per share, SEK	5.10 ³⁾	+7	4.75	4.00	2.00	–
Equity per share, SEK	52.0	+10	47.2	43.8	40.4	38.5
Free cash flow per share ⁴⁾	8.52	-23	11.10	10.71	16.10	56.37
Equity ratio, %	35.9	-4	37.4	33.3	29.2	8.2
Debt/equity ratio, multiple	0.35	-3	0.36	0.49	0.78	5.38
Number of employees ⁵⁾	9,429	-1	9,527	9,358	9,125	9,259

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

2) Adjusted EBITA – Earnings before amortization of goodwill and consolidated surplus values, and adjusted for 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.

6) Percentage change between 2004 and 2005.

7) Restated to IFRS.



Focus on profitability, acquisitions and production structure

ORDER INTAKE DURING 2005 exceeded Alfa Laval's expectations and rose by 18 percent. The strongest growth was achieved in Latin America and Asia. In the latter region, order intake rose by about 25 percent and accounted for 30 percent of the Group's total order intake. In China, growth amounted to 12 percent. Japan exceeded expectations by reporting growth of 43 percent in a solid and broadly based upturn.

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

During the year, Alfa Laval strengthened its positions through a number of activities, with special focus on profitability, acquisitions and an improved production structure.

Higher 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.

In the second round of activities, 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 being seen.

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

Acquired growth

Our acquisitions shall primarily consist of companies that complement Alfa Laval's existing business in terms of products, geography or new sales channels. This will reduce risk, ensure the rapid integration of operations into Alfa Laval and assure that an early contribution is made to profitable growth. The acquisition of a fourth pro-

duct area should not be excluded, but has low priority. Industrial logic must also be present if a fourth product area is to be viable.

During the year, priority was given to consolidating the sectors in which we hold leading positions.

Through the acquisition of Tranter in the US from Dover Corporation, Alfa Laval strengthens its position in the market for heat transfer within fluid applications. In 2005, this company had sales of approximately SEK 900 M, with around 470 employees worldwide. Its operating margins exceed the average for Alfa Laval and the acquisition will make a contribution to earnings per share in 2006. Tranter will remain a separate market channel and continue to offer its product range under the Tranter brand via an independent distribution network in full 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. Tranter's sales are equally distributed between North America, Europe and the rest of the world. Tranter was consolidated in the Alfa Laval Group from March 1, 2006.

The French company Packinox has been part of the Alfa Laval Group since January 1, 2005. Packinox's customers are found within the refinery and petrochemicals industries. The company is known globally for its niche applications within the large, high-performance welded plate heat exchangers segment. Packinox is a good example of a complementary acquisition. The acquisition of Packinox broadens our product range and will generate favorable synergies. In 2005, this company had sales of approximately SEK 500 M and contributed to earnings per share. Its operating margins exceed the average for the Alfa Laval Group. Demand from the refinery industry and Packinox's performance during 2005 exceeded Alfa Laval's expectations.

Combined, Packinox and Tranter add 8-9 percent to profitable growth.

We have the financial strength and management resources to continue to grow through acquisitions.

Improved production structure

During the first quarter of 2005, Alfa Laval's earnings were charged with SEK 125 M in restructuring costs. The

"We have
resources
for conti-
nued acqui-
sitions"

“Expansion of local production in India and China is continuing at a rapid rate”



effects of the restructuring will generate at least SEK 50 M per year in cost savings, commencing in mid-2006. Three units are being closed and production at two of them is being transferred to existing facilities. These measures affect a total of 250 employees.

Expansion of local production in India and China is continuing at a rapid rate, both to establish a closer presence to these fast-expanding markets and to utilize these countries as a base for global supply. A new factory was started up in India for the production of decanters and work was commenced on the expansion of another plant for the production of high-speed separators. In China, new investments were made in tank-cleaning equipment and the assembly of decanters.

Strong demand from energy industry

High demand for energy and the resultant high energy prices throughout the world led to strong demand from the energy industry and related sectors. These are areas in which Alfa Laval holds a strong position and nearly 40 percent of order intake in 2005 derived from these industries. A number of substantial orders with a combined value of about SEK 800 M have been booked for delivery in 2006 and 2007. Most of the deliveries are for installation in the Middle East 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.

The strong growth in China and India has led to high raw material prices and also limited access to certain commodities. During 2005, we were able to offset most of the price hikes for materials, albeit with a certain time lag.

Higher proportion of new products

To strengthen our leading market positions, we must develop our products on a continuous basis. Today, we invest close to 3 percent of our total sales in research and development. That is a sustainable level.

Alfa Laval's aim is to increase the proportion of sales that derive from new products by speeding up the process from feasibility study to when the product is introduced to the customer. That will create a firm base for

profitable growth and stable prices.

An important step to speed up this process was taken during the year through the creation of product centers to secure product dimensions 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 within the Group in recent years.

The new T50 heat exchanger introduced during 2005 is a brilliant example of the importance of new products. This product is used for the central cooling of industrial processes and a number of the large orders secured during the year are based on this product.

Share performance

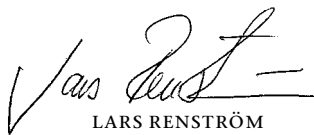
During 2005, the Alfa Laval share rose by 60 percent, at the same time as the Stockholm Stock Exchange as a whole rose by 33 percent and the SX20 Industrials index, against which Alfa Laval is measured, rose by 44 percent. Since the listing on May 17, 2002, the Alfa Laval share has risen by 90 percent, compared with 71 percent for the Stockholm Stock Exchange as a whole and 58 percent for the SX20 Industrial index.

Outlook for the near future

(included in the year-end report published on February 9, 2006). “In most of the markets, geographical as well as customer segments, that Alfa Laval serves a continued very strong demand is expected.”

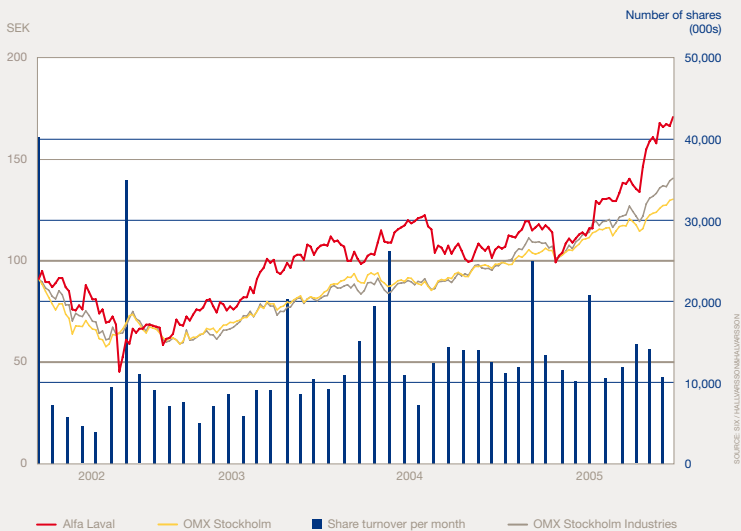
Finally, I would like to extend my appreciation to all employees within the Alfa Laval Group for their excellent contribution during 2005.

Lund, March 2006

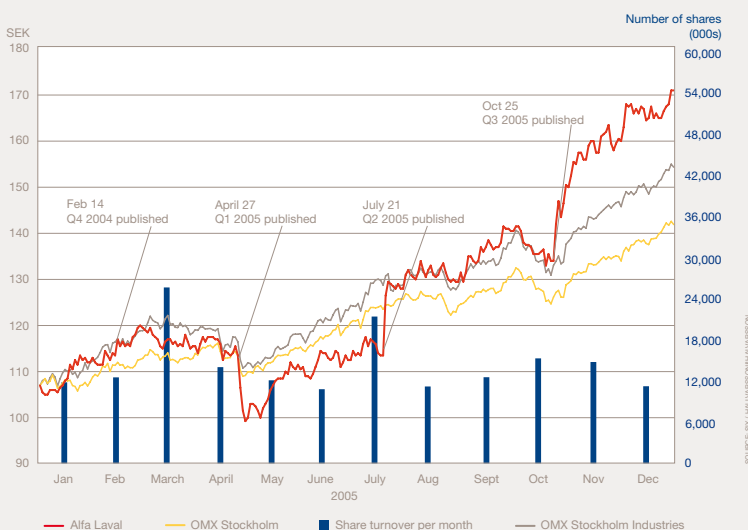

LARS RENSTRÖM
President and CEO

The share

Price trend, May 17, 2002 – December 31, 2005



Price trend, January 1, 2005 – December 31, 2005



THE ALFA LAVAL SHARE was first listed on the Stockholm Stock Exchange in 1901. After having been acquired privately in 1991, Alfa Laval was reintroduced 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 is also included in the OMX 30 index, which comprises the 30 most heavily traded shares on the Stockholm Stock Exchange by value. The shares listed on the Stockholm Stock Exchange are divided into different industrial sectors. Alfa Laval is listed under OMX Stockholm Industrials. Other companies in this sector include Atlas Copco, Sandvik, SKF and Volvo.

Share price rose 60 percent

The price trend for the Alfa Laval share was good in 2005 and rose by 60 (-2) percent from SEK 107 to SEK 171. Accordingly, Alfa Laval's total market capitalization at year-end was SEK 18.4 billion (12.0). The stock market as a whole (OMX Stockholm) rose 33 percent during the year, while the OMX Industrials index was up 44 percent. The highest and lowest quotations for the Alfa Laval shares during the year were SEK 172.50 and SEK 98.50.

Since the listing in May 2002, and up to December 31, 2005, the total return for the Alfa Laval share has been 109 percent. The total return includes reinvested dividends. For the stock market as a whole, the total return (measured by SIX Return) was 57 percent during the same period.

During the year, a total of 165.8 million (166) shares were traded at a value of SEK 20.9 billion (17.9). This means that 148 percent (149) of the total number of shares outstanding in Alfa Laval were traded during the year. The corresponding figure for the stock market as a whole was 124 (134) and for the O-list 87 (82) percent. During the year, an average of 326 (300) Alfa Laval share transactions were completed each day. Each transaction averaged slightly more than 2,000 shares (2,190). A trading lot in Alfa Laval corresponds to 100 shares.

Share capital

Alfa Laval has a total of 111.7 million shares with a par value of SEK 10 per share. This corresponds to a total par value of SEK 1,117 M. All shares carry equal voting rights and equal rights to the company's assets. Alfa Laval has

Ten largest owners, as at December 31, 2005

	Number of shares	Capital, %	Change in 2005
Tetra Laval B.V.	19,744,014	17.68	+/- 0
AMF Pension	8,838,200	7.92	+ 5,484,800
Fidelity	6,030,023	5.40	+ 6,030,023
Robur Funds	4,293,791	3.85	- 888,472
Fourth AP-fund	3,945,000	3.53	- 859,200
SEB Funds	3,676,680	3.29	- 321,320
State Street Bank & Trust	3,028,836	2.71	+ 940,468
Afa Insurance	2,830,413	2.53	+ 833,613
Handelsbanken Funds	2,774,210	2.28	+ 218,855
Lannebo Funds	2,417,895	2.38	+ 243,600
Others	54,092,931	48.44	
Total	111,671,993	100.00	

Data per share

	2005	2004	2003	2002 ¹⁾
Market price at year-end, SEK	171	107	109	77
Highest paid, SEK	172.50	125.50	110	98.50
Lowest paid, SEK	98.50	96	58	43.10
Price change during year, %	+ 60	-1.8	+40.3	- 15.4
Shareholders' equity, SEK	52.0	47.2	43.8	40.4
Market price/shareholders' equity, %	3.6	2.4	2.5	1.9
Dividend, SEK	5.10 ³⁾	4.75	4	2
Dividend as % of EPS, %	64.4	88.0	69.2	141.8
Direct return, %	3.0	4.4	3.7	2.6
Earnings per share, SEK	7.92	7.12	5.78	1.41
Unrestricted cash flow, SEK ²⁾	8.52	11.10	10.71	16.10
P/E ratio	22	20	19	55
No. of shareholders	10,964	11,758	7,254	5,746

¹⁾ Share listed on May 17, 2002.

²⁾ Unrestricted cash flow is the sum of cash flow from operations and investing activities.

³⁾ Board proposal to AGM.

Ownership distribution by size, as at December 31, 2005

Holdings	No. of shareholders	No. of shares	Holdings, %
1-500	7,396 (7,743)	1,478,380	1.32
501-1000	1,628 (1,771)	1,420,109	1.27
1001-5000	1,258 (1,490)	3,005,405	2.69
5001-10000	230 (297)	1,771,958	1.59
10001-15000	79 (87)	1,020,490	0.91
15001-20000	49 (54)	895,227	0.80
20001-	324 (316)	102,080,424	91.42
Total	10,964 (11,758)	111,671,993	100.00



Ownership categories (including Tetra Laval (the Netherlands))

	Capital, (%)		No. of owners	
Institutions and funds*	92.73	(91.74)	1,993	(2,320)
Private individuals	7.27	(8.26)	8,971	(9,438)
Total			10,964	(11,758)

* Includes other legal entities

Geographic division

	Capital, (%)		No. of owners	
Swedish owners	55.80	(55.65)	10,204	(10,986)
Non-swedish owners	44.20	(44.35)	760	(772)
Total			10,964	(11,758)

Geographic division of free float*

Capital, (%)		
Sweden	67.7	(75.4)
US	11.4	(8.3)
UK	11.1	(5.1)
Luxembourg	3.2	(4.2)
France	1.2	(2.1)
Others	5.4	(4.9)

* excluding Tetra Laval (17.68 percent)

no outstanding options or other instruments that could create a dilution effect for shareholders. Furthermore, the Board has not been given a mandate to acquire the company's own shares.

Dividend policy

The Board of Directors' goal is to regularly propose a dividend that reflects the performance, financial status and the current and expected capital requirements of the Alfa Laval Group. Taking into account the Group's cash-generating capacity, the goal is to pay a dividend of 40-50 percent of net profit over a business cycle,

adjusted for surplus value. For 2005, the Board has proposed to the Annual General Meeting that a dividend of SEK 5.10 per share (4.75) be paid.

Alfa Laval's shareholders

At year-end 2005, the company had a total of 10,964 shareholders (11,758). Tetra Laval BV is the largest owner with 17.68 percent (17.68) of the shares. The former second-largest shareholder, Industri Kapital, sold its holding during the year. Combined, the ten largest shareholders owned approximately 51 percent (55) of the shares at year-end 2005.

An energy-filled year – worldwide

Alfa Laval noted very strong order intake during 2005, up 18 percent in total compared with 2004. The energy, process and marine industry market areas were particularly strong. During the year, the main focus was on the energy area and Alfa Laval estimates that about 35 percent of the Group's total order intake in 2005 derived from the energy industry, or from energy-related sectors. The acquisition of the French company Packinox, which produces and sells plate heat exchangers to primarily refineries, consolidated Alfa Laval's position within the oil and gas industries.

Acquisition of Tranter

Tranter is well known for its gasketed plate and welded heat-transfer products for a variety of applications. In 2004, Tranter had annual sales of about SEK 900 M, with 470 employees.

SEK 900 M

DaimlerChrysler chooses Alfdex for its new engine platform

Development and delivery contracts signed for the Alfdex system. Series deliveries expected to start toward the end of 2006.

SEK 250 M

Strengthened position within oil and gas – acquisition of Packinox

Acquisition of French company Packinox, the world's leading producer of large, welded plate heat exchangers for oil and gas applications. Sales in 2005 totaled approximately SEK 500 M, with about 150 employees.

SEK 500 M

Environmentally compatible marine solution for Fincantieri

Order secured from Italian shipbuilding group Fincantieri for a complete fuel-treatment system for five cruise vessels and two RoRo vessels. Delivery in 2005 and 2006

SEK 75 M

Equipment for offshore oil platform in Brazil

End-customer is Petrobras, government-owned oil and gas company in Brazil. Order comprises some 20 large heat exchangers as core part of process for cleaning crude oil on Petrobras' floating platform off the coast of Brazil. Delivery in 2007.

SEK 75 M

Volvo chooses Alfdex

Development and delivery contract with Volvo Group for Alfdex system developed within Alfdex AB, a joint-venture company owned by Alfa Laval and Haldex. The order extends over a five-year period, with the first delivery at the end of 2005.

SEK 400 M

Record heat-exchanger order from petrochemical plant

Order for plate heat exchanger for Yanbu National Petrochemical Company in Saudi Arabia. The new facility will be one of the world's largest petrochemical plants. Delivery in 2007.

SEK 230 M

SEK 100 M

Heat exchangers to Kuwait for cleaning of crude oil

End customer Kuwait Oil Company will use the equipment in a process for desalting crude oil. Crude oil pumped out of the ground contains sand, minerals and salt. To remove these impurities, water is added to the crude, which is then heated with the help of plate heat exchangers. Delivery in 2007.

SEK 100 M

Fresh-water project in Pakistan

Contract secured in Pakistan for a desalination plant with a total capacity of about 14 million liters of drinking water per day. This is the first significant desalination project for the production of drinking water in Pakistan. Delivery completion in second half of 2006.

SEK 100 M

Central cooling in Saudi Arabia

Order for plate heat exchangers from petrochemicals company in Saudi Arabia. The plate heat exchangers will be part of a central cooling system, in which fresh water will be used to cool process equipment in a closed system. The fresh water will in turn be cooled with seawater that has passed through the heat exchangers. Delivery in 2006 and 2007.

SEK 120 M

Central cooling in Middle East

Order for plate heat exchangers for a central cooling system that will supply cooling to an ethylene production plant. End-customer is a major petrochemicals company in the Middle East. Delivery in 2007.

SEK 100 M

Natural gas project in Qatar

Order for plate heat exchangers to a natural gas project in Qatar. The products will be used for a central cooling system, in which seawater will be used for cooling the process equipment in a production plant for liquefied natural gas. Delivery completion by end of 2006.

Shareholder value is created through increased customer value

Alfa Laval's daily work is inspired by constant effort to increase added value for customers.

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 for shareholders, which Alfa Laval achieves by continuously improving its appeal – as a supplier, partner, employer and 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, their markets and buying behavior. The organization is the platform for living up to the business concept and to achieve the overall financial 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.

The Operations Division is responsible for purchasing, manufacturing and the delivery of finished products.

Growth

Alfa Laval's goal to grow at least 5 percent during an economic cycle includes organic as well as acquired growth. The growth strategy is described in more detail on pages 14 and 15.

Goal-oriented management

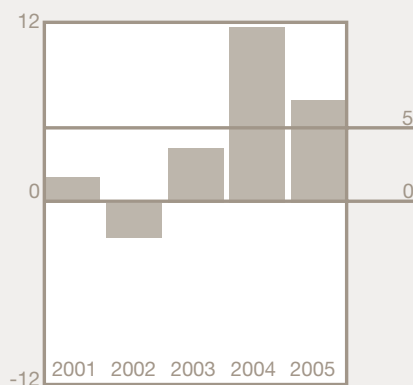
Alfa Laval has developed internal tools to systemize sales efforts so that sales activity can be guided in a uniform manner toward the company's overall financial goals.

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

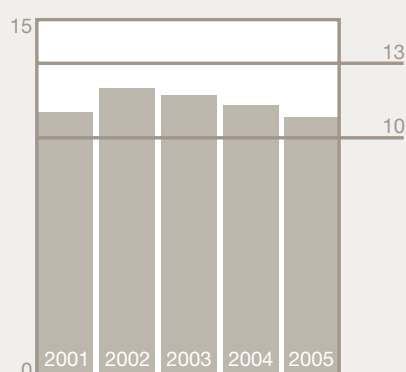
Invoicing growth, %



Goal : average of at least 5 percent annually over a business cycle.
The goal will be achieved through a combination of organic and acquired growth. The underlying organic growth in Alfa Laval's markets is estimated at around 2 percent.

Goal fulfillment, 2005: Invoicing growth was about 7 percent, of which 4 percent organic and 3 percent through the acquisition of Packinox.

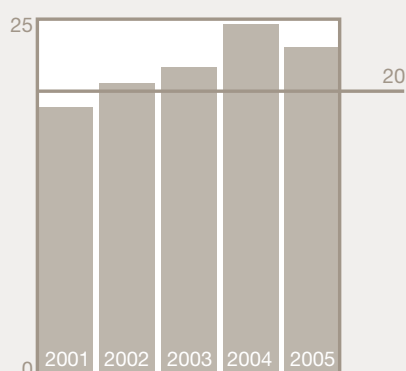
EBITA* margin in relation to sales, %



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 2005: The margin for the full year was 10.8 percent. During the first half of the year, operating margin was affected by high raw material prices. The margin recovered during the second half of the year.

Return on capital employed, %



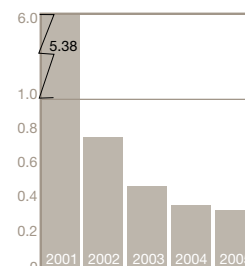
Goal: at least 20 percent.
Despite substantial goodwill and allocated surplus values, the ROCE goal is 20 percent. This level has been set having taken into account the low level of tied-up capital, current profitability and the company's intention of further improving profitability.

Goal fulfillment 2005: The return was 22.7 percent. The return goal has been exceeded in the past four years as a result of continuous improvements in capital employed.

Financial standards

Alfa Laval has established target standards for certain key financial ratios to assist the company to meet its financial goals.

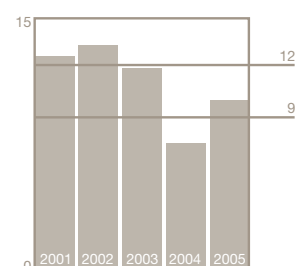
Debt/equity ratio, %



Target: below 1.0.

As a long-term standard, the debt/equity ratio shall be below 1.0, which means that borrowed capital may not exceed 100 percent of the book value of shareholders' equity. Although the ratio may increase in connection with major acquisitions, this shall be regarded as a temporary increase, since cash flow and profits are expected to offset this effect. At year-end 2005, the debt/equity ratio was 0.35 percent.

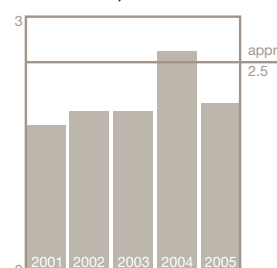
Cash flow from current operations, %
(excluding taxes paid and including investments in fixed assets)



Target: 9–12 percent of sales.

The standard is set slightly below the target operating margin (adjusted EBITA) because organic growth normally leads to an increase in tied-up working capital. Irrespective of the debt/equity ratio, unrestricted cash flow will be considerable but within the framework of the debt/equity ratio standard set by the Group. During 2005, the target value was within the interval, at approximately 10 percent.

Investments, %



Target: approximately 2.5 percent of sales.

This investment level will create scope for replacement investments and for an expansion of capacity in line with organic growth for the Group's existing core products. During 2005, investments were approximately 2 percent of sales.

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

Leading positions within three global core 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. Heat transfer products accounted for 48 percent of new sales in 2005, centrifugal products for 31 percent and fluid handling products for 14 percent. Alfa Laval has leading global positions within all of these technology areas.

Plate heat exchangers hold the strongest position, with an estimated market share of more than 30 percent. The market share for separators and decanters is estimated to be 25-30 percent and fluid handling is estimated at 10 percent.

The diagram below shows the most important players within the different technologies.

New sales,
distribution by key
technologies, %



1. Heat transfer
2. Separation
3. Fluid handling
4. Other

Other important players

Plate heat exchangers	High-speed separators	Decanters	Sanitary fluid handling
GEA (Tyskland) Hisaka (Japan) Invensys APV (UK) SVEP (USA)	GEA (Germany) Mitsubishi Kakoki Kaisha (Japan) Pieralisi (Italy)	Pieralisi (Italy) GEA (Tyskland) Andritz (France) Flottweg (Germany)	GEA (Germany) Invensys APV (UK) SPX/Waukena Cherry Burrell (US) ITT Industries (US)

Heat transfer

Spiral heat exchangers

Self-cleaning and typically used in situations where the liquid contains a high proportion of solids such as sludge and pulp fibers.



Scraped-surface heat exchanger

For heating or cooling of sensitive products.



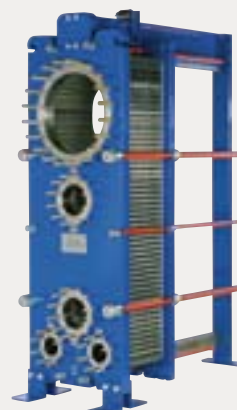
Air heat exchangers

Alfa Laval's range covers most types of coolants and cooling applications. Used in air-conditioning and cooling plants.

Plate heat exchangers

Alfa Laval's foremost product within heat transfer. It comprises a series of corrugated plates with openings through which both the hot and cold liquids pass and where heat transfer takes place. Gasketed plate heat exchangers are sealed with rubber gaskets and are typically used onboard ships to cool engine oil.

Brazed plate heat exchangers have been developed to cope with higher pressures and temperatures within such areas as district heating and cooling systems. Welded plate heat exchangers have been developed to handle even higher pressures and temperatures. Alfa Laval has the broadest range on the market within industrial and sanitary applications.



Various technologies for heat transfer are used in most industrial processes for 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.

Decisive importance

In a heat exchanger, liquids or gases pass close together and heat is transferred from the hot to the cold liquid or gas. The products are of vital importance for efficiency in the entire manufacturing process and are considered extremely important purchases in which technical specifications and first-class quality are key factors.

The working life of a typical heat-transfer product in usual applications is from five to 20 years. During the heat exchanger's lifetime, spare parts and qualified service are required. Those who purchase Alfa Laval's products therefore provide a stable base for the company's after-market. Alfa Laval services most types of plate heat

exchangers, including those from other manufacturers. You will find further information on Alfa Laval's after-market on page 29.

Alfa Laval's heat-transfer product range consists of plate heat exchangers, spiral heat exchangers and air heat exchangers. The compact plate heat exchanger is the main product and has many applications. Alfa Laval estimates that the company is market leader within plate heat exchangers with a global market share of more than 30 percent in 2005.

Continuous substitution

There is a continuous transition process from traditional shell-and-tube heat exchangers to compact heat exchanges such as plate heat exchangers because the latter require less space, are more energy efficient and are more reliable than shell and-tube heat exchangers. Alfa Laval expects this technology transition to continue for many years to come.

Alfa Laval's largest competitors within heat exchangers are SWEP (US), Hisaka (Japan), Invensys-APV (UK) and GEA EcoFlex (Germany).

Separation

High-speed separators

Primarily for separation of liquids from other liquids and waste with a solid content of more than 30 per cent.



Decanter centrifuges

Mainly used when a relatively high proportion of solid particles are to be separated from liquids and plays a key role in a number of industrial, food processing and treatment processes.



Membrane filtration

For filtering extremely small particles within the biotechnology, pharmaceuticals and food industries.

Ever since the company was formed in 1883, separation technology has been a central part of operations. The technology is currently used to separate liquids from other liquids and solid particles from liquids. More recently, the technology has been used to separate particles from gases.

Increase quality

Separators play a vital role by increasing quality and productivity in a range of industrial processes.

Examples include:

- Process industries – for processing of food and beverages and in pharmaceutical, biotech, chemical and petrochemical processes
- Extraction and production of crude oil – for purification and recovery of drilling fluids as well as the purification of lubricating oil and crude oil
- Shipping and power plants – for processing and purification of fuels and lubricating oils for vessels and electric power plants
- Treatment plants – for the dewatering of sludge with decanter centrifuges as an alternative to conventional filter presses

High-speed separators and decanter centrifuges are Alfa Laval's dominant products within centrifugal separation. High-speed separators are primarily used for separating fluids but also to separate sludge containing up to 30 percent solid content.

Decanter centrifuges are based normally on a horizontal separation technique that uses a slower speed than the high-speed separation technique. They are used, for example, in dewatering of sludge in wastewater treatment plants.

Membrane filtration is the established solution to separate smaller particles.

The working life of a separator or decanter varies, but for the typical applications, the life cycle is between ten and 20 years.

Alfa Laval estimates that the company had a combined global market share (separators and centrifuges) of between 25 and 30 percent in 2005.

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

Fluid handling

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.



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.



Transporting and regulating fluids in a safe and efficient manner is vital for industries. In recent years, Alfa Laval focuses its competence on sanitary 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, and health and personal care products. The customers often integrate many of Alfa Laval's products for fluid handling into their systems, and therefore, continually require delivery of the products.

Varying lifetimes

The average life of Alfa Laval's products for fluid handling varies with the type of product and the application. In a corrosive environment, the working life may be limited to only a few months, while products in other applications have a life of more than 20 years.

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 pumps, which have a wide range of applications.

Global market leader

Alfa Laval is a market leader in fluid handling and estimates that it had a global market share of 10 percent in 2005.

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

Focus on growth in selected markets

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 must not be a goal in itself.

Growth must be achieved with favorable profitability. The total of the underlying markets in which Alfa Laval is active is expected to grow at the same rate as gross domestic product (GDP). 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 strong market positions held by Alfa Laval, the current products are the most important component of profitable growth.

Development in cooperation with our customers

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 enables simple and effective dialog with the customers.

Ten focused customer segments

Since the marketing organization can focus on one customer segment while simultaneously working with the company's entire product range in the portfolio, it can work more closely with customers. Accordingly, Alfa Laval has one face for every customer, and can effectively add value for the customer.

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 its service and help customers 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.

New key products

Within the framework of our strategy, identifying and adding 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 more valuable partner. An example is the acquisition in 2005 of the French company Packinox, a company that is a world leader within welded plate heat exchangers for oil and gas applications.

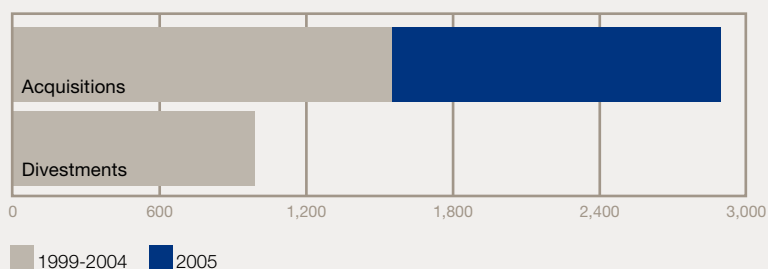


The ski slope in Dubai, United Arab Emirates, has become a reality. Ski Dubai holds the perfect temperature of minus 2°C using Alfa Laval products.

Acquisitions and divestments 1999–2005

Acquisition history

During 1999–2005, Alfa Laval acquired ten companies/units with total sales of SEK 2,900 M – on average annual sales of about SEK 485 M. During the same period, Alfa Laval divested seven companies/units with combined annual sales of slightly less than SEK 1,000 M. Divestments are expected to decline sharply, since all units in the Group today comprise the company's core operations.



Acquired growth = SEK 2,900 M, growth totaling approx. 20 percent based on 1999 sales (SEK 14,405 M), that is, 3.4 percent per year.

Acquired net growth = SEK 1,900 M, growth totaling 13.2 percent based on 1999 sales (SEK 14,405 M), that is, 2.2 percent per year.

Acquired growth and net growth during 2005 = SEK 1,350 M, growth totaling approx. 9 percent based on 2004 sales (SEK 14,986 M).

Company		Sales*
1999		
Acquisitions:	Vicarb Group, France Scandibrew, Denmark Kvaerner Hetland, US Dorr Oliver, US	SEK 425 M SEK 67 M SEK 57 M SEK 127 M
Divestments:	Thermotechnik Cardinal	SEK 49 M SEK 39 M
2000		
Acquisitions:	Separator Division of Wytowna Sprzeta, Poland	SEK 20 M
Divestments:	Tetra Pak Division of Indian subsidiary Aircoil	SEK 47 M SEK 51 M
2001		
Acquisitions:	Additional 13 percent of share capital of Alfa Laval India.	No effect on sales.
Divestments:	Rema Control Industrial Flow	SEK 68 M SEK 656 M
2002		
Acquisitions:	DSS, Denmark	SEK 90 M
Divestments:	-	
2003		
Acquisitions:	Toftejorg, Denmark Biokinetics, US	SEK 210 M SEK 550 M
Divestments:	-	
2004		
Acquisitions:	-	
Divestments:	Tri-Lad	SEK 75 M
2005		
Acquisitions:	Packinox, France Tranter, US	SEK 450 M SEK 900 M
Divestments:	-	

* Refers to the year prior to divestment or acquisition.

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

- of supplementary products that complement our current products and strengthen the offering made to the customer segment.

Corporate Development is a special function within Alfa Laval that ensures that all work related to acquisitions and alliance is conducted systematically and effectively.

Selected markets	Comfort & Refr.	Marine & Diesel	OEM	Fluids & Utility	Sanitary	Food	Energy & Envir.	Process Industry	Life Science
Heat transfer	●	●	●	●	●	●	●	●	●
Separation		●	●	●	●	●	●	●	●
Fluid handling	○	○	○	○	●	●	○	○	●

The filled circles represent the segments in which Alfa laval's products are sold today. The empty circles represent segments in which Alfa Laval's products previously were sold, but the company has taken the strategic decision to divest the operations.

Specialized product centers reduce time to market

THE ALFA LAVAL BRAND has been associated with innovation for more than 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.

Total R&D expenses amounted to SEK 448 million (404) in 2005, approximately 2.7 percent (2.7) of the Group's total sales. The Group has about 290 employees and five product centers within R&D. Alfa Laval's R&D operations are based on a long-term commitment to basic research, focusing primarily on separation and heat transfer technologies.

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 some 100 countries.

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 material, and to automate and build intelligent functions into the products.

Product centers strengthen key products

Products are the backbone of Alfa Laval. This range has been further strengthened over recent years by establishing specific product centers, with full responsibility for

product strategy, profitability and the development of the company's key technologies.

The market organization with its specific customer segments provides great advantages in terms of presence in the market. However, coordinated product organization, with the ability to work over the entire organization, is needed to direct focus toward the products and to develop them in an effective manner.

The first product center – for centrifugal separators – was established at the beginning of 2005 and product centers for our other technology were successively established during 2005.

Product centers shorten time to market

Product centers combine the resources held by R&D and product managers with the expertise belonging to each key product. The overall objective is to reduce the amount of time for a new product to reach the market and to improve product profitability.

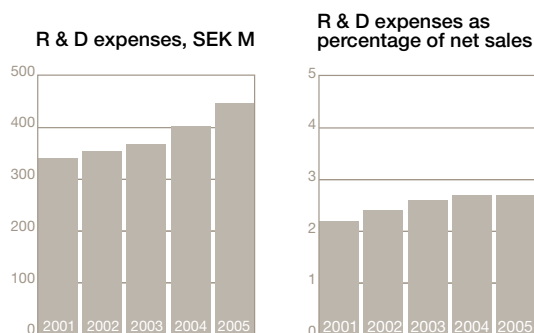
For many, "time to market" corresponds to R&D's ability to quickly develop new products, but for Alfa this is a far more comprehensive process. It starts with an idea, which is then developed through a series of different phases before being launched and finally the new product achieves its sales targets.

The company's own development of products is in fact only one solution of many to improve and develop product lines. Gaining access to a new market as quickly as possible can also be achieved through an acquisition or alliance. It involves evaluating market opportunities and in all cases Alfa Laval's new product centers play an important role.

Specific product centers allow the organization to prioritize and concentrate more resources on fewer activities. The results shall be products that reach the market in a shorter amount of time and with the promised customer value. This requires making careful preparations prior to commencing development activities.

The new organization works on a broader scale over internal boundaries with production as the common factor.

As a result, many different functions are involved in the development process: sales and manufacturing, purchasing, service and design – all are involved in the development projects from the very start.



T50 – an effective giant

In 2005 Alfa Laval introduced its largest gasketed plate heat exchanger. With its height of 4.5 meters and weight of approximately 30 tons, the T50 is an extremely effective giant.

The size and capacity of the T50 are the product's greatest advantages and provide customers with the opportunity to operate their processes with fewer heat exchangers. The size of the holes in which the liquid flows in and out of the heat exchanger and the heat transfer surfaces have, to an increasing extent, become decisive factors for cooling large industrial processes. This primarily applies to cooling applications in large processes that require maximum cooling capacity.

The performance of the product is based on a system in which the plates have three different appearances, which can also be combined with many different methods for distributing flows.



Broadened use of AlfaNova

Many believe that heat exchangers made from only one material are the way of the future. In this respect, Alfa Laval is well in the forefront. AlfaNova is a completely new plate heat exchanger made exclusively from stainless steel. The actual brazed material combined with the manufacturing technique is patented and is called AlfaFusion.

The fusion-bonded AlfaNova tolerates the combination of high temperature (up to 550°C) and high pressure better than brazed plate heat exchangers. These characteristics broaden the market for the product and make it both hygienic and environmentally friendly.

The sizes in the AlfaNova family are continuously developed and with the latest size, AlfaNova 400, the product achieves even greater breadth of application, for example, within the process industry.

The product's resistance to corrosion makes it particularly suitable for district heating and other applications with aggressive fluids, for example, where ammonia is used as a coolant or where there can be no contamination from copper or nickel.



Alfa Laval's greatest strength – presence on growth markets

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.

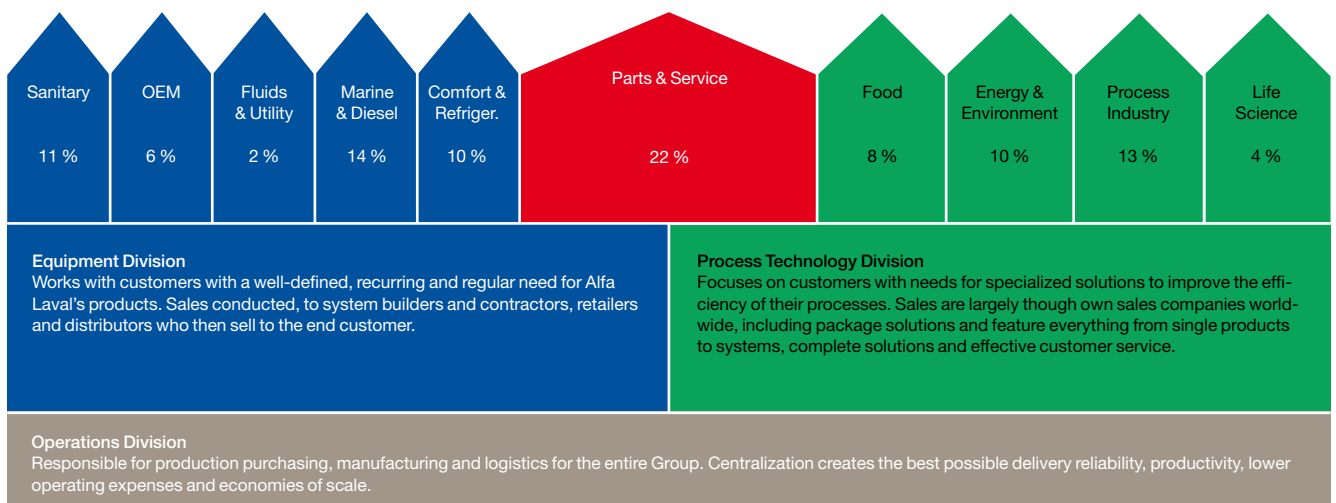
This market orientation is further strengthened through the various specialized customer segments. Through the segment working with all three product technologies, the Group's sales team can offer customers Alfa Laval's entire product offering.

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.

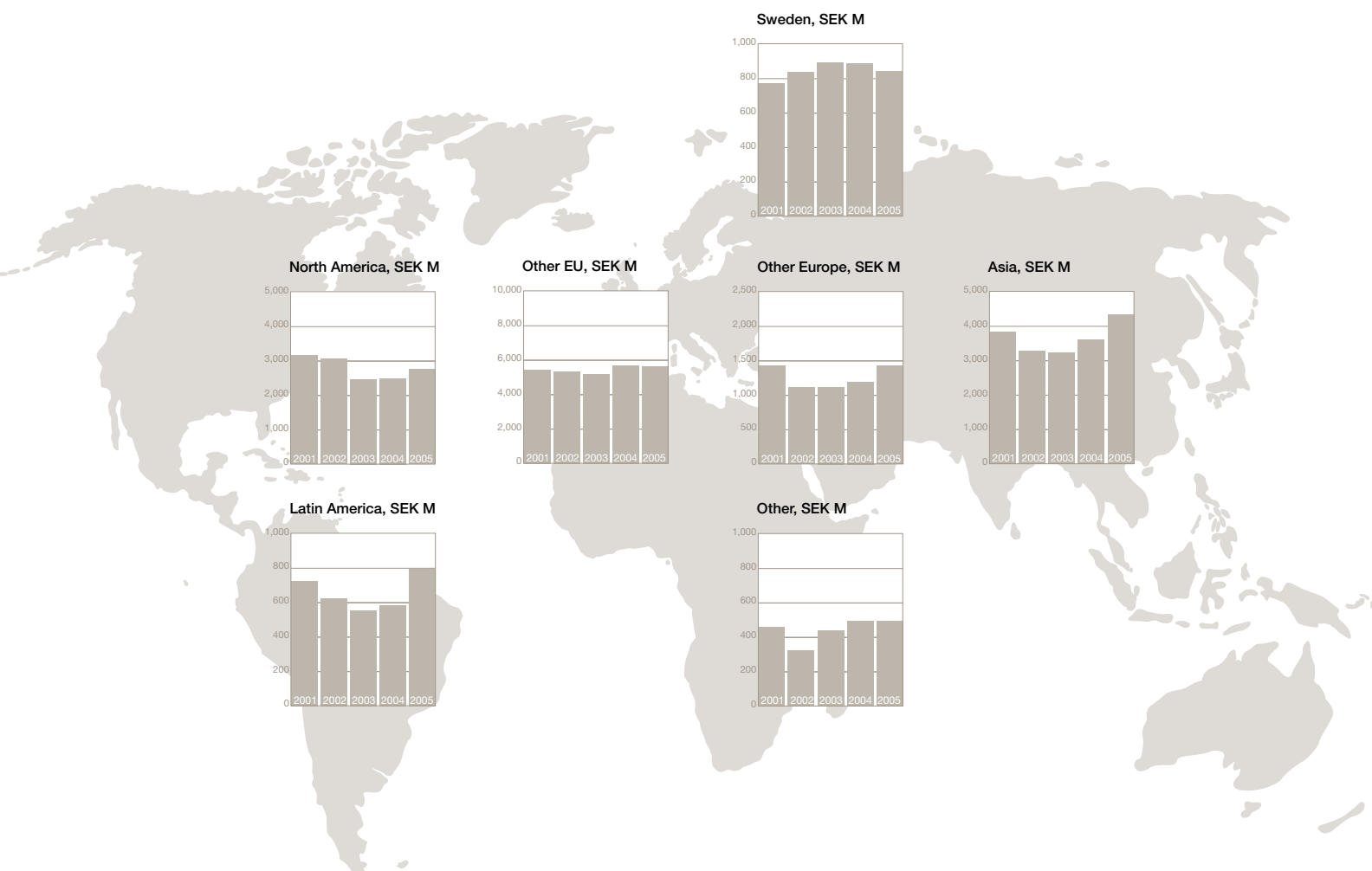
Sales are carried out in more than 100 countries, of which half with own sales representation.

Sales in Asia have increased the strongest in recent years, largely attributable to a strong, long-established market presence in many large Asian markets.

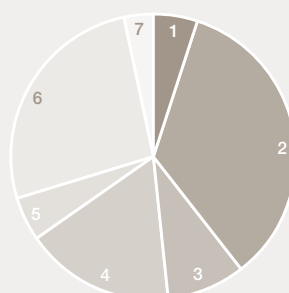
Service for the key after-market is provided through about 75 service centers worldwide staffed by more than 350 engineers.



Regional sales development 2001–2005



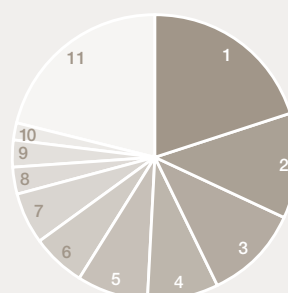
Geographic breakdown 2005



Sales
Percentage of total sales

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

Total: SEK 16,330 M



Employees
The ten largest countries in 2005
as percentage of total employees

- 1 Sweden
- 2 Denmark
- 3 India
- 4 US
- 5 France
- 6 China
- 7 Italy
- 8 UK
- 9 Russia
- 10 Germany
- 11 Other countries

Total: 9,524



“Cleaning is a vital part of our production process.”

Chang Chin Wai, GlaxoSmithKline

Tanking clean profits

GlaxoSmithKline (GSK) in Singapore manufactures essential medicines for lung, viral and gut diseases. Time-saving process solutions, good yield and consistent cleaning are prioritized areas for GSK.

The computer-controlled production at GSK begins in the mixing vessels where various chemicals are mixed to make the base components for the 14 products manufactured by the company. The vessels must be thoroughly cleaned after each campaign so that no cross-contamination of chemicals occurs, which could compromise patient safety.

“Effective cleaning is a vital and complicated part of our manufacturing process,” says Chang Chin Wai, Senior Operations Executive at GSK. “It is an area we continuously work with to improve.”

GSK uses advanced tank-cleaning equipment from Alfa Laval, which is specially designed to conform to the extreme hygiene requirements of the pharmaceutical industry. The Rotary Jet Head machines use high-impact jets to remove deposits of base powders from the internal walls of the mixing vessels.

“Now, manual cleaning of hard-to-reach spots is not required, which releases valuable resources,” says Chang Chin Wai.



Record year for the shipbuilding industry – favorable positions in expanding construction market

THE EQUIPMENT DIVISION works with customers that have a 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 primarily system builders and contractors, as well as retailers, agents and distributors.

The Division focuses on increasing value for the customer by maintaining an extensive product offering and developing 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 strong global market positions and to find new applications for products in areas with favorable growth potential.

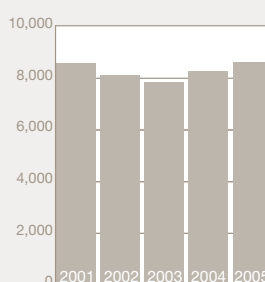
The Equipment Division works within five market segments: Sanitary, Comfort & Refrigeration, Marine & Diesel, Fluids & Utilities and OEM, plus the segment for the aftermarket, Parts & Service (presented separately on page 29). The Division reported sales of SEK 8,632 (8,250) million in 2005, corresponding to 53 percent (55) of the Alfa Laval Group's total sales. The number of employees in the Division was about 1,900 (about 2,000).

In 2005, the Equipment Division posted an increase in order intake for the Marine & Diesel, Fluids & Utilities and OEM segments. Comfort & Refrigeration maintained the same level as 2004, while there was a reduction in orders received in the Sanitary segment.

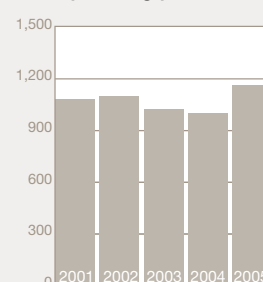
Highlights 2005

- Record-high levels for shipbuilding resulted in a strong order intake for the third consecutive year for Marine & Diesel.
- Strong presence in the expanding construction market in the Middle East.
- The new technology platform, Alfa Nova, continues to develop its competitiveness.

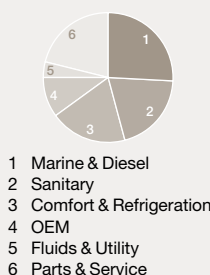
Net sales, SEK M



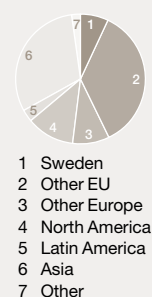
Operating profit, SEK M



Segment distribution of the Division's order intake



Geographic distribution of the Division's order intake



Segment overview

Marine & Diesel

Record-high levels for third consecutive year

Fiscal 2005 was another very strong year for the shipbuilding industry and the number of contracted vessels reached record levels for the third consecutive year.

The bulk of the market is in Asia. Combined, Korea, Japan and China represent nearly 70 percent of the total shipbuilding in the world. Alfa Laval is gradually moving manufacturing of marine products to Asia. During the year, a unit for high-speed separators and a manufacturing unit for tank-cleaning products were established in China. Despite tougher competition, order intake to the Marine segment more than doubled in 2005 and Alfa Laval maintained or increased its market share. During 2005, order intake within the marine industry also affected Europe positively.

As a result of the increasingly stringent requirements being placed by the authorities on emissions from ships, the shipping companies' demand for environmental products to solve these problems is rising. The new environmental strategy "Pure Thinking," launched by Alfa Laval in 2004, comprises three environmental areas:

Bilge water. Alfa Laval separators clean bilge water from oil highly efficiently. The product was launched in the first half of 2005. **Ballast water.** Legal requirements will advance the market for this product. Alfa Laval has entered a cooperation to develop a product that can clean and treat ballast water on board. The product is scheduled for launch in the second half of 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 was launched at the end of 2005.

Sanitary

Signs of increased activity in the second half of the year

Fiscal 2005 was a consolidation year for the Sanitary segment following two years of positive growth. The total order intake was slightly lower than in 2004. The business climate was less intensive, and additionally, the focus was on ensuring profitable business transactions. During the end of 2005, a number of regions showed signs of increased activity.

The markets that demonstrated a favorable order intake were China, Japan, Russia, Brazil, India, Germany and the Benelux countries.

North America is a particularly important region for the segment. Following a number of years of restructuring, Alfa Laval is now positioned as a stronger partner to the network of channels with which the company works.

The dairy and beverage industries are important sub-segments. In Europe there has been hesitation to invest in the area. This is due in part to the ongoing consolidation among customers, which creates uncertainty, and also to the pressure by the low-price food chains to further reduce production costs.

Within the pharmaceutical industry, Alfa Laval's offerings and competence received increased attention.

Comfort & Refrigeration

Good position in the growing Middle East market.

Order intake within Comfort & Refrigeration was maintained at the same level as 2004. The new technology platform for plate heat exchangers, Alfa Nova, continues to develop positively and a number of new sizes were well received by the market.

District cooling is a product that is growing, particularly in the Middle East where new large construction projects are constantly initiated. A sharp rise in tourism and the desire to establish a business network as a link between Europe and Asia is advancing development. Alfa Laval is well-positioned in the Middle East.

For district heating, where the market mainly exists in northern and eastern Europe, the year began poorly. It gradually improved to finish at the same level as in the preceding year. The organization that marketed products under the Cetetherm brand was integrated into the Alfa Laval organization during the year. However, the Cetetherm brand still exists.

Within the sub-segment Refrigeration, Russia is an important market. The year began slowly, but volumes rose during the second half of the year. In the rest of Europe, volumes were on a par with 2004. The poor growth within the food industry has had a negative effect, however, Asia and the US have developed well.

OEM (Original Equipment Manufacturers)

Alfa Nova creates competitiveness

Order intake for the segment continued to grow positively in 2005.

The new technology platform for plate heat exchangers, Alfa Nova, was positively received and during the year, its customer values had a considerable impact on many sub-segments. This mainly applies to the process cooling area.

The engine segment has developed very positively due to a market investment, which is now yielding an increased order intake. During 2005, Alfa Laval's integrated solutions (ALICS) and Alfa Nova noted a breakthrough with the engine manufacturers.

Mainly in Europe, sales of heating pumps continue to develop favorably—a trend that has considerably benefited Alfa Laval. Geographically, it was principally Japan and the US that developed strongly.

Fluids & Utility

Strong development in many markets

During 2005, order intake for Fluids & Utility developed stronger than in 2004. The US, the Nordic region, Germany, Japan and India all demonstrated improved development compared with 2004.


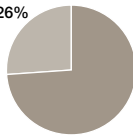



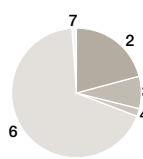
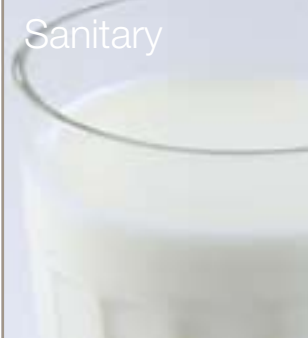
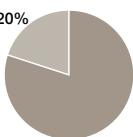



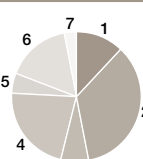

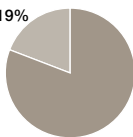



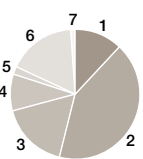

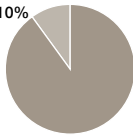



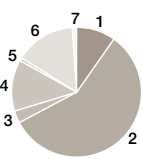
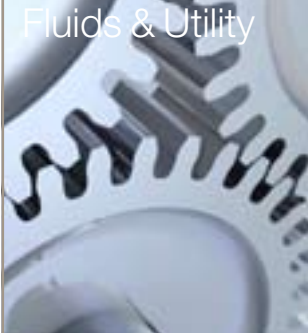
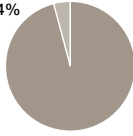



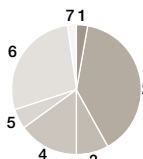
It is principally the market for plate heat exchangers that is driving growth, with increased order intake from machine and system builders.

In 2005, another new cooler for the hydraulics market was launched to enhance Alfa Laval's position as a leading supplier of oil coolers.

To satisfy the demands of the machine tooling industry for a new user-friendly separation system, new modules within the AlfaPure range were launched. New generations of the smaller separation systems, Alfie and Emmie, were also introduced in the market.

Furthermore, new partnership agreements were signed with leading manufacturers of machine tools.

Overview of the Equipment Division

Segment	Operations	Share of Division's order intake*	Order trend**	Geographic distribution (order intake)
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.	26% 	 2005  2004  2003	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
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 are 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.	20% 	 2005  2004  2003	 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 maintain 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.	19% 	 2005  2004  2003	 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 include, 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.	10% 	 2005  2004  2003	 1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other
Fluids & Utility 	Most industries use various types of liquids in their production. Alfa Laval's plate heat exchanger optimizes energy usage and ensures temperature regulation. Alfa Laval's separators clean fluids so that they can be reused, which reduces operating expenses and protects the environment. Customers, are mainly in the automotive, machine tooling and hydraulic industries and include Ford, Airbus, Michelin, Dacke PMC and Bosch Rexroth.	4% 	 2005  2004  2003	 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 29.

** Pertains to development compared with preceding year.



Added value from corn

The small town of Winnebago in the US agricultural district of southern Minnesota is the home base of Corn Plus, the company that converts the district's golden corn into another kind of gold, ethanol for fuel. Corn Plus, which is capitalizing on the increasing use of ethanol as automotive fuel in the US, is a highly successful company.

Corn Plus has a number of Alfa Laval plate heat exchangers for such applications as evaporation of thin stillage and condensation. Three wide-gap plate heat exchangers for fermenter cooling have solved the company's former problems with flow and plugging and with a general lack of reliability. Alfa Laval's plate heat exchangers enable a free flow of fluids containing fibers and other large particles. "The new heat exchangers are the ideal solution for us. They significantly increase both reliability and productivity," says Keith Kor, General Manager of Corn Plus.

In the distillation process, Corn Plus recently replaced old decanter centrifuges, which had an inferior separation effect and consumed considerable amounts of energy compared with the NX decanters from Alfa Laval. The decanters are used for converting by-products from the process into valuable dried animal feed.



"The proof of the good relationship with Alfa Laval is in plans for the future."

Keith Kor, Corn Plus

Acquisition enhances positions

in energy sector

THE PROCESS TECHNOLOGY DIVISION focuses on customers who require specially adapted solutions for increasing the efficiency of their processes. The Division's products and services are mainly sold through the Group's proprietary sales companies. Alfa Laval combines expertise in key technologies with excellent knowledge of its customers' processes in an effort to offer packaged solutions that encompass everything from individual products to efficient customer service.

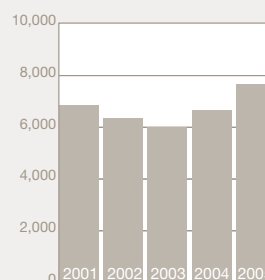
The Process Technology Division is organized in four customer-oriented segments: Process Industry, Energy & Environment, Food Technology and Life Science, plus the Parts & Service segment for the after-market (addressed separately on page 29). The Division had sales of SEK 7,673 million in 2005 (6,683), accounting for 47 percent (45) of the Alfa Laval Group's total sales. Process Technology had approximately 2,980 employees (approx. 2,980).

A very strong increase in order intake was reported in the Process Industry and Energy and Environment segments. Life Science remained at virtually the same level as in the preceding year, while order intake in the Food Technology segment declined, due in part to lower activity within the industry and in part to the fact that Alfa Laval assigned priority to profitability ahead of volume. During the latter part of the year, signs of increased activity in the food industry became noticeable.

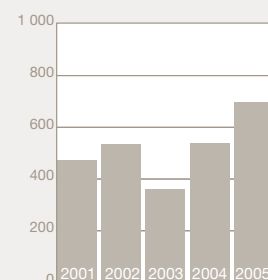
Highlights 2005

- Acquisition of French company Packinox strengthens positions within refineries segment.
- Launch of large T50 plate heat exchanger created good growth within the process industry.
- Sharply increased activity within energy area, largely due to a higher oil price.
- Favorable market for Life Science in Europe.

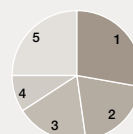
Net sales, SEK M



Operating profit, SEK M

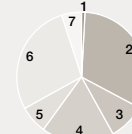


Segment distribution of the Division's order intake



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

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

Review by segment

Process Industry

Central cooling gave record levels in Middle East

The Process Industry segment continued to note the strong growth that started in 2004. The strongest growth was reported in Europe, where several major contracts were secured with the Middle East as the final destination.

Order intake within petrochemicals was very strong, including a number of major orders for central cooling systems for the Middle East. The launch during the year of the large T50 plate heat exchanger, which manages considerable flows, was successful and made a strong contribution to growth within the segment. Investments in the refinery industry are being driven by capacity shortage and new environmental laws. Alfa Laval's plate heat exchanger technology is gaining ground, and the acquisition of Packinox is also strengthening the company's market position.

The trend for biofuel remains favorable, resulting in healthy growth for heat exchangers and decanters. Although the increasing activity within biofuel led to several new orders, the market remains relatively small.

Strong growth was also shown for AlfaCond, the specially designed plate condenser, with several new models being added to the range.

Sales of AlfaNova developed well and the range was expanded through the addition of products with properties that are specially designed to satisfy requirements in the process industry.

Energy & Environment

Oil price has boosted market activity

Following several years characterized by lower investment levels, particularly 2002 and 2003, investments in oil and gas started to gain momentum at the beginning of 2004. This trend was further boosted during 2005, largely driven by record-high oil prices.

Another driving force underlying the upswing is the sharp increase in demand for natural gas, which is regarded as a cleaner and more environmentally compatible energy source. As a result of higher oil prices, necessary investments in gas production have suddenly become economically viable, thus making gas a global source of energy.

Within the Environment segment, the market continued to show growth of 2–3 percent annually. As a result of continuing pressure to treat and recycle water, the market will probably continue to create growth opportunities in markets such as China and Eastern Europe. In the more mature European and North American markets, competition has intensified during recent years, but these still remain key markets for Environment.

Food Technology

Focus on profitability

After continuous annual growth since 2000, 2005 was somewhat weaker than 2004. This applies to virtually all geographical regions, with the exception of the US and Latin America.

This development is partially explained by a decrease in its investments made in vegetable oils, in which China has been a highly favorable market for Alfa Laval for some time. About 20 to 30 new plants were previously built each year, but only five new projects were started in 2005. Alfa Laval assesses that this market will recover somewhat during 2006, primarily as a result of a strong trend within palm oil.

Order intake within the protein industry was lower than in the preceding year, mainly because Alfa Laval changed strategy and increased its demands for profitability from this application.

The brewery industry grew slowly during the past year. The worldwide production of beer is stable (about 2% growth annually). Alfa Laval has maintained volumes at a satisfactory level, due largely to the company's exclusive rights to sell Sartorius products for membrane filtration in the brewing industry. In this segment, an interesting substitution trend favoring membrane filtration is under way.

Beverages and liquid foods continued to show the strong performance that started in 2001, despite the divestment of an installation unit in Belgium. In particular, Alfa Laval benefited from the applications for soya protein, isolation of casein and lactose.

The olive oil sub-segment was restructured at the end of 2004. Volumes were stable during 2005, while profitability increased.

Life Science

Mid Europe market very strong


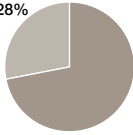


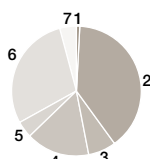

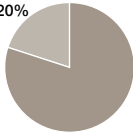


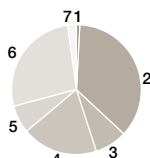
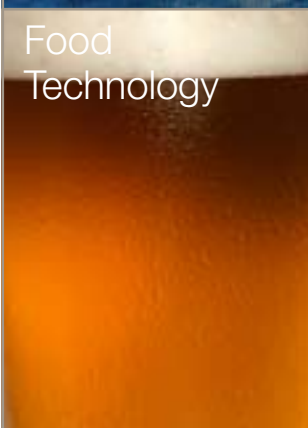
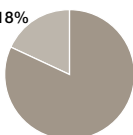


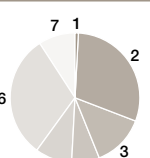

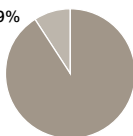


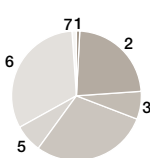
Order intake in this segment remained at the same level as in 2004. The important North American market remains characterized by low investment activity within the biotech industry. However, this has been offset by the very strong market in the Mid Europe. In Asia, the Chinese market remains favorable, while the Indian market was weaker than in 2004.

It was a favorable year for the segment's main product, high-speed separators, and for membrane products, for which a number of major orders were secured.

The first large order for Hynetics, the segment's single-use system for dissolving and converting various types of media, was secured from a Canadian customer in 2005 and amounted to USD 2.4 million.

AlfaNova, the new product technology, is also reaping successes in the Life Science segment, mainly in the WFI (water for injection) area.

Overview of the Process Technology Division

Segment	Operations	Share of Division's order intake*	Order trend**	Geographic distribution (order intake)
 <p>Process Industry</p>	<p>Alfa Laval's products are used for the production of petrochemical products, plastics, polymers, metals, minerals, ethanol, starch, paper and sugar. Alfa has a number of well-known customers within the process industry: BASF, Bayer, DuPont, Proctor&Gamble and International Paper are some examples.</p>	<p>28%</p> 	<p>2005</p>  <p>2004 2003</p> 	 <p>1 Sweden 2 Other EU 3 other Europe 4 North America 5 Latin America 6 Asia 7 Other</p>
 <p>Energy & Environment</p>	<p>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 and 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</p>	<p>20%</p> 	<p>2005</p>  <p>2004 2003</p> 	 <p>1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other</p>
 <p>Food Technology</p>	<p>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.</p>	<p>18%</p> 	<p>2005</p>  <p>2004 2003</p> 	 <p>1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other</p>
 <p>Life Science</p>	<p>Customers are in the pharmaceutical, hygiene and health food product industries. Alfa Laval has developed a number of products and solutions that meet the demands of these 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.</p>	<p>9%</p> 	<p>2005</p>  <p>2004 2003</p> 	 <p>1 Sweden 2 Other EU 3 Other Europe 4 North America 5 Latin America 6 Asia 7 Other</p>

* Parts & Service accounts for 25 percent, see page 29.

** Pertains to development compared with preceding year.



“We need strong maintenance support from our suppliers.”

Udo Wehsener, TOTAL Raffinerie
Mitteldeutschland GmbH

Total control

The oil refinery operated by TOTAL Raffinerie Mitteldeutschland GmbH in Spergau in eastern Germany is one of Europe's largest and most modern. Annual productions totals five million tons of completely sulphur-free fuels and includes vehicle and aviation fuel, heating oils, liquid gas, gas oil, bitumen and methanol.

The refinery uses a large number of heat exchangers from Alfa Laval for various purposes, for example heat recovery in cooling, which greatly reduces energy losses. “The main advantage of the Alfa Laval plate heat exchangers is that they are simple and flexible which enables full command of the functions and permit easy alteration or expansion,” says Udo Wehsener, service manager at TOTAL.

TOTAL is strongly focused on environmental issues and wants to be able to guarantee total control and safety at all stages. Well-planned service and regular maintenance therefore play an important role. In addition to its own service resources, TOTAL needs strong support from its suppliers.

Service engineers from Alfa Laval in Germany regularly visit the plant and engage in a continuous dialogue with TOTAL's own service personnel. “We have managed to solve problems together and that has created mutual trust. I have also participated in service training at Alfa Laval, that has provided a great deal of valuable knowledge,” says Udo Wehsener.



High activity

in marine and energy

THE AFTER-MARKET is one of Alfa Laval's prioritized areas. One of the company's fundamental strategies is to continue to develop spare parts and service operations. This creates customer value and brings customers closer to Alfa Laval, while reducing sensitivity to economic fluctuations. Constantly generating customer contacts also creates opportunities for new sales.

During 2005, order intake from Parts & Service rose 8 percent and accounted for 23 percent (24) of total consolidated sales during the year.

New sales for Alfa Laval continued to show a positive trend, particularly in the segments Process Industry, Energy & Environment and Marine & Diesel. These are segments that generate a large proportion of after-market sales and provide a solid platform for future potential in after-market sales.

The high activity in the marine segment also had a positive effect on Alfa Laval's after-market order bookings. It is not only important to build new ships. The ships already on the seas must operate without stoppages. Old ships have been modernized, and work to ensure that maintenance schedules and service intervals are maintained has become even more important. Activity increased Alfa Laval's 75 service centers around the world, including the world's two largest ports, resulting in the signing of a number of new service contracts with several shipping companies and industrial partners.

Within the Marine & Diesel segment, service of high-speed separators and freshwater generators increased, while plate heat exchangers dominated in such industrial applications as heating, cooling and air conditioning.

Growth in all geographic markets

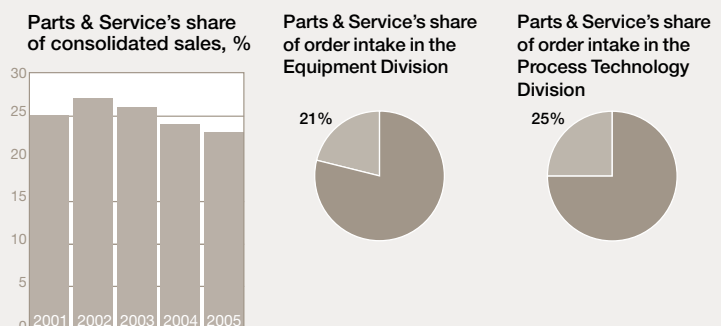
Geographically, after-market sales increased in all areas during 2005. The strongest growth was in prioritized countries in Asia (China and India), Russia and Latin America, which are countries in which the installed base is ageing and beginning to need parts and service.

The high activity in the oil and gas industry also affected the after-market. Several large projects and service contracts were received for maintaining and increasing capacity. The chemicals industry also showed the same trend, and Alfa Laval recured several upgrade contracts in a large number of geographic markets.

Within the beverage industry, new initiatives were taken to ensure a broader presence among customers and to be able to offer process-specific expertise for installed equipment. In addition, new service products were developed to better satisfy customer requirements in a brewery.

Highlights 2005

- High activity in the marine market also had positive effects on after-market sales.
- Strong growth in prioritized markets in Asia, Russia and Latin America due to an ageing installed base.
- Many new contracts through new service agreements.
- Increased sales lay the foundation for future growth in after-market sales.



With the service concepts All Brands Service and Performance Agreements, Alfa Laval succeeded in securing many new full-service contracts, particularly in the Asian market. The greatest percentage increase during 2005 was attributable to service of plate heat exchangers, where Alfa Laval succeeded in signing contracts for reconditioning of both its own products and other makes.

Joint organization for after-market sales

Alfa Laval's organization with two customer-oriented divisions has also been reflected in after-market sales. The Group's sales companies have a joint organization for these operations, which cover Alfa Laval's entire product range.

The stable foundation for Alfa Laval's Parts & Service operations is the large and growing installed product base. These products have a long economic lifetime of 5 to 20 years for heat exchangers and 10 to 20 years for separators. The global service network with some 75 service centers worldwide means that parts and service are available close to customers.

Focus on stability and quality

Highlights 2005

- Investments in manufacturing to satisfy the increase in order bookings.
- Phase-out and closure of units in Madrid (Spain), Toronto (Canada) and Tuusula (Finland) will result in savings of at least SEK 50 M from mid 2006. Non-recurring costs of SEK 125 M were booked in 2005.
- Continued investment in Six Sigma at units in Lund and Ronneby (Sweden), Kolding (Denmark), Eastbourne (UK), Kunshan (China) and Alonte (Italy).
- Purchase organizations in China and India in place enabling significant savings.
- Restructuring of the production of separators in Eskilstuna (Sweden) and Fontanil (France) to increase delivery precision and reduce delivery times.

THE OPERATIONS DIVISION is responsible for manufacturing, purchasing and logistics functions. Centralization of these functions creates the best possible delivery reliability, increased productivity and reduced operating costs, thereby capitalizing on economies of scale.

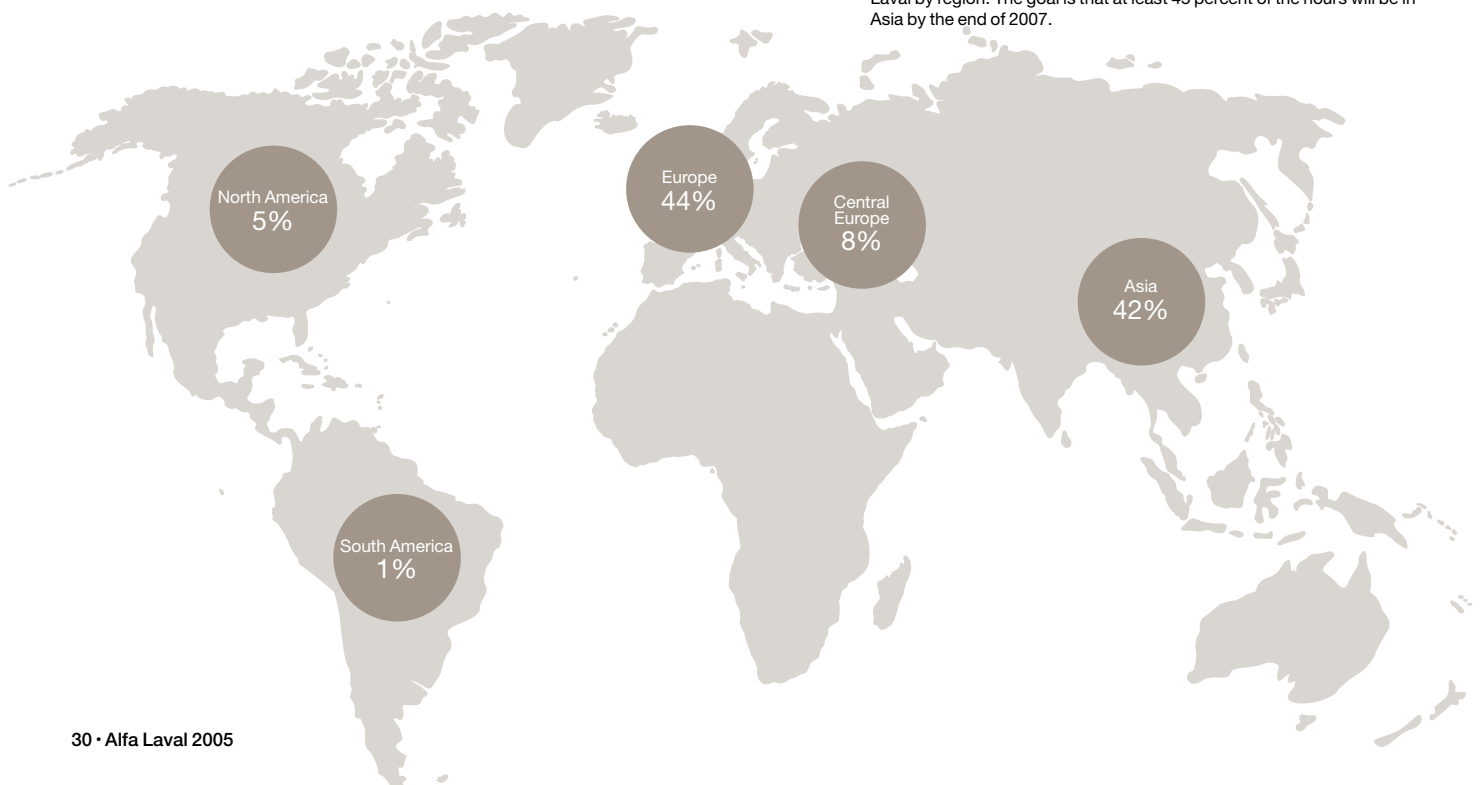
With a global perspective on purchasing, manufacturing and logistics and through the coordination of these functions, Alfa Laval ensures high availability of the company's products throughout the world.

Manufacturing

Goal to achieve at least 45 percent of direct working hours in Asia during 2007

Alfa Laval's production comprises some 4,100 (4,000) employees distributed among 20 major production units, of which 12 are located in Europe, six in Asia and two in the US. In recent years, production has been concentrated to fewer product-specific units localized with

The illustration shows the distribution of direct working hours within Alfa Laval by region. The goal is that at least 45 percent of the hours will be in Asia by the end of 2007.



A coordinated global perspective on purchasing, manufacturing and logistics guarantees availability of Alfa Laval's products worldwide.

consideration taken to proximity to the market and cost benefits.

High-value products that require advanced technical expertise are primarily produced in Western Europe. During 2005, most production units continued to adapt and increase capacity for higher order intake.

Some SEK 100 M was invested in the manufacture of plate heat exchangers in Lund, Sweden to increase capacity and improve logistics. This expansion was completed during the year. During the year, SEK 80 M was invested in a new press line. In India, a new plant for decanters was opened, thus doubling capacity. In China, production capacity for heat exchangers was increased, and new investments were made in tank cleaning equipment and decanters. Other major investments in capacity were implemented in Ronneby, Sweden and Fontanil, France.

During 2005, about 42 percent of direct working hours were in low-cost countries in Asia. Alfa Laval's goal is to increase this figure to at least 45 percent by the end of 2007. This will primarily be accomplished through minor but constant relocations. However, a decision was taken during 2005 to close the manufacturing unit for high-speed separators in Madrid, Spain. To meet total capacity requirements, Alfa Laval built a new assembly plant for high-speed separators in China. The objective was to gain a competitive advantage by moving closer to the important Asian market, where northeast Asia is becoming the global leader in the shipbuilding industry. The new unit in China will be an assembly plant, with key components for the separators being produced in an existing plant in Sweden.

These measures resulted in non-recurring costs of SEK 125 M and will result in savings of at least SEK 50 M per year from mid 2006.

Quality

Investments in Six Sigma and ISO 14001

SixSigma is an improvement program that is not only a tool for implementing changes, but also a method for changing employee attitudes towards change work. It consists of two methods, one that improves existing process and one that develops new processes or products.

During 2005, investments continued in SixSigma programs in the production units in Lind and Ronneby in Sweden, Kolding, Denmark and Alonte, Italy. During the second half of the year, introduction of SixSigma began at the units in Kunshan, China and Eastbourne in the UK.

Work with certification in accordance with ISO 14001 continued during the year. At year-end 2005, the units in Eskilstuna, Sweden, and Alonta and Monza in Italy were certified in accordance with ISO 14001.

Purchasing

Purchasing organizations in China and India

At the same time as the new Alfa Laval organization was put in place in 2000, a number of bridgehead units for



purchasing were established in China, India, Mexico and Poland. Decision were taken to establish smaller purchasing units in China and India, as well as Russia, in order to build up long-term contacts with new suppliers in these regions. With local purchasers, Alfa Laval believes that the opportunities for significant cost savings will be substantial.

The purchasing organizations in China and India were put in place during 2005 and are expected to achieve full effect as early as 2006. During 2008, work in these two local purchasing organizations will be evaluated. Work to build up the organization in Russia will be completed in the beginning of 2006.

Raw materials

High prices for many raw materials

Stainless steel accounts for the major share of Alfa Laval's raw materials purchases. The price of stainless steel has two components: the base price for the steel and the price of the metal alloys. The base price declined somewhat toward the end of the year, while prices for the most important alloys, nickel and molybdenum, remained at a high level throughout 2005. Copper and aluminum were also at high levels in 2005.

Titanium is also an important raw material for Alfa Laval. For the first time in many years, there is a shortage of titanium on the market. Alfa Laval's assessment is that this shortage will continue to prevail during 2006 and 2007 and that the price will thus remain high. Demand for titanium is primarily determined by the production of aircraft, both military and commercial, but some equipment for power generation also employs substantial amounts of titanium.

Competence + Business Principles = sustainable growth

ALFA LAVAL PLACES GREAT EMPHASIS on the development of its employees. The Alfa Laval University selects the Group's training programs to meet the company's needs and to sustain and develop its business.

One of these training programs is Adept, which is for newly employed sales personnel. Another is a leadership program at Ashridge Business School in the UK. A third important training and information process during 2005 was the implementation of the company's business principles.

The overall objective of these activities is to create a long-term understanding of what the Alfa Laval brand represents. This includes describing how the company's ideas and solutions create a strong market position and identifying the opportunities for development that Alfa Laval's products create for customers. The Business Principles are fundamental for ensuring that activities intended to enhance the company's position are conducted in a judicious manner so that positive development becomes sustainable.

Sales training at Ashridge Business School

The Sales and Marketing (SAM) Managers Programme is one of Alfa Laval's most important internal training tools. The program is held at the Ashridge Business School in the UK, ranked by the business daily Financial Times as one of the five best in Europe, in part for its practical training based on actual examples.

The objective of the SAM program is to provide training in strategic thinking and the ability to lead in an increasingly global and complex business environment.

The program provides an understanding of the company's business and enables participants to take the step from specialist to a general leadership role. The training creates an understanding for important external factors, such as the important role that the company's current and future shareholders play and their expectations for Alfa Laval.

Growth is the driving force in all companies. The SAM program helps Alfa Laval and its managers to fully understand the potential of the organization and its products.

As part of the strategic cooperation with Ashridge, Alfa Laval employees have access to ongoing training

via e-learning, which enables them to continue their education on the job or at home via a web-based tool.

Focus on Adepts

Adept is an internal training concept. Everyone employed in the Group who is involved in the sales process in some manner must complete this training, which is thus given very high priority within the company.

The training begins with a local introduction that includes a presentation of the key industries with which the employee will work.

Step two takes place in Lund, Sweden and is a joint component in which the key technologies and the products that Alfa Laval offers in these areas are reviewed. Participants also receive basic sales training. Thereafter, participants are introduced to the internal customer segments in which they will work. All members of Alfa Laval's management group are involved in the training and hold presentations based on their role in the Group.

In this manner, Alfa Laval ensures that all sales personnel have a common base on which to stand and a common view of products and the sales process, after which they become specialized in their respective customer segments and their products.

During 2005, 250 persons completed all three steps of the Adept training.

Improved project management

A comprehensive training program was launched in 2005 with the aim of improving project management throughout the entire Alfa Laval. More than 30 project management courses and seminars were held in Sweden, India, China, the US, Italy and Denmark.

The program provides project managers with a good operational knowledge of Alfa Laval's project model, project, virtual management and cultural challenges in a local as well as in an international environment.

Number of employees

The Alfa Laval Group had a total of 9,429 (9,527) employees at December 31, 2005.

Alfa Laval's Business Principles are based on trust

Alfa Laval's Business Principles were published in



At Ashridge Business School in the UK, Alfa Laval conducts leadership training as part of the internal SAM (Sales and Marketing) Managers Programme.

September 2003. These principles, which had been an integrated and natural part of Alfa Laval's corporate culture for many years, were at that time summarized in a single document for the first time. Doing business is based on trust, which is where the Business Principles enter the picture. Together with Alfa Laval's core values, these principles determine how the company should act. To promote long-term development, it is essential that all employees integrate these principles into their daily work.

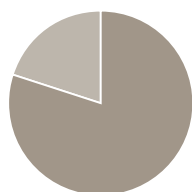
Company management attaches great importance to adherence to the principles and conducts follow-ups as part of the internal audit function.

Alfa Laval's products often reduce the environmental

impact of customer operations. The reasoning of several customers in their choice of products was studied in some detail. During the year, an archive of articles describing various customers' views on environmental issues in their product selection was created. The articles are available at www.alfalaval.com.

During the year, an environmental reporting system was also developed. The system is intended to control environment work at Alfa Laval in a more systematic manner with a focus on the production units. When the Business Principles were established in 2003, none of Alfa Laval's plants had been certified in accordance with ISO 14001. By the end of 2005, five plants had been certified.

Gender distribution, %

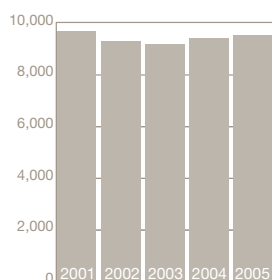


1 Men 80
2 Women 20

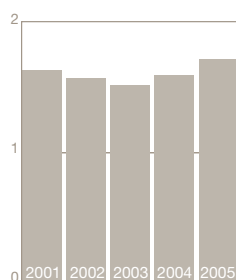
Average number of employees 2005
The ten largest countries

1 Sweden	1,938
2 Denmark	1,113
3 India	1,063
4 US	799
5 France	717
6 China	573
7 Italy	529
8 UK	312
9 Russia	256
10 Germany	231
Other	1,993
Total	9,524

Average number of employees during past five years



Sales per employees, SEK M



Alfa Laval's four Business Principles

1. Environment

"Optimizing the use of natural resources in the most efficient manner is our business."

Alfa Laval and the company's products make a significant contribution to reducing the environmental impact of industrial processes.

2. Social

"Respect for human rights is fundamental."

Alfa Laval respects the human rights of its employees and the very different social cultures in which the company works and supplies its products and services.

3. Business Integrity

"High ethical standards guide our conduct."

Alfa Laval conducts its business with honesty, integrity and respect for others.

4. Transparency

"Our commitment to open dialogue builds trust."

Alfa Laval believes in open communication but is careful not to reveal commercially sensitive or valuable information.

The complete Business Principles are available at www.alfalaval.com.



Nonstop production

Service

For Alfa Laval, service is a concept that extends beyond solving problems when they occur. We view service as an investment that should have a positive impact on the bottom line of our customer's income statement. Our service organization ensures that industrial processes function more smoothly and efficiently. This is a question of fewer stoppages, better performance and higher quality, day after day. We call this approach Nonstop Performance. This is a powerful tool for companies that are at the forefront of their industries. And what company does not want to lead the way?

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, 2005 to December 31, 2005.

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

Financial statements

The following parts of the annual report are financial statements: the Board of Directors Report, the nine-year overview, the cash-flow statement, income statement, balance sheet, changes in equity capital for both the consolidated Group and the parent company and the notes. All of these have been audited. The rest of the annual report has been reviewed by the auditors.

Ownership and legal structure

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

The company had 10,964 (11,758) shareholders on December 31, 2005. The largest owner is Tetra Laval B.V., the Netherlands who owns 17.7 (17.7) percent. Next to the largest owner there are nine institutional investors with ownership in the range of 7.9 to 2.2 percent. These ten largest owners own 50.7 (54.6) 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 generated a loss of SEK -15.0 million.

This disposal is reported as a comparison distortion item in Note 6 to the income statement.

Closure of business

During 2005, costs for the closure of the separator factory in Madrid and the bio-Kinetics plant in Toronto of SEK -125.0 million have been charged to the income statement, as comparison distortion items.

Sale of real estate

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58.0 million with a realised gain of SEK 47.8 million. In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK

3.3 million and some minor properties in India were divested for SEK 1.3 million with a realised gain of SEK 0.6 million. Other properties in Belgium, Brazil, Finland, France, Germany and Peru are also planned for sale. The fair value of these properties exceeds the book value by approximately SEK 87.3 million.

During September 2004 the property in Kenosha, USA, was 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 resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark 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.

These disposals are reported as comparison distortion items in Note 6 to the income statement.

Purchase of business

In a press release on September 23, 2005, Alfa Laval announced that the company had signed an agreement to acquire Tranter PHE from the U.S. company, Dover Corporation. The company had a turnover in 2004 of about SEK 800 million (USD 110 million) and has approximately 450 employees globally in R&D, manufacturing and sales. Alfa Laval has agreed to pay approximately SEK 1.1 billion (USD 150 million) in cash. The closing of the transaction is subject to clear-

ance from regulatory authorities. If the acquisition is cleared it is planned to be financed through a bilateral bank loan of EUR 15-25 million and a US private placement of USD 100 million.

On February 15, 2005 Alfa Laval has acquired Packinox S.A. in France for SEK 551.3 million. After deducting acquired cash and bank the impact on the cash flow was SEK -504.7 million. Out of the difference between the purchase price paid and the net assets acquired SEK 103.6 million has been allocated to patents and un-patented know-how, SEK 192.1 million to the Packinox trademark, SEK 6.8 million to accrued gross margin in work in progress, SEK 102.8 million to deferred tax liability, while the residual SEK 264.7 million has been allocated to goodwill. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress has been expensed during 2005. Packinox is a world leader in large welded plate heat exchangers for oil & gas and refinery applications, with sales of SEK 495 million in 2005 and 152 employees within R&D, manufacturing and sales. The acquired assets and liabilities are presented in Note 24 and the step up allocation and resulting goodwill is presented in Note 15.

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. 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. Toftejorg had annual sales of about SEK 210 million and approximately 100 employees.

Orders received

Orders received amounted to SEK 5,019.9 (3,770.6) million for the fourth quarter. Excluding exchange rate variations, the order intake for the Group was 22.7 percent higher than the fourth quarter last year.

Orders received amounted to SEK 18,516.3 (15,740.0) (14,145.3) million during 2005. 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 2005 and increased by 7.9 percent compared to last year excluding exchange rate variations. Its relative share of the Group's total orders received was 22.8 (24.3) percent.

Order backlog

The order backlog at December 31, 2005 was SEK 7,496.9 (4,763.4) million. Excluding exchange rate variations, the order backlog was 53.0 percent higher than the order backlog at the end of 2004.

Net sales

Net sales of the Alfa Laval Group amounted to SEK 4,683.8 (4,166.1) million for the fourth quarter of this year. Excluding exchange rate variations, the invoicing was 4.1 percent higher than the fourth quarter last year.

Net sales amounted to SEK 16,330.4 (14,985.8) (13,909.3) million during 2005. Excluding exchange rate variations, the invoicing was 6.8 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 9.5 percent and net sales increased by 2.7 percent during 2005 compared to last year.

All segments in the Equipment division have developed positively, with the exception of Comfort & Refrigeration and Sanitary Equipment. The most significant growth is found within the Marine & Diesel segment followed by the OEM segment.

Operating income (excluding comparison distortion items)

Operating income was SEK 1,162.5 (1,100.4) (1,127.2) million in 2005. The increase in operating income during 2005 compared to last year is explained by a higher gross profit from the increased sales partly offset by higher R&D costs.

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.

Orders received and net sales (all comments are after adjustment for exchange rate fluctuations)

Orders received increased by 23.0 percent and net sales increased by 12.2 percent during 2005 compared to last year. Excluding the acquisition of Packinox, the corresponding figures are 16.4 percent and 4.9 percent.

All segments in the Process Technology division, except Food Technology, have reported an increase in orders received compared to 2004. The growth has been largest within the Process Industry segment followed by the Energy & Environment segment.

Operating income (excluding comparison distortion items)

Operating income increased to SEK 698.8 (634.3) (450.0) million in 2005. The increase in operating income during 2005 compared to last year is due to higher gross profit as a result of the increased sales, partly offset by increased sales and administration costs linked to the higher quotation activity and also by higher 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 -410.8 (-333.0) (-253.0) million in 2005.

Reporting by geographical markets

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

Orders received

During 2005 orders received increased most in Asia, followed by Central and Eastern Europe, Western Europe, North America and Latin America, while the Nordic countries reported decreased orders received compared to last year.

Net sales

During 2005 net sales increased most in Latin America and Asia followed by Central and Eastern Europe and North America, while Western Europe reported unchanged net invoicing compared to last year.

Personnel

The parent company does not have any employees.

The Group has on average had 9,524 (9,400) (9,194) employees. At the end of December 2005 the Group had 9,429 (9,527) employees.

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 consistent 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 within 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 447.8 (403.9) (368.1) million, corresponding to 2.7 (2.7) (2.6) percent of net sales. Excluding exchange rate variations and the acquisition of Packinox, the costs for research and development increased by 7.8 percent compared to last year.

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, 2005, named as co-defendant in a total of 162 asbestos-related lawsuits with a total of approximately 2,900 plaintiffs.

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

During the fourth quarter 2005, Alfa Laval Inc. was named as co-defendant in an additional 16 lawsuits with a total of 16 plaintiffs. During the fourth quarter 2005, 7 lawsuits involving 22 plaintiffs have been resolved.

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 financial items was SEK -16.3 (-2.6) (0.7) million, out of which net interests were SEK -5.7 (2.8) (6.0) million, realised and unrealised exchange rate gains and losses SEK 0.3 (-) (-0.1) million, costs related to the listing SEK -2.3 (-0.7) (-0.7) million, fees to the Board SEK -2.7 (-3.8) (-3.4) million, cost for annual report and annual general meeting SEK -4.0 (-) (-) million (not taken in parent company before 2005) and other administration costs the remaining SEK -1.9 (-0.9) (-1.1) million. Appropriation to tax allocation reserve has been made with SEK -25.0 (-80.4) (-) million. Income taxes amount to SEK -21.0 (-67.6) (-) million. Tax on received Group contribution was SEK 31.9 (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 -30.4 (-59.8) (177.0) million.

Unrestricted equity capital for the parent company

The unrestricted equity capital of Alfa Laval AB (publ) was SEK 1,828.8 (807.5) (1,069.0) million. SEK 1,500.0 million of the increase in 2005 is due to the transfer from restricted to unrestricted equity decided at the Annual General Meeting in 2005 and approved by the court during 2005.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 5.10 (4.75) (4.00) per share corresponding to SEK 569.5 (530.4) (446.7) million and that the remaining income available for distribution in Alfa Laval AB (publ) of SEK 1,259.3 (277.1) (622.3) million be carried forward, see page 91.

The Board of Directors are of the opinion that the proposed dividend is in line with the prudence principle regarding both the requirements that the type and size of operations and the risks associated with it put on the equity capital and also the capital need, liquidity and financial position of the company.

Implementation of IFRS during 2005

In 2005 Alfa Laval has changed to accounting according to IFRS (International Financial Reporting Standards) and is thus a first time applicant. Since all IAS rules except IAS 39 are close to prior Swedish GAAP in terms of valuation and accountancy, the transfer to IFRS has only affected the following areas.

As of January 1, 2005 the goodwill is not amortised any longer but instead tested for impairment. Minority interests have earlier been reported under a separate heading next to equity, but are now reported as a separate item within equity. Provisions are split in short term and long term. Since IAS 39 is 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

Consolidated SEK in millions	Adjusted EBITA	Operating income	Net income
Income statement Jan 1-Dec 31, 2004	1,695.1	1,246.9	603.2
Adjustments for:			
Amortisation of goodwill	-	191.5	191.5
Minority share in subsidiaries' income	-	-	45.4
Adjusted income Jan 1-Dec 31, 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

Consolidated SEK in millions	Equity
Equity at December 31, 2003	4,897.0
Adjustments for:	
Minority interest	104.2
Equity at January 1, 2004 according to IFRS	5,001.2
Equity at December 31, 2004	4,967.0
Adjustments for:	
Amortisation of goodwill	191.5
Minority interest	119.2
Translation difference	-8.5
Equity at December 31, 2004 according to IFRS	5,269.2
Adjustments for:	
Financial instruments	159.3
Deferred tax	-52.6
Equity at January 1, 2005 according to IFRS	5,375.9

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, 2006.

Outlook for the near future

In the fourth quarter and full year 2005 report issued on February 9, 2006, the President and Chief Executive Officer Lars Renström stated:

"In most of the markets, geographical as well as customer segments, that Alfa Laval serves a continued very strong demand is expected."

Earlier published outlook (October 25, 2005):

"In most of the markets that Alfa Laval serves the demand is expected to remain on the same high level as year-to-date. 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 2006 will be published on April 27, 2006.

Consolidated cash-flow statements

Amounts in SEK millions	Note	Jan 1- Dec 31 2005	Jan 1-Dec 31 2004*	Proforma Jan 1-Dec 31 2003*
Cash flow from operating activities				
Operating income		1,377.2	1,438.4	1,329.8
Adjustment for depreciation		579.5	554.3	595.9
Adjustment for other non-cash items		-44.1	15.4	22.1
		1,912.6	2,008.1	1,947.8
Taxes paid		-429.2	-335.6	-268.6
		1,483.4	1,672.5	1,679.2
Changes in working capital:				
(Increase)/decrease of current receivables		49.0	-389.4	-25.4
(Increase)/decrease of inventories		-282.1	-297.0	-17.2
Increase/(decrease) of liabilities		482.6	131.9	16.9
Increase/(decrease) of provisions **		-116.4	85.3	50.5
		133.1	-469.2	24.8
Cash flow from operating activities		1,616.5	1,203.3	1 704.0
Cash flow from investing activities				
Investments in fixed assets		-323.7	-387.5	-258.5
Divestment of fixed assets		163.8	361.5	40.1
Additional purchase price		-	-9.4	-7.6
Acquisition of businesses	24	-504.7	-	-281.9
Reduction of purchase price	24	-	61.2	-
Divestment of businesses	24	-	10.0	-
Cash flow from investing activities		-664.6	35.8	-507.9
Cash flow from financing activities				
Financial net, paid		-351.3	-201.4	-231.1
Dividends owners of parent company		-530.4	-446.7	-223.3
Dividends to minority owner in subsidiary		-26.3	-	-
(Increase)/decrease of other financial assets		-31.0	472.4	-256.9
Capitalised financing costs, acquisition loans		-4.4	-7.3	-
Increase/(decrease) of liabilities to credit institutions	27	-29.3	-1 170.2	-455.9
Cash flow from financing activities		-972.7	-1 353.2	-1 167.2
Net increase (decrease) in cash and bank		-20.8	-114.1	28.9
Cash and bank at the beginning of the year		414.8	554.6	605.9
Translation difference in cash and bank		84.8	-25.7	-80.2
Cash and bank at the end of the period	23	478.8	414.8	554.6
Free cash flow per share (SEK) ***		8.52	11.10	10.71
Average number of shares		111,671.993	111,671.993	111,671.993

* Restated to IFRS, i.e. excluding goodwill amortisation.

** "Changes in provisions" has been moved from investing activities to changes in working capital.

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

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 951.9 (1,239.1) (1,196.1) million during 2005. Out of this, acquisitions of businesses were SEK -504.7 (51.8) (-289.5) million whereas divestments generated cash of SEK 163.8 (371.5) (40.1) 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 decreased by SEK 133.1 million during 2005, whereas the corresponding figures for 2004 and 2003 were an increase by SEK 469.2 million and a decrease by SEK 24.8 million respectively.

Investments

Investments in property, plant and equipment amounted to SEK 323.7 (387.5) (258.5) million during 2005. Out of the figure for last year, acquired product concessions were SEK 36.6 million. In 2005 the major investment of expanding the production facility for plate heat exchangers in Lund, Sweden continued. This will over the period up to 2007 add capacity combined with a more efficient production.

The product group of brazed heat exchangers including the expanding OEM business has seen further capacity and productivity enhancing investments at the Ronneby and Lund sites respectively. The preparatory investments made in 2004 for the newly introduced Alfa Nova heat exchanger in Ronneby, has seen the first investment stage completed, as full-scale production started during 2005.

Further investments intended for most product groups, have continued in both China and India, to support the overall growth in this region. The latter is partly a result of the 2005 announcement of closing the separator factory in

Madrid, Spain. As a consequence capacity investments have also been added to the separator factory in Eskilstuna in Sweden to absorb the volume from Madrid.

Depreciation, excluding allocated step-up values, amounted to SEK 264.3 (260.9) (293.1) million during the year.

Additional purchase price

An additional purchase price of SEK - (7.9) (7.6) million was paid in 2004 and 2003 for Danish Separation Systems and SEK - (1.5) (-) million in 2004 for Toftejorg.

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

Free cash flow per share

The free cash flow per share is SEK 8.52 (11.10) (10.71).

Consolidated income statement

Amounts in SEK millions	Note	Jan 1-Dec 31 2005	Jan 1-Dec 31 2004*	Proforma Jan 1-Dec 31 2003*
Net sales	1	16,330.4	14,985.8	13,909.3
Cost of goods sold	7	-10,800.4	-9,937.0	-8,976.3
Gross profit	1	5,530.0	5,048.8	4,933.0
Sales costs	2, 3, 5	-2,365.3	-2,132.4	-2,245.8
Administration costs	2, 3, 4, 7	-993.7	-929.5	-870.1
Research and development costs		-447.8	-403.9	-368.1
Other operating income **	6	323.8	325.2	248.0
Other operating costs **	6, 7	-669.8	-469.8	-367.2
Operating income		1,377.2	1,438.4	1,329.8
Dividends	9	4.9	3.1	6.9
Interest income	10	173.6	166.4	267.5
Interest expense **	6, 10	-456.7	-346.3	-595.5
Result after financial items		1,099.0	1,261.6	1,008.7
Taxes on this year's result	14	-160.1	-391.9	-110.2
Other taxes	14	-10.9	-29.6	-19.8
Net income for the year		928.0	840.1	878.7
Attributable to:				
Equity holders of the parent		884.8	794.7	837.1
Minority interest		43.2	45.4	41.6
Earnings per share (SEK)		7.92	7.12	7.50
Average number of shares		111,671.993	111,671.993	111,671.993

* Restated to IFRS, i.e. excluding goodwill amortisation and minority interest.

** The line has been affected by comparison distortion items, see specification in Note 6.

Comments to the consolidated income statement

For comments on the individual lines in the income statement, reference is made to Notes 1 to 11 and Note 14 and 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	Oct 1-Dec 31	Proforma Oct 1-Dec 31	Jan 1-Dec 31	Jan 1-Dec 31	Proforma Jan 1-Dec 31
SEK millions	2005	2004*	2003*	2005	2004*	2003*
Net sales	4,683.8	4,166.1	4,086.3	16,330.4	14,985.8	13,909.3
Adjusted gross profit	1,641.2	1,392.4	1,385.0	5,845.2	5,342.2	5,235.8
- in % of net sales	35.0	33.4	33.9	35.8	35.6	37.6
Expenses **	-1,028.0	-856.4	-846.5	-3,815.2	-3,386.2	-3,315.7
- in % of net sales	21.9	20.6	20.7	23.4	22.6	23.8
Adjusted EBITDA	613.2	536.0	538.5	2,030.0	1,956.0	1,920.1
- in % of net sales	13.1	12.9	13.2	12.4	13.1	13.8
Depreciation	-78.7	-70.0	-75.5	-264.3	-260.9	-293.1
Adjusted EBITA	534.5	466.0	463.0	1,765.7	1,695.1	1,627.0
- in % of net sales	11.4	11.2	11.3	10.8	11.3	11.7
Amortisation of step up values	-95.2	-71.4	-74.4	-315.2	-293.4	-302.8
Comparison distortion items	4.3	2.7	2.0	-73.3	36.7	5.6
EBIT	443.6	397.3	390.6	1 377.2	1,438.4	1,329.8

* Restated to IFRS, i.e. excluding goodwill amortisation. ** Excluding comparison distortion items.

The year generated a gross profit of SEK 5,530.0 (5,048.8) (4,933.0) million. Excluding the amortisation of SEK 315.2 (293.4) (302.8) million on step-up values, the adjusted gross profit is SEK 5,845.2 (5,342.2) (5,235.8) million. This corresponds to 35.8 (35.6) (37.6) percent of net sales.

Sales and administration expenses amounted to SEK 3,359.0 (3,061.9) (3,115.9) million. Excluding exchange rate variations and the acquisition of Packinox, sales and administration expenses were 2.9 percent higher than last year.

The costs for research and development were SEK 447.8 (403.9) (368.1) million, corresponding to 2.7 (2.7) (2.6) percent of net sales. Excluding exchange rate variations and the acquisition of

Packinox, the costs for research and development increased by 7.8 percent compared to last year.

Adjusted EBITDA amounted to SEK 2,030.0 (1,956.0) (1,920.1) million for the year. The adjusted EBITA amounted to SEK 1,765.7 (1,695.1) (1,627.0) million. The adjusted EBITA margin was 10.8 (11.3) (11.7) percent. The adjusted result after tax and the minority's share of the result, excluding depreciation of step-up values and the corresponding tax, is SEK 9.83 (8.67) (9.34) per share. Other operating costs were burdened with costs for an M&A activity by SEK 15.0 million and regular commissions to contractors and engineering houses in relation to Packinox by SEK 35.6 million.

Compared with last year Alfa Laval has been affected negatively during 2005 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 133 (322) (273) million for the full year 2005 compared with last year. 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 268.7 (292.0) (268.8) 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	2005				2004				Proforma 2003	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net sales	4,683.8	4,277.4	4,101.6	3,267.6	4,166.1	3,837.5	3,798.3	3,183.9	4,086.3	3,426.3
Adjusted gross profit	1,641.2	1,508.9	1,487.3	1,207.8	1,392.4	1,348.7	1,357.9	1,243.2	1,385.0	1,318.9
- in % of net sales	35.0	35.3	36.3	37.0	33.4	35.1	35.8	39.0	33.9	38.5
Expenses **	-1,028.0	-967.0	-1 004.3	-815.9	-856.4	-863.5	-874.3	-792.0	-846.5	-818.0
- in % of net sales	21.9	22.6	24.5	25.0	20.6	22.5	23.0	24.9	20.7	23.9
Adjusted EBITDA	613.2	541.9	483.0	391.9	536.0	485.2	483.6	451.2	538.5	500.9
- in % of net sales	13.1	12.7	11.8	12.0	12.9	12.6	12.7	14.2	13.2	14.6
Depreciation	-78.7	-62.7	-61.0	-61.9	-70.0	-58.8	-63.6	-68.5	-75.5	-70.7
Adjusted EBITA	534.5	479.2	422.0	330.0	466.0	426.4	420.0	382.7	463.0	430.2
- in % of net sales	11.4	11.2	10.3	10.1	11.2	11.1	11.1	12.0	11.3	12.6
Amortisation of step up values	-95.2	-74.6	-73.6	-71.8	-71.4	-72.8	-74.5	-74.7	-74.4	-75.7
Comparison distortion items	4.3	47.4	-	-125.0	2.7	47.5	-	-13.5	2.0	-
EBIT	443.6	452.0	348.4	133.2	397.3	401.1	345.5	294.5	390.6	354.5

* Restated to IFRS, i.e. excluding goodwill amortisation. ** Excluding comparison distortion items.

The result has been affected by comparison distortion items of SEK -73.3 (36.7) (5.6) 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 6.

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58.0 million with a realised gain of SEK 47.8 million. In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million and some minor properties in India were divested for SEK 1.3 million with a realised gain of SEK 0.6 million. During 2005, costs for the closure of the separator factory in Madrid and the bio-Kinetics plant in Toronto of SEK -125.0 million have been charged to the income statement.

During September 2004 the property in Kenosha, USA, was 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 generated a

loss of SEK -15.0. The sale of some minor properties in Brazil and India resulted in a realised gain of SEK 6.4 million whereas the sale of a minor property in Denmark 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 financial net has amounted to SEK -318.8 (-187.4) (-259.5) million, excluding realised and unrealised exchange rate losses and gains. Alfa Laval has redeemed the outstanding senior notes on November 15, 2005. This has incurred an additional interest cost during the fourth quarter 2005 of SEK -67.5 million for the premium and SEK -21.0 million for the outstanding capitalised transaction costs, totalling SEK -88.5 million. These costs are reported as comparison distortion items, see Note 6. The other main elements of costs were interest on debt to the banking syndicate of SEK -59.1 (-38.0) (-115.6) million, interest on the

bond loan of SEK -116.1 (-127.5) (-132.0) million and a net of dividends and other interest income and interest costs of SEK -55.1 (-21.9) (-11.9) million. The decrease in interests to the banking syndicate between 2004 and 2003 was 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 40.6 (10.6) (-61.6) million, out of which SEK -19.3 (7.4) (-20.5) million in the fourth quarter.

The result after financial items was SEK 1,099.0 (1,261.6) (1,008.7) million. The figures for 2004 and 2003 have been restated to IFRS, i.e. excluding goodwill amortisation.

Income taxes were SEK -160.1 (-391.9) (-110.2) million. The difference between 2005 and 2004 is primarily due to utilisation of loss carry forwards and the recognition of a deferred tax asset of SEK 89.7 million related to remaining loss carry forwards in the US in 2005. The difference between 2004 and 2003 is primarily due to utilisation of loss carry forwards during 2003.

Consolidated balance sheet

ASSET

Amounts in SEK millions

	Note	2005	2004 *
Non-current assets			
Intangible assets	15, 16		
Concessions, patents, licenses, trademarks and similar rights		1,065.1	923.1
Renting and similar rights		2.4	0.8
Goodwill		3,530.6	2,977.6
		4,598.1	3,901.5
Property, plant and equipment	15, 17		
Real estate		1,006.2	945.4
Machinery and other technical installations		798.2	753.9
Equipment, tools and installations		624.5	609.1
Construction in progress and advances to suppliers concerning property, plant and equipment		123.9	171.9
		2,552.8	2,480.3
Other non-current assets			
Other long-term securities	12, 13, 18	4.8	2.9
Pension assets	25	49.2	123.5
Capitalised financing costs, acquisition loans		17.9	21.6
Deferred tax assets	14	604.6	453.4
		676.5	601.4
Total non-current assets		7,827.4	6,983.2
Current assets			
Inventories	19	3,090.7	2,452.5
Current receivables			
Accounts receivable	12, 20	2,991.6	2,613.3
Other receivables	12, 21	1,328.1	1,242.0
Prepaid costs and accrued income	12	84.4	89.9
Derivative assets	12, 13	55.6	-
Capitalised financing costs, acquisition loans		7.4	31.1
		4,467.1	3,976.3
Current deposits			
Other current deposits	12, 22	342.4	257.2
Cash and bank	12, 23	478.8	414.8
Total current assets		8,379.0	7,100.8
TOTAL ASSETS		16,206.4	14,084.0

* Restated to IFRS.

EQUITY CAPITAL AND LIABILITIES

Amounts in SEK millions

	Note	2005	2004 *
Equity capital			
Attributable to the equity holders of the parent			
Share capital, 111,671,993 shares		1,116.7	1,116.7
Other contributed capital		2,769.8	2,769.8
Other reserves		-144.4	-319.7
Retained earnings		1,937.6	1,583.2
		5,679.7	5,150.0
Attributable to minority interest	11	131.7	119.2
Total equity		5,811.4	5,269.2
Non-current liabilities			
Liabilities to credit institutions	27	2,701.8	1,262.7
Bond loan	27	-	1,044.4
Provisions for pensions and similar commitments	25	902.8	788.9
Provision for deferred tax	14	766.8	760.3
Other provisions	26	307.1	316.1
Total non-current liabilities		4,678.5	4,172.4
Current liabilities			
Liabilities to credit institutions	27	99.8	239.4
Advances from customers		969.7	542.0
Accounts payable		1,406.2	1,235.9
Notes payable		154.5	113.7
Tax liabilities		669.1	598.0
Other liabilities	28	608.3	479.5
Other provisions	26	650.3	632.1
Accrued costs and prepaid income	29	978.9	801.8
Derivative liabilities	12, 13	179.7	-
Total current liabilities		5,716.5	4,642.4
Total liabilities		10,395.0	8,814.8
TOTAL EQUITY CAPITAL AND LIABILITIES		16,206.4	14,084.0
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	30	68.4	50.6
Contingent liabilities	30	1,432.6	1,402.8

* Restated to IFRS.

Comments on the consolidated balance sheet

For comments on the individual lines in the balance sheet, reference is made to Notes 11 to 33. For comments on the segments, see Note 1.

Capital employed

The capital employed including goodwill and step-up values amounted to SEK 7,469.8 (7,317.3) million at the end of the year.

The capital employed excluding goodwill and step-up values amounted to SEK 2,957.5 (2,821.5) million at the end of the year.

Return on capital employed

The return on capital employed including goodwill and step-up values amounted to 22.7 (23.7) percent during 2005.

The return on capital employed excluding goodwill and step-up values amounted to 57.2 (61.4) percent during 2005.

Capital turnover rate

The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 2.2 (2.0) times for the year.

The capital turnover rate calculated on the average capital employed excluding goodwill and step-up values amounted to 5.5 (5.3) times for the year.

Return on equity capital

The net income for the year in relation to equity capital was 16.0 (15.9) percent.

Solidity

The solidity, that is the equity capital in relation to total assets, was 35.9 (37.4) percent at the end of the year.

Net debt

The net debt was SEK 2,012.7 (1,883.5) million at the end of the year.

Net debt to EBITDA

Net debt in relation to EBITDA was 1.0 (0.9) times at the end of December.

Debt ratio

The debt ratio, that is the net debt in relation to equity capital, was 0.35 (0.36) times at the end of December.

Changes in consolidated equity capital

Attributable to:

Equity holders of the parent

Amounts in SEK millions	Share capital	Other contributed capital	Other reserves	Retained earnings	Subtotal	Minority	Total
As of December 31, 2002	1,116.7	2,769.8	-186.9	812.7	4,512.3	-	4,512.3
2003							
Translation difference	-	-	-37.8	-	-37.8	-	-37.8
Net income							
Net income for 2003	-	-	-	645.8	645.8	-	645.8
Sum of income and costs	-	-	-37.8	645.8	608.0	-	608.0
Transactions with shareholders							
Dividends to owners of parent company	-	-	-	-223.3	-223.3	-	-223.3
As of December 31, 2003	1,116.7	2,769.8	-224.7	1,235.2	4,897.0	-	4,897.0
Adjustment: changed accounting principles	-	-	-	-	-	104.2	104.2
Adjusted opening balance	1,116.7	2,769.8	-224.7	1,235.2	4,897.0	104.2	5,001.2
2004							
Translation difference	-	-	-95.0	-	-95.0	-8.0	-103.0
Net income							
Net income for 2004	-	-	-	794.7	794.7	45.4	840.1
Sum of income and costs	-	-	-95.0	794.7	699.7	37.4	737.1
Transactions with shareholders							
Dividends to owners of parent company	-	-	-	-446.7	-446.7	-	-446.7
Dividends to minority owner in subsidiary	-	-	-	-	-	-22.4	-22.4
As of December 31, 2004	1,116.7	2,769.8	-319.7	1,583.2	5,150.0	119.2	5,269.2
Adjustment: changed accounting principle	-	-	159.3	-	159.3	-	159.3
Deferred tax on adjustment	-	-	-52.6	-	-52.6	-	-52.6
Adjusted opening balance	1,116.7	2,769.8	-213.0	1,583.2	5,256.7	119.2	5,375.9
2005							
Result items booked directly to equity							
cash flow hedges	-	-	-290.5	-	-290.5	-	-290.5
Translation difference	-	-	268.3	-	268.3	-4.4	263.9
Deferred tax	-	-	90.8	-	90.8	-	90.8
Net of items booked directly against equity	-	-	68.6	-	68.6	-4.4	64.2
Net income							
Net income for 2005	-	-	-	884.8	884.8	43.2	928.0
Sum of income and costs	-	-	68.6	884.8	953.4	38.8	992.2
Transactions with shareholders							
Dividends to owners of parent company	-	-	-	-530.4	-530.4	-	-530.4
Dividends to minority owner in subsidiary	-	-	-	-	-	-26.3	-26.3
As of December 31, 2005	1,116.7	2,769.8	-144.4	1,937.6	5,679.7	131.7	5,811.4

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 depreciated by 16.7 %	164.9
2003	-37.8	-224.7	The USD depreciated by 17.5 %	140.3
2004	-103.0	-327.7	The USD depreciated by 9.0 %	-13.8
2005	263.9	-63.8	The USD appreciated by 20.3 %	-46.5

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.

The possibilities to distribute un-appropriated 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 2005	Jan 1-Dec 31 2004	Jan 1-Dec 31 2003
Cash flow from operating activities			
Operating income	-10.9	-5.4	-5.2
Taxes paid	-67.6	-	-
Cash flow from operations before changes in working capital	-78.5	-5.4	-5.2
Changes in working capital			
(Increase)/decrease of current receivables	116.9	-158.3	185.2
Increase/(decrease) of liabilities	157.4	-5.8	-16.1
	274.3	-164.1	169.1
Cash flow from operating activities	195.8	-169.5	163.9
Cash flow from financing activities			
Financial net, paid	-5.7	2.8	6.0
Dividends	-530.4	-446.7	-223.3
Received group contribution	340.3	613.4	53.4
Cash flow from financing activities	-195.8	169.5	-163.9
Net increase (decrease) in cash and bank	-	-	-
Cash and bank at the beginning of the year	-	-	-
Cash and bank at the end of the period	-	-	-

PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	Note	Jan 1-Dec 31 2005	Jan 1-Dec 31 2004	Jan 1-Dec 31 2003
Administration costs		-9.0	-4.6	-4.4
Other operating costs		-1.9	-0.8	-0.8
Operating income/loss		-10.9	-5.4	-5.2
Interest income and similar result items	10	2.2	3.1	6.0
Interest costs and similar result items	10	-7.6	-0.3	-0.1
Result after financial items		-16.3	-2.6	0.7
Appropriation to tax allocation reserve		-25.0	-80.4	-
Income tax		-21.0	-67.6	-
Tax on received Group contribution		31.9	95.3	171.8
Deferred tax		-	-4.5	4.5
Net result for the year		-30.4	-59.8	177.0

Parent company balance sheet

Amounts in SEK millions	Note	2005	2004
ASSETS			
Long-term assets			
Financial long-term assets			
Shares in group companies	18	4,460.9	4,460.9
Current assets			
Current receivables			
Receivables on group companies		158.4	502.2
Other receivables		2.2	1.8
Accrued income and prepaid costs		0.3	0.1
		160.9	504.1
Cash and bank			
		-	-
Total current assets		160.9	504.1
TOTAL ASSETS		4 621.8	4 965.0
EQUITY CAPITAL AND LIABILITIES			
Equity capital			
Restricted equity capital			
Share capital, 111,671,993 shares		1,116.7	1,116.7
Share premium reserve		-	2,769.8
Statutory reserve		1,269.8	-
		2,386.5	3,886.5
Unrestricted equity capital			
Profit brought forward		1,859.2	867.3
Net income for the year		-30.4	-59.8
		1,828.8	807.5
Total equity capital		4,215.3	4,694.0
Untaxed reserves			
Tax allocation reserve, taxation 2005		80.4	80.4
Tax allocation reserve, taxation 2006		25.0	-
		105.4	80.4
Current liabilities			
Liabilities to group companies		279.2	122.0
Accounts payable		0.7	-
Tax liabilities		21.0	67.6
Other liabilities	28	0.2	0.2
Accrued costs and prepaid income		0.0	0.8
		301.1	190.6
TOTAL EQUITY CAPITAL AND LIABILITIES		4,621.8	4,965.0
Pledged assets and contingent liabilities			
PLEDGED ASSETS		None	None
CONTINGENT LIABILITIES (for subsidiaries)		None	None

Changes in parent company's equity capital

Parent company Alfa Laval AB (publ)	Share capital	Share premium reserve	Statutory reserve	Unrestricted equity	Total
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
2005					
Reduction of share premium reserve	-	-1,500.0	-	1 500.0	-
Transfer to statutory reserve	-	-1,269.8	1 269.8	-	-
Dividends	-	-	-	-530.4	-530.4
Group contribution	-	-	-	114.0	114.0
Tax on received Group contribution	-	-	-	-31.9	-31.9
Net result 2005	-	-	-	-30.4	-30.4
As of December 31, 2005	1,116.7	-	1,269.8	1,828.8	4,215.3

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

The Board of Directors proposed to the 2005 Annual General Meeting that, subject to the approval of the court, the then existing share premium reserve within the restricted equity capital of Alfa Laval AB (publ) was reduced by SEK 1,500.0 million, which amount would be transferred to an unrestricted fund to be disposed of according to the decisions of the general meeting. The courts approval has been received during 2005.

The new Companies Act that became effective on January 1, 2006 means that funds that have been provided to the share premium reserve prior to January 1, 2006 shall be transferred to the statutory reserve.

Notes to the financial statements

ACCOUNTING PRINCIPLES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments including derivatives that are valued at fair value. The statements are presented in SEK millions, with one decimal, unless otherwise stated.

Statement of compliance

As from January 1, 2005 Alfa Laval applies International Financial Reporting Standards (IFRS) and the Financial Accounting Standards Council's in Sweden recommendation RR30. These differ in certain respects from US GAAP, see Note 34.

The accounting and valuation principles of the parent company comply with the Swedish Annual Report's Act and the recommendation RR32 issued by the Financial Accounting Standards Council in Sweden.

Previously Alfa Laval followed 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 had not yet been issued corresponding to already issued International Accounting Standards, the IAS statement has been applied instead.

Implementation of International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) is the new name for all new International Accounting Standards. IFRS are issued by the International Accounting Standards Board (IASB). IFRS 1 covers the transitional provisions for the implementation of IFRS. All listed 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 were

some minor differences between the Swedish recommendations and IAS, Alfa Laval has never claimed to be following IAS until now. Technically this means that Alfa Laval is 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 is 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 2005 the following standards have been implemented: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and IAS 39 Financial Instruments: Recognition and Measurement.

Since all IAS rules except IAS 39 are close to prior Swedish GAAP in terms of valuation and accountancy, the transfer to IFRS has only affected the following areas. As of January 1, 2005 the goodwill is not amortised any longer but instead tested for impairment. Minority interests have earlier been reported under a separate heading next to equity, but are now reported as a separate item within equity. Provisions are split in short term and long term.

The comparison figures for 2004 have been restated according to IFRS. The cash flow and profit and loss figures for 2003 have been restated according to IFRS on a proforma basis. Where this has been made is clearly indicated with "Proforma". The nine year overview has only been restated according to IFRS for 2004.

Due to IFRS 1 all the previously implemented statements issued by Financial Accounting Standards Council in Sweden have now technically been replaced by the corresponding IFRS or IAS statements. Since there were only some minor differences between the Swedish recommendations and IAS, this has not by itself triggered any changes in accounting policies,

equity or comparison periods.

IFRS 3 Business Combinations means that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortised, but instead tested for impairment annually.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations says that assets held for sale are to be measured at the lower of the carrying amount and fair value, less sales costs. No depreciation of such assets will be made. An asset held for sale is an asset whose carrying amount will be recovered basically through a sale rather than through continuing use. It must be available for immediate sale in its current condition. The sale must be highly probable, that is a decision must have been made and an active sales effort must have been initiated. The sale must be expected to be finalised within one year. Non-current assets are reclassified to current assets and presented separately in the balance sheet.

IAS 39 means that financial derivatives, bonds and non-listed external shares are adjusted to fair value. The effect of the fair market valuation is reported over equity for the derivatives where hedge accounting is made (according to the cash flow hedging method) and over the income statement only when the underlying transaction has been realised. Hedge accounting requires the derivative to be effective within an 80 – 125 percent range. For the part of an effective derivative that exceeds 100 percent effectiveness the fair market adjustment is reported directly in the income statement. For the derivatives where hedge accounting is not made the fair market valuation is reported directly into the income statement. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the balance sheet. The market valuation of bonds and non-listed external shares has effect on the concerned balance sheet items. IAS 39 represents a change in accounting policies that has been reflected in the consolidated equity at January 1, 2005.

During 2003 RR27 Financial

Instruments: Disclosure and Presentation (in 2005 replaced by IAS 32 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.

The application of the new accounting standards in 2004 and 2003 did in effect not result in any change of accounting principles and did therefore not result in any effect on income or equity capital for 2004 or 2003.

Critical accounting principles

With the implementation of IFRS 3 Business Combinations as of January 1, 2005 goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives are not amortised, but instead tested for impairment both annually and when there is an indication. The effect of IFRS 3 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 financial position of the Group. The reported goodwill is SEK 3,530.6 (2,977.6) million at the end of the year. No intangible assets with indefinite useful lives other than goodwill exist.

The Group's reporting of provisions according to IAS 37 means that SEK 957.4 (948.2) million is reported as other provisions. This constitutes 5.9 (6.7) 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 judgements of probability and 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.

IAS 39 Financial Instruments: Recognition and Measurement has a considerable effect on the Groups equity and may have a substantial effect on the income statement if the used derivatives turns out not to be effective.

Key sources of estimation uncertainty

The key source of estimation uncertainty is related to the impairment test of goodwill, since the testing is based on certain assumptions concerning future cash-flows, see the section on critical accounting principles above for further details.

Judgements

In applying the accounting policies management has made various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. These judgements mainly relate to:

- classification of financial instruments;
- probability in connection with business risks;
- determination of percentage of completion in work in progress;
- recoverability of accounts receivable;
- obsolescence in inventory; and
- whether a lease entered into with an external lessor is a financial lease or an operational lease.

Advertising costs

Advertising costs are expensed as incurred.

Associates

The Group has only one company that fulfils the definition of an associate in IAS 28 Investments in Associates. That is that the ownership is between 20 and 50 percent, which is the case for Dalian Haven Automation Co Ltd. This company is totally dormant. Since its net assets are not material, it is not consolidated.

Borrowing costs

Borrowing costs are accounted for according to the main principle in IAS 23 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

The consolidated financial statements have been prepared according to IFRS 3 Business Combinations.

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. This means that the equity in the subsidiaries at the time of acquisition is not included in the consolidated equity.

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.

Goodwill and intangible assets with indefinite useful lives are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 Impairment on assets.

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 Note 6. 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 IAS 19 Employee Benefits. 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 are 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. 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, 2005 of 128.5 (128.0) 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 IAS 10 under a separate heading in the Board of Directors' report.

Financial instruments

During 2005 IAS 39 "Financial Instruments: Recognition and Measurement" has been implemented. IAS 39 means that financial derivatives, bonds and non-listed external shares are adjusted to fair value.

Financial assets are classified into four different portfolios: Financial assets at fair value through profit or loss, Held to maturity investments, Loans and receivables and Available for sale. Financial liabilities are classified into two portfolios: Financial liabilities at fair value through profit or loss and Loans. The classification into different portfolios has a direct impact on the valuation of the instruments, i.e. if the instrument is valued at fair value or amortised cost. Loans and receivables, Held to maturity investments and Loans are valued at amortised cost, whereas Financial assets and Financial liabilities at fair value through profit or loss and Available for sale financial assets are valued at fair value. Derivatives are always classified in the portfolios Financial assets and Financial liabilities at fair value through profit or loss.

The amortised cost is normally equal to the amount recognised upon initial recognition, less any principal repayments and plus or minus any effective interest adjustments.

The fair values of bonds and non-listed external shares are arrived at using available market prices or best estimates. The fair value adjustment is equal to the difference between the booked value and the fair value. The effect of the fair market valuation is reported over the income statement for bonds and non-listed external shares. The market valuation of these instruments is reflected directly on the balance sheet items bonds and non-listed external shares.

The fair values of the Group's foreign currency contracts, interest-rate swaps and metal forward contracts 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 value adjustment is arrived at by comparing the conditions of the derivative entered into with the market price for the same instrument at the

closing date and with the same maturity date.

Alfa Laval has implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

The effect of the fair market valuation is reported over equity for the derivatives where hedge accounting is made (according to the cash flow hedging method) and over the income statement only when the underlying transaction has been realised. Hedge accounting requires the derivative to be effective within an 80 – 125 percent range. For the part of an effective derivative that exceeds 100 percent effectiveness the fair market adjustment is reported directly in the income statement. For the derivatives where hedge accounting is not made the fair market valuation is reported directly into the income statement. The fair value adjustment of derivatives is reported separately from the underlying instrument as a separate item called derivative assets/derivative liabilities in the balance sheet.

During 2003 IAS 32 "Financial Instruments: Disclosure and Presentation" was implemented. This did not introduce any major changes or amendments to the disclosure and presentation. IAS 32 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.

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.

Prior to the application of IAS 39, financial instruments were valued at acquisition value. If a derivative instrument had been used to fix the exchange rate to be used for settling a commercial or financial receivable or liability, the balance sheet item was valued at the forward rate. The accrued interest rate for loans was valued including the effect of interest rate swaps. Derivative instruments covering projected flows were not reported until maturity and this is where the effect of IAS 39 is most apparent.

Income taxes

Income taxes are reported in accordance with IAS 12 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.

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.

Joint ventures

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 with Haldex as partner. These companies are consolidated according to the proportional consolidation method in IAS 31 Interests in Joint Ventures.

Leasing

Leasing is accounted for in accordance with IAS 17 Leases.

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 IAS 11 Construction Contracts. This means that when the outcome of a construction project can be calculated reli-

ably, the revenue and the costs related to the project are recognised in relation to 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.

Non-current 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 and amortisation periods have been used:

Tangible:

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

Intangible:

The Successor: Alfa Laval AB (publ), from August 24, 2000

Patents and trademarks	20 years
Step-up values, technology	7.5 years
Goodwill, strategic Not amortised after January 1, 2004	20 years
Goodwill, other Not amortised after January 1, 2004	10 years

The Predecessor: Alfa Laval Holding AB, until August 23, 2000

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

Any additions to the purchase price in connection with investments in non-current 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.

Impairment of assets

When there are indications that the value of a tangible asset or an intangible asset with a definite useful life has decreased, there is a valuation made if it must be written down according to IAS 36 Impairment of Assets. 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.

Goodwill and intangible assets with indefinite useful lives are not amortised. These assets are instead tested for impairment both annually and when there is an indication. The impairment test is made according to IAS 36 Impairment on assets.

For the impairment testing of goodwill, Alfa Laval's primary segments, i.e. the two divisions "Equipment" and "Process Technology" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses tend to be integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. The used discount rate is the pre-tax weighted average cost of capital (WACC). The growth rate for the divisions during the period is the perceived expected average industry growth rate. No terminal value has been calculated since this would render a very large and uncertain value, which could give an erroneous impression that no impairment exists.

Other operating income and other operating costs

Other operating income in the income statement relates to for instance commission, royalty and license income. Other

operating costs refer mainly to restructuring costs and to royalty costs.

Provisions

The Group is applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets 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; and
- 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. IAS 38 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 IAS 38.

Revenue recognition

Revenue recognition is made according to IAS 18 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. 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 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.

IAS 21 The Effects of Changes in Foreign Exchange Rates covers among other things the existence of functional currencies. Almost all of Alfa Laval's subsidiaries are affected by changes in foreign exchange rates for their procurement within the Group. They do however usually sell in their domestic currency and they have more or less all of their non-product related costs and their personnel related costs in their local currency. This means that none of Alfa Laval's subsidiaries qualify for the use of another functional currency than the local currency, with the following exception. 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 2005 Colombia, Turkey and Venezuela are regarded as highly inflationary countries.

In the consolidation, 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.

Financial risks

Financial instruments

Financial risks are referring to financial instruments. Alfa Laval has the following instruments: cash and bank, deposits, trade receivables, bank loans, trade payables and a limited number of derivative instruments to hedge primarily currency rates or interests, but also the price of metals. These include currency forward contracts, currency options, interest-rate swaps, interest-forward contracts and metal 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.

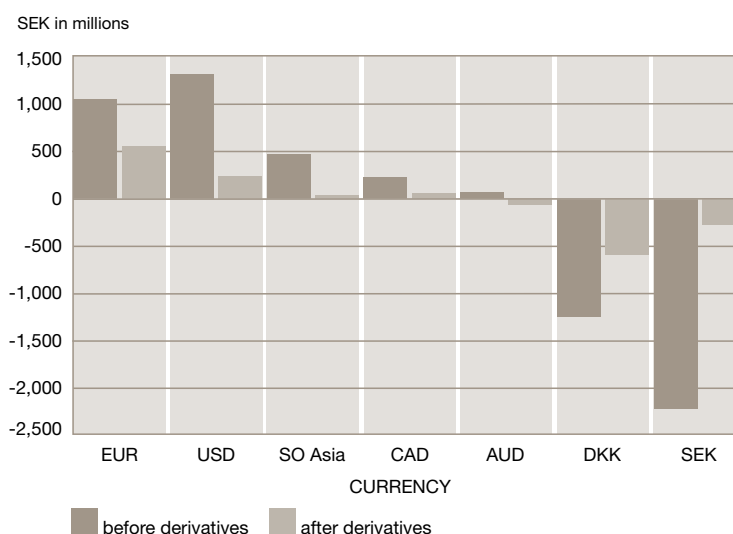
The Group normally has natural risk coverage through the sale as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International AB. Contract based 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 AB 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 percent of one year's commercial exposure for each currency.

The Group's net exposure in different currencies before and after derivatives during 2005 has amounted to:

Translation exposure

When the subsidiaries' balance sheets in local currency are translated into SEK a

Net exposure per currency during 2005



Currency contracts for projected flows are entered into continuously during the year with 12 months maximum duration. For contract based exposures the derivatives follow the duration of the underlying contract. 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 % it has the following effect on operating income, if no hedging measures are taken:

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 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

Exchange rate against SEK

In SEK millions	2005		2004		2003	
	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
Effect on operating income without hedging measure						
USD	132	-132	113	-113	97	-97
EUR	105	-105	159	-159	152	-152
DKK	-124	124	-120	120	-127	127
Other USD related currencies	47	-47	15	-15	46	-46
Other	61	-61	45	-45	39	-39
Total	221	-221	212	-212	207	-207

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

In millions	2005		2004		2003	
	Original currency	SEK	Original currency	SEK	Original currency	SEK
Outflows						
EUR	-281.2	-2,647.6	-159.3	-1,431.9	-275.7	-2,499.0
USD	-281.7	-2,235.1	-285.6	-1,884.4	-161.5	-1,171.3
DKK	-609.0	-768.8	-817.1	-988.1	-750.3	-913.8
CAD	-28.5	-194.6	-17.0	-92.6	-17.8	-98.5
NOK	-42.8	-50.3	-136.2	-148.5	-165.8	-178.5
JPY	-	-	-	-	-765.7	-51.9
GBP	-	-	-16.4	-207.7	-7.6	-97.5
Other	-	-105.0	-	-109.8	-	-70.2
Total		-6,001.4		-4,863.0		-5,080.7
Inflows						
SEK	5 485.4	5 485.4	4,984.6	4,984.6	5,172.8	5,172.8
JPY	4 108.9	277.8	1,499.0	95.4	-	-
SGD	10.8	51.7	-	-	7.2	30.6
Other	-	7.4	-	-	-	4.9
Total		5,822.3		5,080.0		5,208.3

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 minimum interest duration for the loans should be 10 months and the maximum interest duration should be 24 months according to the policy.

The loan with the banking syndicate accrues interest at floating rate. The Group has chosen to hedge 68 (26) (22) percent of the loan, with a duration of 20 months. 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 12 (9) (17) 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 the bond loan there was a market risk. For all other financial instruments, the price risk only consists of currency risk and interest risk.

Liquidity risk

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

On April 12, 2005 Alfa Laval has signed a new senior credit facility with a banking syndicate of EUR 250 million and USD 325 million, corresponding to SEK 4,932.8 million. The credit facility replaced the previous syndicated loan and has in addition been used for the redemption of the Group's senior notes. The new facility provides increased flexibility, extended maturity and reduced costs. At December 31, 2005, SEK 2,661.2 million of the facility were utilised.

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 12, 2005 Alfa Laval has signed a new senior credit facility with a banking syndicate of EUR 250 million and USD 325 million, corresponding to SEK 4,932.8 million. The credit facility replaced the previous syndicated loan and has in addition been used for the redemption of the Group's senior notes. The new facility provides increased flexibility, extended maturity and reduced costs. At December 31, 2005, SEK 2,661.2 million of the facility were utilised.

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 net costs for bad debts are SEK 38.4 (75.4) (42.2) 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 net claim costs have amounted to SEK 199.4 (160.5) (151.5) 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 programmes that

have been implemented have resulted in a cost level for the Group 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 2005 the Group has experienced higher prices for many raw materials, but in particular for stainless steel, carbon steel, copper and titanium. The Group has at a limited scale started 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, 2005, named as co-defendant in a total of 162 asbestos-related lawsuits with a total of approximately 2,900 plaintiffs.

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

During the fourth quarter 2005, Alfa Laval Inc. was named as co-defendant in an additional 16 lawsuits with a total of 16 plaintiffs. During the fourth quarter 2005, 7 lawsuits involving 22 plaintiffs have been resolved.

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 after-market 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

Consolidated, Orders received

SEK in millions	2005	2004	2003
Equipment	9,902.4	8,862.3	8,069.9
Process Technology	8,572.8	6,818.0	5,990.6
Operations and other	41.1	59.7	84.8
Total	18,516.3	15,740.0	14,145.3

Consolidated, Order backlog

SEK in millions	2005	2004	2003
Equipment	3,382.5	2,097.3	1,598.9
Process Technology	4,072.9	2,640.6	2,398.0
Operations and other	41.5	25.5	24.2
Total	7,496.9	4,763.4	4,021.1

Consolidated, Net sales

SEK in millions	2005	2004	2003
Equipment	8,631.5	8,250.4	7,841.8
Process Technology	7,672.8	6,683.3	5,993.6
Operations and other	26.1	52.1	73.9
Total	16,330.4	14,985.8	13,909.3

Consolidated, Operating income

SEK in millions	2005	2004 *	Proforma 2003 *
Equipment	1,162.5	1,100.4	1,127.2
Process Technology	698.8	634.3	450.0
Operations and other	-410.8	-333.0	-253.0
Subtotal	1,450.5	1,401.7	1,324.2
Comparison distortion items	-73.3	36.7	5.6
Total	1,377.2	1,438.4	1,329.8

* Restated to IFRS, i.e. excluding goodwill amortisation.

Consolidated

SEK in millions	Assets		Liabilities	
	2005	2004*	2005	2004
Equipment	5,450.7	4,490.2	1,766.5	1,325.9
Process Technology	4,222.9	3,943.0	1,182.7	1,125.1
Operations and other	4,476.2	3,959.8	2,071.0	1,700.0
Subtotal	14,149.8	12,393.0	5,020.2	4,151.0
Corporate	2,056.6	1,691.0	5,374.8	4,663.8
Total	16,206.4	14,084.0	10,395.0	8,814.8

* Restated to IFRS, i.e. excluding goodwill amortization.

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

Consolidated

SEK in millions	Investments			Depreciation		Proforma 2003*
	2005	2004	2003	2005	2004	
Equipment	23.7	31.8	25.1	130.6	128.3	132.0
Process Technology	48.4	85.1	33.4	151.2	130.3	137.3
Operations and other	251.6	270.6	200.0	297.7	295.7	326.6
Total	323.7	387.5	258.5	579.5	554.3	595.9

* Restated to IFRS, i.e. excluding goodwill amortization.

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 to customers in:	2005		2004		2003	
Consolidated	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	842.4	5.2	887.6	5.9	893.2	6.4
Other EU	5,664.3	34.5	5,706.5	38.0	5,186.4	37.3
Other Europe	1,428.1	8.7	1,196.5	8.0	1,118.7	8.0
USA	2,327.9	14.3	2,197.4	14.7	2,159.0	15.5
Other North America	436.8	2.7	296.2	2.0	315.0	2.3
Latin America	798.5	4.9	583.9	3.9	553.6	4.0
Africa	223.6	1.4	177.3	1.2	182.7	1.3
Asia	4,336.6	26.6	3,619.9	24.2	3,242.6	23.3
Oceania	272.2	1.7	320.5	2.1	258.1	1.9
Total	16,330.4	100.0	14,985.8	100.0	13,909.3	100.0%

Assets	2005		2004 *		2003	
Consolidated	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	2,642.2	16.3	2,542.8	18.1	2,252.2	15.3
Denmark	1,528.3	9.4	1,571.8	11.2	1,578.8	10.7
Other EU	4,662.6	28.8	3,828.4	27.1	4,032.9	27.5
Other Europe	362.5	2.2	293.1	2.1	278.6	1.9
USA	1,888.1	11.7	1,617.8	11.5	1,877.2	12.8
Other North America	291.5	1.8	211.9	1.5	323.6	2.2
Latin America	290.8	1.8	246.3	1.7	220.4	1.5
Africa	24.1	0.1	23.7	0.2	14.2	0.1
Asia	2,285.0	14.1	1,903.3	13.5	1,687.9	11.5
Oceania	174.7	1.1	153.9	1.1	185.4	1.3
Subtotal	14,149.8	87.3	12,393.0	88.0	12,451.2	84.8
Corporate	2,056.6	12.7	1,691.0	12.0	2,238.3	15.2
Total	16,206.4	100.0	14,084.0	100.0	14,689.5	100.0

* Restated to IFRS, i.e. excluding goodwill amortization.

Investments	2005		2004		2003	
Consolidated	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	146.9	45.4	166.2	42.8	85.4	32.9
Denmark	14.1	4.4	34.9	9.0	39.0	15.1
Other EU	54.9	17.0	96.9	25.0	59.0	22.8
Other Europe	18.3	5.7	4.2	1.1	3.3	1.3
USA	15.3	4.7	19.6	5.1	36.2	14.0
Other North America	0.7	0.2	1.6	0.4	1.2	0.5
Latin America	4.0	1.2	3.7	1.0	3.0	1.2
Africa	0.4	0.1	0.2	0.1	0.7	0.3
India	35.9	11.1	23.6	6.1	12.1	4.7
Other Asia	32.5	10.0	35.8	9.2	17.8	6.9
Oceania	0.7	0.2	0.8	0.2	0.8	0.3
Total	323.7	100.0	387.5	100.0%	258.5	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

Consolidated	Number of female employees			Total number of employees		
	2005	2004	2003	2005	2004	2003
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (6)	396	353	392	1,938	1,899	1,941
Total in Sweden (6)	396	353	392	1,938	1,899	1,941
Total abroad (72)	1,544	1,499	1,434	7,586	7,501	7,253
Total for the group (78)	1,940	1,852	1,826	9,524	9,400	9,194

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2005.

Average number of employees - in Sweden by municipality

Employees in Sweden	2005	2004	2003
Botkyrka	445	462	482
Eskilstuna	193	185	179
Göteborg	2	2	13
Lund	994	967	965
Ronneby	254	242	234
Other municipalities with < 10 employees *	50	41	68
Total	1,938	1,899	1,941

* "Other municipalities < 10 employees" includes also employees at branch offices abroad.

Sick leave among Swedish employees

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

Consolidated	2005	2004	2003
Sick leave for:			
all employees	3.7	4.5	4.5
all employees during 60 consecutive days or more	2.0	2.8	2.8
female employees	3.7	5.8	6.0
male employees	3.7	4.2	4.2
employees at the age of 29 or younger	2.9	3.4	2.3
employees between 30 and 49 years of age	3.2	3.6	4.1
employees at the age of 50 or more	4.9	6.3	6.0

Average number of employees – by country

Consolidated	Number of female employees			Total number of employees		
	2005	2004	2003	2005	2004	2003
Argentina	12	11	8	43	42	35
Australia	15	17	19	61	63	66
Belgium	25	27	28	102	127	128
Brazil	24	20	21	107	104	104
Bulgaria	4	4	4	12	12	14
Canada	21	41	59	73	228	150
Chile	6	5	5	25	23	22
Colombia	3	5	5	11	12	12
Denmark	285	281	269	1,113	1,126	1,098
Estonia	1	2	2	2	3	4
Philippines	3	3	3	20	20	21
Finland	28	28	28	99	111	111
France	144	118	119	717	583	599
United Arab Emirates	10	7	7	58	55	50
Greece	0	0	5	1	1	11
Hong Kong	7	7	7	19	17	18
India	32	32	32	1,063	1,045	1,031
Indonesia	15	13	13	72	68	68
Iran	3	3	2	11	12	9
Italy	85	79	69	529	506	484
Japan	35	39	31	186	164	158
China	121	100	88	573	479	411
Korea	24	18	15	84	77	75
Latvia	4	4	5	9	9	8
Lithuania	2	4	4	4	4	4
Malaysia	24	26	25	66	70	70
Mexico	4	5	5	30	35	40
Netherlands	19	15	17	111	106	107
Norway	14	15	15	50	53	54
New Zealand	3	5	4	24	24	27
Peru	7	7	6	25	24	23
Poland	24	23	24	124	118	117
Portugal	4	4	3	13	13	13
Romania	4	4	5	12	13	12
Russia	110	97	98	256	236	235
Switzerland	3	3	2	16	16	15
Singapore	20	21	21	46	46	48
Slovakia	2	1	1	9	8	9
Spain	38	36	31	200	202	202
UK	56	55	53	312	320	334
Sweden	396	353	392	1,938	1,899	1,941
South Africa	9	8	9	34	36	37
Taiwan	12	12	12	31	31	32
Thailand	18	12	13	44	38	38
Czech Republic	13	13	14	66	60	59
Turkey	8	8	8	33	32	30
Germany	64	66	51	231	242	256
Hungary	7	5	5	22	23	24
USA	162	180	154	799	826	742
Venezuela	4	4	4	16	17	17
Austria	6	6	6	22	21	21
Total for the group	1,940	1,852	1,826	9,524	9,400	9,194

Note 2 Continued. Distribution of men/women among managers

Consolidated	2005			2004			2003		
	Number	Male	Female	Number	Male	Female	Number	Male	Female
Board members (excluding deputies)	12	75.0	25.0	12	75.0	25.0	12	83.3	16.7
President and other executive officers	11	100.0	0.0	11	100.0	0.0	10	100.0	0.0
Managers in Sweden	242	82.6	17.4	241	85.0	15.0	226	85.8	14.2
Managers outside Sweden	775	86.7	13.3	731	87.3	12.7	724	86.9	13.1
Managers total	1,017	85.7	14.3	972	86.7	13.3	950	86.6	13.4
Employees in Sweden	1,938	79.6	20.4	1,899	81.4	18.6	1,941	79.8	20.2
Employees outside Sweden	7,586	79.6	20.4	7,501	80.0	20.0	7,253	80.2	19.8
Employees total	9,524	79.6	20.4	9,400	80.3	19.7	9,194	80.1	19.9

Note 3. Salaries and remunerations - total

Consolidated, SEK in millions	2005	2004	2003
Board of Directors, Presidents and Vice Presidents	131.5	123.3	120.8
of which, bonus	31.3	18.1	20.7
Other	3,095.0	2,995.9	2,887.3
Total salaries and remunerations	3,226.5	3,119.2	3,008.1
Social security costs	577.8	559.0	609.6
Pension costs, defined benefit plans	147.1	145.1	157.9
Pension costs, defined contribution plans	229.8	237.6	206.1
Total costs of personnel	4,181.2	4,060.9	3,981.7

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 31.8 (32.5) (33.8) million and SEK 282.5 (300.9) (339.0) million respectively. SEK 178.6 (186.2) (201.3) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2003 to 2005 no equity related benefits existed within Alfa Laval.

Chief Executive Officer/President

The Chief Executive Officer and President Lars Renström receives a remuneration of SEK 4,880,179 (1,624,501), of which bonus was 403,851 (-). The former Chief Executive Officer and President Sigge Haraldsson received a remuneration of SEK - (7,189,029) (5,076,417), 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 4,400,000 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 3.6 (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 in 2004 Alfa Laval 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) million, of which SEK - (1.4) (1.7) million relates to 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 675,000 (600,000) (600,000) per year. He does not have any agreement on future retirement or severance pay with Alfa Laval.

For 2005, the Board of Directors receive a total fee of SEK 2,625,000 (2,475,000) (2,225,000), 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 were SEK 21.1 (19.1) (20.8) million, of which bonuses were SEK 2.4 (2.2) (4.5) million. The bonus refers to bonus paid during the year.

For these executive officers, early retirement has in a few cases been offered from the age of 60 or 62. The agreements normally give 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 by the Board's remunerations' committee. 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.

Note 3 Continued. Salaries and remunerations - by country

Consolidated SEK in millions	Board of Directors, Presidents and Vice Presidents			Other employees		
	2005	2004	2003	2005	2004	2003
Argentina	0.9	0.6	0.6	3.1	3.1	2.8
Australia	3.0	2.9	2.7	21.9	20.6	20.2
Belgium	3.7	3.5	3.1	52.5	55.1	52.3
Brazil	1.9	1.3	1.3	17.5	13.1	13.0
Bulgaria	0.3	0.3	0.3	1.3	1.2	1.4
Canada	1.2	2.0	3.5	38.8	71.9	59.0
Chile	0.0	0.0	0.0	5.0	3.6	2.7
Colombia	0.7	0.6	0.5	2.2	1.6	0.9
Denmark	10.2	9.1	11.9	577.9	566.2	527.9
Estonia	0.1	0.1	0.0	0.1	0.3	0.2
Philippines	0.4	0.3	0.4	1.7	1.3	1.5
Finland	1.8	2.4	2.5	41.6	41.3	38.7
France	1.9	1.9	2.8	182.4	181.1	180.5
United Arab Emirates	0.8	1.5	1.2	14.1	10.6	10.5
Greece	0.0	0.0	0.0	0.6	0.6	3.8
Hong Kong	1.5	2.1	2.8	18.9	14.8	14.2
India	2.5	1.7	1.5	47.7	38.4	36.4
Indonesia	1.0	1.0	0.6	5.1	4.1	4.3
Iran	0.3	0.0	0.0	1.1	1.3	6.5
Italy	2.6	2.5	3.1	159.4	149.2	133.4
Japan	11.6	10.5	6.9	87.3	80.4	77.3
China	1.2	0.2	0.0	41.6	37.2	28.7
Korea	1.4	1.3	1.3	23.5	20.3	19.4
Latvia	0.2	0.5	0.5	1.4	1.3	1.0
Lithuania	0.3	0.0	0.0	0.5	0.8	0.7
Malaysia	0.7	1.0	1.4	10.1	9.4	9.3
Mexico	1.7	1.5	1.5	6.7	7.6	8.8
Netherlands	5.4	3.1	2.6	47.9	48.7	45.9
Norway	1.4	1.3	1.6	30.9	30.6	29.3
New Zealand	0.9	0.9	0.6	6.7	6.7	6.6
Peru	0.0	0.0	0.6	3.8	3.0	2.9
Poland	2.0	1.7	2.4	15.6	12.6	11.9
Portugal	0.0	0.0	0.4	3.6	4.2	3.3
Romania	0.8	0.4	0.0	1.3	1.5	1.6
Russia	0.0	0.0	0.0	36.8	29.1	24.3
Switzerland	1.9	1.5	1.5	11.6	10.9	10.3
Singapore	1.3	1.3	1.4	11.2	10.1	10.3
Slovakia	0.0	0.0	0.0	1.7	1.1	1.1
Spain	1.7	1.8	1.8	81.1	68.8	67.4
UK	0.0	2.3	0.0	128.8	124.0	114.9
Sweden	24.4	20.7	22.5	757.6	732.5	715.7
South Africa	1.6	1.6	1.6	10.5	6.8	7.4
Taiwan	0.8	0.8	0.7	7.5	6.5	6.6
Thailand	0.6	1.1	1.1	4.5	3.8	3.9
Czech Republic	1.9	2.2	0.7	9.3	7.5	7.1
Turkey	1.7	1.4	1.4	8.5	6.9	6.6
Germany	5.2	5.9	7.3	108.2	105.9	136.3
Hungary	0.6	0.9	0.8	4.4	3.9	2.9
USA	26.0	24.2	20.4	427.7	423.4	404.0
Venezuela	0.3	0.4	0.0	1.9	1.8	2.5
Austria	1.1	1.0	1.0	9.9	9.2	9.1
Total for the group	131.5	123.3	120.8	3,095.0	2,995.9	2,887.3

Note 4. Information on auditors and auditors' fee

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	2005	2004	2003
<i>Audit</i>			
Ernst & Young	14.7	13.5	10.9
Other audit firms	1.2	1.0	1.1
Total	15.9	14.5	12.0
<i>Other projects</i>			
Ernst & Young	4.4	5.4	2.7
Other audit firms	4.0	5.8	4.8
Total	8.4	11.2	7.5

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 5. Advertising costs

Advertising costs have amounted to SEK 45.5 (49.0) (47.3) million. These refer to costs for advertisements in newspapers and technical press, participation in trade fairs and brochures.

Note 6. Comparison distortion items

Consolidated SEK in millions	2005	2004	2003
<i>Operational</i>			
Other operating income	272.1	271.3	242.4
Comparison distortion income	51.7	53.9	5.6
Total other operating income	323.8	325.2	248.0
<i>Financial</i>			
Other operating costs	-544.8	-452.6	-367.2
Comparison distortion costs	-125.0	-17.2	-
Total other operating costs	-669.8	-469.8	-367.2
<i>Interest expense</i>			
Interest expense	-368.2	-346.3	-595.5
Comparison distortion costs	-88.5	-	-
Total interest expense	-456.7	-346.3	-595.5

Specification of operational gains and losses

Consolidated SEK in millions	2005	2004	2003
<i>Gain on:</i>			
Sale of real estate	51.7	53.9	5.6
Subtotal gains	51.7	53.9	5.6
<i>Loss on:</i>			
Closure of factories and plants	-125.0	-	-
Sale of real estate	-	-2.2	-
Sale of Tri-Lad	-	-15.0	-
Subtotal losses	-125.0	-17.2	-
Net total	-73.3	36.7	5.6

In August 2005 approximately 45 percent of the land in Cwmbran in Wales was divested for SEK 58.0 million with a realised gain of SEK 47.8 million. In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million and some minor properties in India were divested for SEK 1.3 million with a realised gain of SEK 0.6 million.

During 2005, costs for the closure of the separator factory in Madrid and

the bioKinetics plant in Toronto of SEK -125.0 million have been charged to the income statement.

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.

Specification of financial costs

Consolidated, SEK in millions	2005	2004	2003
Costs for redemption of senior notes:			
Premium	-67.5	-	-
Capitalised transaction costs	-21.0		
Total	-88.5	-	-

Alfa Laval has redeemed the outstanding senior notes on November 15, 2005. This has incurred an additional interest cost during the fourth quarter 2005 of SEK 67.5 million for the premium and SEK 21.0 million for the outstanding capitalised transaction costs, totalling SEK 88.5 million.

Note 7. Depreciation by function

Consolidated SEK in millions	2005	2004*	Proforma 2003*
Costs of goods sold	-456.8	-423.5	-455.9
Sales	-45.5	-51.8	-50.8
Administration	-60.5	-67.8	-72.8
Research and development	-10.3	-6.1	-7.2
Other income and costs	-6.4	-5.1	-9.2
Total	-579.5	-554.3	-595.9

* Restated to IFRS, i.e. excluding goodwill amortisation.

Note 8. Depreciation by type of assets

Consolidated SEK in millions	2005	2004*	Proforma 2003*
Patents, trademarks, etc.	-220.9	-194.9	-204.7
Machinery and equipment	-288.6	-287.4	-316.1
Financial leasing machinery and equipment	-2.6	-3.3	-4.7
Buildings and ground installations	-67.4	-68.7	-70.4
Total	-579.5	-554.3	-595.9

* Restated to IFRS, i.e. excluding goodwill amortisation.

Note 9. Result from other securities and receivables accounted for as fixed assets

Consolidated SEK in millions	2005	2004	2003
Dividends from other	2.9	3.1	6.9
Fair value adjustment of securities	2.0	-	-
Total	4.9	3.1	6.9

Note 10. Interest income/costs and exchange rate differences

Consolidated SEK in millions	2005	2004	2003
<i>Interest income</i>			
Financial leasing	0.6	0.3	0.8
Other interest	49.0	91.1	132.9
<i>Exchange gains</i>			
Unrealised	107.5	45.1	42.6
Realised	16.5	29.9	91.2
Total	173.6	166.4	267.5
<i>Interest costs</i>			
Financial leasing	-0.1	-0.8	-1.4
Other interest	-284.7	-281.1	-398.8
Comparison distortion items	-88.5	-	-
<i>Exchange losses</i>			
Unrealised	-55.4	-11.4	-101.9
Realised	-28.0	-53.0	-93.4
Total	-456.7	-346.3	-595.5

In the Group, reported net exchange differences of SEK -64.6 (-19.2) (194.8) million relating to debts in foreign currencies have been charged to equity. These debts finance the acquisition of shares in foreign subsidiaries and act as a hedge to the acquired net assets. The amount is charged with tax resulting in a net after tax equity impact of SEK -46.5 (-13.8) (140.3) million.

Parent company SEK in millions	2005	2004	2003
<i>Interest income</i>			
Subsidiaries	1.0	3.1	6.0
<i>Exchange gains</i>			
Unrealised	1.2	-	-
Realised	0.0	-	-
Total	2.2	3.1	6.0
<i>Interest costs</i>			
External companies	0.0	-	-
Subsidiaries	-6.7	-0.3	-
<i>Exchange losses</i>			
Unrealised	-0.9	0.0	-
Realised	-	-	-0.1
Total	-7.6	-0.3	-0.1

Note 11. Minority interest

The minority share in subsidiaries' result and equity relates to four subsidiaries in France, India and Russia where minority owners exist.

Note 12. Classification of financial assets and liabilities

Financial assets Consolidated SEK in millions	Financial assets at fair value through profit or loss	Held to maturity investment	Loans and receivables	Available for sale
Non-current assets				
Other non-current assets				
Other long-term securities	4.8	-	-	-
Current assets				
Current receivables				
Accounts receivable	-	-	2,991.6	-
Notes receivable	-	-	339.8	-
Other receivables	-	-	492.3	-
Prepaid costs and accrued income	-	-	84.4	-
Derivative assets	55.6	-	-	-
Current deposits				
Loan receivables	-	-	254.3	-
Bonds and other securities	80.6	-	-	-
Other deposits	-	-	7.5	-
Cash and bank	-	-	478.8	-
Total financial assets	141.0	-	4,648.7	-

Financial liabilities Consolidated SEK in millions	Financial liabilities at fair value through profit or loss	Loans
Non-current liabilities		
Liabilities to credit institutions	-	2,701.8
Current liabilities		
Liabilities to credit institutions	-	99.8
Advances from customers	-	969.7
Accounts payable	-	1,406.2
Notes payable	-	154.5
Other liabilities	-	578.9
Accrued costs and prepaid income	-	978.9
Derivative liabilities	179.7	-
Total financial liabilities	179.7	6,889.8

Note 13. Fair value adjustments of financial instruments

Fair value adjustment of securities

Consolidated SEK in millions	Book value	Market value	Adjustment
Other long-term securities			
Shares in external companies	3.0	4.8	1.8
Bonds and other securities			
Marketable securities	80.4	80.6	0.2
Total	83.4	85.4	2.0

The fair value adjustments of securities are made over the income statement and on each concerned line in the balance sheet.

Fair value adjustment of derivatives

Consolidated SEK in millions	Currency pairs	Difference between contracted rate and current rate
Derivative assets/liabilities		
Foreign exchange forward contracts:		
	EUR USD	-55.8
	EUR SEK	-23.2
	EUR AUD	-0.5
	EUR CAD	-3.9
	EUR JPY	5.1
	USD CAD	-1.0
	USD DKK	-3.9
	USD GBP	0.7
	USD SEK	-28.1
	USD JPY	-1.4
	JPY USD	-13.1
	DKK SEK	5.0
	Other Other	-6.7
Subtotal		-126.8
Forward Rate Agreements		1.4
Interest Rate Swaps		-0.4
Metal forward contacts		1.7
Total, corresponding to a net derivative liability		-124.1

For comparison, the fair values of the Group's derivative financial instruments at December 31, 2004 were SEK 211.4 million, corresponding to a net derivative asset.

The fair value adjustments of derivatives are made over equity if the derivatives are effective and otherwise over the income statement. The corresponding entry is made on derivative assets and liabilities and not on the underlying financial instruments in the balance sheet.

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

Consolidated SEK in millions	2005	2004	2003
The major components of the Group's tax costs			
Current tax cost	-371.0	-389.6	-341.6
Adjustment for current taxes on prior periods	76.4	-8.2	38.1
Deferred tax costs/income on changes in temporary differences	46.5	-1.3	153.3
Deferred tax costs/income on changes in tax rates or new taxes	-5.0	-	-14.0
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	8.0	10.2	40.4
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	89.8	-	30.6
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-4.8	-3.0	-17.0
Other taxes	-10.9	-29.6	-19.8
Total tax cost	-171.0	-421.5	-130.0

The difference between the tax costs of the group and the tax cost based upon applicable tax rates can be explained as follows:

Consolidated SEK in millions	2005	2004*	Proforma 2003*
Result before minority interests and tax	1,099.0	1,261.6	1,008.7
Tax according to applicable tax rates	-299.4	-253.3	-194.9
Tax effect of:			
Non-deductible costs	-229.5	-224.7	-89.9
Non-taxable income	168.7	86.1	44.2
Differences between reported official depreciation and depreciation according to tax rules	1.2	1.1	-16.0
Differences between reported other official appropriations and other appropriations according to tax rules	-19.8	-12.3	-50.8
Tax losses and tax credits	142.3	19.4	159.1
Other	-10.9	-29.6	-19.8
Adjustment for current tax on prior periods	76.4	-8.2	38.1
Total tax costs	-171.0	-421.5	-130.0

* Restated to IFRS, i.e. excluding goodwill amortisation.

Tax losses and tax credits are referring to used tax losses in the United States for 2005 and in Sweden for 2003.

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	2005		2004	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	27.2	329.3	34.5	272.1
Tangible assets	14.2	306.2	19.4	337.6
Inventory	70.3	22.5	70.5	15.9
Other current assets	41.4	7.8	2.9	14.8
Financial assets	-	0.1	-	7.6
Short term liabilities	381.9	29.2	373.7	60.6
Tax losses and tax credits *	98.7	-	8.7	-
Other	14.2	115.0	1.4	109.4
Subtotal	647.9	810.1	511.1	818.0
Possible to net	-43.3	-43.3	-57.7	-57.7
Total deferred taxes	604.6	766.8	453.4	760.3

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 244.8 (29.9) 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 620.7 (1,491.4) 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 2003 to 2005.

Consolidated	Tax rates in percentage		
	2005	2004	2003
Bulgaria	15	20	24
Colombia	38	35	35
Denmark	28	30	30
Finland	26	29	29
United Arab Emirates	10	10	0
Hong Kong	18	18	16
India	34	37	37
Iran	25	25	40
Japan	43	41	41
Canada	36	37	37
China	13	13	11
Korea	25	29	29
Latvia	15	15	22
Mexico	39	43	43
Netherlands	32	35	35
Pakistan	39	41	41
Peru	30	30	27
Portugal	25	35	32
Switzerland	20	20	24
Singapore	20	20	22
Slovakia	19	19	25
South Africa	29	30	30
Czech Republic	26	28	28
Hungary	16	16	18
USA	40	35	35
Austria	25	25	34

The Group's normal effective tax rate is approximately 32 (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.

Note 15. Goodwill and step-up values

The allocation of step up values to tangible and intangible assets and the residual goodwill in effect means that all acquisitions are valued at market. In order to separate out this valuation effect Alfa Laval focuses on EBITA, where any amortisation of step up values is excluded. The development of these step up values and any goodwill is shown in the below table summary. It shows each acquisition separately. Any later adjustments to the allocations are referred to the original year of the acquisition. The figures for the allocations, realisations and amortisations are based on the prevailing rates at the time the transactions took place and any change in exchange rates until December 31, 2005 is shown as a translation difference. The acquisition of the Alfa Laval Holding AB group in connection with the acquisition by Industri Kapital of the Alfa Laval Group from Tetra Laval on August 24, 2000 is shown in the first column. The corresponding presentation by asset type is found in Notes 16 and 17.

	2000	2002	2003	2003	2005	Accumulated during the period			2005
Consolidated SEK in millions	Alfa Laval Holding	Danish Separation Systems	Toftejorg	bioKinetics	Packinox	Realised	Planned amortisation	Translation difference	Closing balance
Buildings	1,058.5	-	0.9	-	-	-494.4	-144.1	4.5	425.4
Land and land improvements	-228.4	-	-	-	-	94.4	-	42.5	-91.5
Machinery	548.3	-	-	-	-	13.0	-305.7	11.6	267.2
Equipment	452.1	-	-	-	-	-24.1	-162.0	0.9	266.9
Construction in progress	15.9	-	-	-	-	-16.3	-	0.4	-
Inventory	340.2	-	-	-	6.8	-346.9	-	-0.1	-
Patent and trademarks	461.3	-	-	27.4	295.7	-	-141.5	-8.6	634.3
Technology	1,279.8	-	-	-	-	-	-916.3	4.9	368.4
Research and development	53.6	-	-	-	-	-53.6	-	-	-
Capital gain (Industrial Flow)	41.8	-	-	-	-	-41.8	-	-	-
Subtotal step-up values	4,023.1	-	0.9	27.4	302.5	-869.7	-1,669.6	56.1	1,870.7
Goodwill	3,683.3	117.9	34.5	84.3	264.7	-	-803.1	-34.0	3,347.6
Changed account principles	-	-	-	-	-	-	191.5	-8.5	183.0
Subtotal goodwill	3,683.3	117.9	34.5	84.3	264.7	-	-611.6	-42.5	3,530.6
Total	7,706.4	117.9	35.4	111.7	567.2	-869.7	-2,281.2	13.6	5,401.3

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.

Consolidated SEK in millions	Opening balance 2005*	Acquired	Realised	Planned amortisation	Translation difference	Closing balance 2005
Buildings	431.3	-	-5.5	-21.6	21.2	425.4
Land and land improvements	-79.0	-	-0.8	-	-11.7	-91.5
Machinery	306.6	-	-	-56.1	16.7	267.2
Equipment	274.9	-	-	-29.1	21.1	266.9
Inventory	-	6.8	-6.7	-	-0.1	-
Patent and trademarks	347.8	295.7	-	-41.7	32.5	634.3
Technology	506.7	-	-	-166.7	28.4	368.4
Subtotal step-up values	1,788.3	302.5	-13.0	-315.2	108.1	1,870.7
Goodwill	2,977.6	264.7	-	-	288.3	3,530.6
Total	4,765.9	567.2	-13.0	-315.2	396.4	5,401.3

* Restated to IFRS, i.e. excluding goodwill amortisation.

On February 15, 2005 Alfa Laval has acquired Packinox S.A. in France for SEK 551.3 million. After deducting acquired cash and bank the impact on the cash flow was SEK -504.7 million. Out of the difference between the purchase price paid and the net assets acquired SEK 103.6 million has been allocated to patents and un-patented know-how, SEK 192.1 million to the Packinox trademark, SEK 6.8 million to accrued gross margin in work in progress, SEK 102.8 million to deferred tax liability, while the residual SEK 264.7 million has been allocated to goodwill. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress has been expensed during 2005.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 587.9 (554.7) million.

An impairment test has been performed at the end of 2005 indicating that there is not any need to write down the goodwill. Alfa Laval's primary segments, i.e. the two divisions "Equipment" and "Process Technology" have been identified as the cash-generating units within Alfa Laval. Technically a recently acquired business activity could be followed independently during an initial period, but acquired businesses tend to be integrated into the divisions at a fast rate. This means that the independent traceability is lost fairly soon and then any independent measurement and testing becomes impracticable. The net present value is based on the projected EBITDA figures for the next twenty years, less projected investments and changes in operating capital during the same period. The used discount rate is the pre-tax weighted average cost of capital (WACC) of 9.09 (10.25) percent. The growth rate for the divisions during the period is the perceived expected average industry growth rate. No terminal value has been calculated since this would render a very large and uncertain value, which could give an erroneous impression that no impairment exists.

Note 16. Intangible non-current assets

Consolidated SEK in millions	2005	2004*
Concessions, patents, licenses, trademarks and similar rights		
Opening balance, accumulated acquisition values	2,067.0	2,076.7
Purchases	6.0	48.1
Acquisition of businesses	22.7	4.6
Sales/disposals	-0.8	-0.2
Reclassifications	-	-12.7
Step-up values, patents and trademarks	295.7	-
Translation difference for the year	101.5	-49.5
Closing balance, accumulated acquisition values	2,492.1	2,067.0
Opening balance, accumulated depreciation	-1,143.9	-975.9
Acquisition of businesses	-10.4	-
Sales/disposals	0.2	-
Reclassifications	-	0.1
Depreciation of step-up value, patent & trademarks	-41.7	-20.7
Depreciation of step-up value, technology	-166.7	-164.9
Depreciation for the year	-12.2	-9.2
Translation difference for the year	-52.3	26.7
Closing balance, accumulated depreciation	-1,427.0	-1,143.9
Closing balance, net book value	1,065.1	923.1
Goodwill		
Opening balance, accumulated acquisition values	3,513.0	3,653.8
Goodwill in connection with acquisition of businesses	264.7	-
Additional purchase price	-	9.4
Reduction of purchase price	-	-37.0
Translation difference for the year	339.3	-113.2
Closing balance, accumulated acquisition values	4,117.0	3,513.0
Opening balance, accumulated depreciation	-535.4	-555.3
Translation difference for the year	-51.0	19.9
Closing balance, accumulated depreciation	-586.4	-535.4
Closing balance, net book value	3,530.6	2,977.6
Renting rights and similar rights		
Opening balance, accumulated acquisition values	1.4	1.2
Purchases	1.9	0.2
Closing balance, accumulated acquisition values	3.3	1.4
Opening balance, accumulated depreciation	-0.6	-0.5
Depreciation for the year	-0.3	-0.1
Closing balance, accumulated depreciation	-0.9	-0.6
Closing balance, net book value	2.4	0.8

* Restated to IFRS, i.e. excluding goodwill amortisation.

Note 17. Property, plant and equipment

Consolidated SEK in millions	2005	2004
Real estate		
Opening balance, accumulated acquisition values	1,627.5	1,828.6
Purchases	96.9	26.9
Acquisition of businesses	13.8	-
Sales/disposal	-146.7	-92.1
Reclassifications	8.2	1.9
Realisation of step-up values due to sale	-6.9	-84.0
Translation difference for the year	55.2	-53.8
Closing balance, accumulated acquisition values	1,648.0	1,627.5
Opening balance, accumulated depreciation	-741.5	-745.4
Sales/disposals	44.9	35.1
Acquisition of businesses	-1.2	-
Reclassifications	0.2	-1.3
Realisation of step-up values due to sale	1.4	16.0
Depreciation of step-up value	-21.6	-23.8
Depreciation for the year	-45.1	-44.1
Translation difference for the year	39.8	22.0
Closing balance, accumulated depreciation	-723.1	-741.5
Opening balance, accumulated revaluations, net	59.4	88.0
Sales/disposals	-	-28.5
Reclassifications	-0.2	-
Revaluation for the year	0.1	0.7
Depreciation for the year on revaluations	-0.7	-0.8
Closing balance, accumulated revaluations, net	58.6	59.4
Closing balance, net book value	983.5	945.4
Machinery and other technical installations		
Opening balance, accumulated acquisition values	2,424.5	2,500.8
Purchases	129.4	88.4
Acquisition of businesses	46.0	-
Sales/disposal	-138.0	-103.0
Reclassifications	24.5	7.9
Realisation of step-up values due to sale	-	-3.2
Translation difference for the year	193.6	-66.4
Closing balance, accumulated acquisition values	2,680.0	2,424.5
Opening balance, accumulated depreciation	-1,672.8	-1,645.3
Sales/disposals	126.0	81.7
Acquisition of businesses	-37.7	-
Reclassifications	4.8	-6.4
Realisation of step-up values due to sale	-	1.1
Depreciation of step-up value	-56.1	-55.4
Depreciation for the year	-112.5	-97.7
Translation difference for the year	-135.1	49.2
Closing balance, accumulated depreciation	-1,883.4	-1,672.8
Closing balance, net book value	796.6	751.7

The tax assessment value of the Swedish real estate at December 31, 2005 amounted to SEK 142.9 (126.8) million, out of which SEK 49.1 (49.1) million referred to land and land improvements and SEK 93.8 (77.7) million buildings. The book values of the Swedish real estate amounted to SEK 140.6 (72.0) million, out of which land and land improvements were SEK 26.2 (21.7) million and buildings SEK 114.4 (50.3) million. The increase is related to the extension of the manufacturing plant in Lund.

Note 17 Continued. Property, plant and equipment

Consolidated SEK in millions	2005	2004
Equipment, tools and installations		
Opening balance, accumulated acquisition values	1,897.2	1,969.1
Purchases	88.2	86.7
Acquisition of businesses	17.8	-
Sales/disposal	-124.7	-93.6
Reclassifications	10.1	-
Translation difference for the year	134.5	-65.0
Closing balance, accumulated acquisition values	2,023.1	1,897.2
Opening balance, accumulated depreciation	-1,303.9	-1,325.0
Sales/disposals	113.1	97.8
Acquisition of businesses	-16.7	-
Reclassifications	-5.3	7.8
Depreciation of step-up value	-29.1	-28.6
Depreciation for the year	-90.9	-105.7
Translation difference for the year	-86.0	49.8
Closing balance, accumulated depreciation	-1,418.8	-1,303.9
Opening balance, accumulated revaluations, net	14.3	14.2
Reclassifications	0.2	-
Revaluation for the year	0.1	0.1
Closing balance, accumulated revaluations, net	14.6	14.3
Closing balance, net book value	618.9	607.6
Construction in progress and advances to suppliers concerning property, plant and equipment		
Opening balance, accumulated acquisition values	171.9	58.2
Purchases	1.1	137.2
Acquisition of businesses	1.0	-
Reclassifications	-58.9	-19.6
Translation difference for the year	8.8	-3.9
Closing balance, accumulated acquisition values	123.9	171.9
Closing balance, net book value	123.9	171.9
Leased real estate		
Opening balance, accumulated acquisition values	-	-
Acquisition of businesses	23.0	-
Closing balance, accumulated acquisition values	23.0	-
Opening balance, accumulated depreciation	-	-
Depreciation for the year	-0.2	-
Translation difference for the year	-0.1	-
Closing balance, accumulated depreciation	-0.3	-
Closing balance, net book value	22.7	-

Consolidated SEK in millions	2005	2004
Leased machinery		
Opening balance, accumulated acquisition values	8.2	8.3
Translation difference for the year	0.4	-0.1
Closing balance, accumulated acquisition values	8.6	8.2
Opening balance, accumulated depreciation	-6.0	-5.3
Depreciation for the year	-0.7	-0.7
Translation difference for the year	-0.3	-
Closing balance, accumulated depreciation	-7.0	-6.0
Closing balance, net book value	1.6	2.2
Leased equipment, tools and installations		
Opening balance, accumulated acquisition values	12.6	22.6
Purchases	2.1	1.2
Sales/disposal	-4.8	-13.1
Reclassifications	4.2	1.8
Translation difference for the year	0.8	0.1
Closing balance, accumulated acquisition values	14.9	12.6
Opening balance, accumulated depreciation	-11.1	-12.3
Sales/disposals	4.5	6.1
Reclassifications	-0.3	-2.5
Depreciation for the year	-1.7	-2.6
Translation difference for the year	-0.7	0.2
Closing balance, accumulated depreciation	-9.3	-11.1
Closing balance, net book value	5.6	1.5

Leased real estate, 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.

Non-current assets held for sale

Within Alfa Laval these assets are relating to real estate. Alfa Laval has decided to sell properties in Belgium, Brazil, Finland, France, Germany and Peru. Alfa Laval is however using all of these properties for its operations. This means that none of them has been re-classified as current assets held for sale.

Note 18. Other non-current assets

SEK in millions	Consolidated		Parent company	
	2005	2004	2005	2004
Shares in subsidiaries	-	-	4,460.9	4,460.9
Shares in other companies	4.8	2.9	-	-
Total	4.8	2.9	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	8,191,000	100	4,460.9
Alfa Laval Holding AB	556025-2792	Lund	1,000	100	-
Alfa Laval Holding AB	556025-2792	Lund	1,000	100	-
Alfa Laval NV		Maarssen	227,754	100	-
Alfa Laval Inc		Newmarket	1,000,000	67	-
Alfa Laval BioKinetics Inc		Toronto	1,800	100	-
Alfa Laval S.A. DE C.V.		Tlalnepantla	45,057,057	100	-
Alfa Laval S.A.		San Isidro	699	100	-
Alfa Laval Ltda		Sao Paulo		100	-
Roston do Brasil Ltda		Sao Paulo	5,249	100	-
Alfa Laval S.A.C.I.		Santiago	2,735	100	-
Alfa Laval S.A.		Bogota	12,195	100	-
Alfa Laval S.A.		Lima	4,346,832	100	-
Alfa Laval Venezolana S.A.		Caracas	10,000	100	-
Alfa Laval Oilfield C.A.		Caracas	203	81	-
Alfa Laval (Jiangyin) Manufacturing Co Ltd		Jiang Yin		100	-
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		75	-
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		25	-
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai		100	-
Alfa Laval Taiwan Ltd		Taipei	1,499,994	100	-
Alfa Laval (China) Ltd		Hong Kong	79,999	100	-
PT Alfa Laval Separatama		Jakarta	1,000	80	-
Alfa Laval Iran Ltd		Teheran	2,199	100	-
Alfa Laval KK		Tokyo	1,200,000	100	-
Alfa Techno Service KK		Kanagawa	200	100	-
Alfa Laval Industry (PVT) Ltd		Lahore	119,110	100	-
Alfa Laval Philippines Inc		Makati	72,000	100	-
Alfa Laval Singapore Pte Ltd		Singapore	5,000,000	100	-
Alfa Laval (Thailand) Ltd		Bangkok	792,000	100	-
Alfa Laval Middle East Ltd		Nicosia	40,000	100	-
Alfa Laval Benelux NV/SA		Brussels	98,284	100	-
Alfa Laval Ltd		Sofia	100	100	-
Alfa Laval Slovakia S.R.O.		Bratislava		1	-
Alfa Laval Spol S.R.O.		Hradec Kralove		20	-
Cetetherm S.R.O.		Prague		5	-
Alfa Laval Denmark Holding A/S		Kolding		100	-
Alfa Laval Kolding A/S		Kolding	100,000	100	-
Alfa Laval Nordic A/S		Rødovre	1	100	-
Alfa Laval Copenhagen A/S		Søborg	1	100	-
Alfa Laval Nakskov A/S		Nakskov	242,713	100	-
Alfa Laval Tank Equipment A/S		Ishøj	61	100	-
Alfa Laval Nordic OY		Espoo	20,000	100	-
Alfa Laval Tuusula OY		Tuusula	5,000	100	-
Alfa Laval Nederland B.V.		Maarssen	10,000	100	-
Alfa Laval Benelux B.V.		Maarssen	20,000	100	-
Alfa Laval Merco B.V.		Hoofddorp	1,750	100	-
Alfa Laval Holding A/S		Oslo	520,000	100	-
PHE Holding AB	556306-2404	Skogstorp	2,500	100	-
Alfa Laval Nordic AB	556243-2061	Tumba	1,000	100	-
Cetetherm AB	556058-3162	Ronneby	20,000	100	-
Alfa Laval Corporate AB	556007-7785	Lund	13,920,000	100	-
Alfa Laval (India) Ltd		Poona	11,640,118	64	-
Alfa Laval Korea Ltd		Seoul	364,000	100	-
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam	10,000	100	-
Alfa Laval Nordic A/S		Oslo	10,000	100	-
Mosgormash Alfa Laval Moloko		Moscow		55	-
Alfa Laval Oilfield C.A.		Caracas	47	19	-
Alfa Laval Treasury International AB	556432-2484	Lund	50,000	100	-
Alfa Laval Europe AB	556128-7847	Lund	500	100	-
Alfa Laval Lund AB	556016-8642	Lund	100	100	-
Alfa Laval International Engineering AB	556039-8934	Lund	4,500	100	-

Specification of shares in subsidiaries (continued.)

Company name	Registration number	Domicile	Number of shares	Share of capital, %	Book value SEK in millions
Alfa Laval Tumba AB	556021-3893	Tumba	1,000	100	-
Bitec Enterprise AG		Volketswil	97,900	100	-
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	27,001,755	99	-
OÜ Cetetherm		Tallinn	100	100	-
Alfa Laval SIA		Riga	125	100	-
SIA Cetetherm		Riga	200	100	-
Alfa Laval UAB Ltd		Vilnius	2,009	100	-
Alfa Laval Australia Pty Ltd		Homebush	2,088,076	100	-
Alfa Laval New Zealand Ltd		Hamilton	1,000	100	-
Alfa Laval Holding BV		Maarssen	70,000,000	100	-
Alfa Laval (Pty) Ltd		Isando	2,000	100	-
Alfa Laval Slovakia S.R.O.		Bratislava		99	-
Alfa Laval Spol S.R.O.		Hradec Kralove		80	-
Cetetherm S.R.O.		Prague		95	-
Alfa Laval France SAS		Les Clayes	2,000,000	100	-
Alfa Laval SAS		Les Clayes	560,000	92	-
Alfa Laval Moatti SNC		Les Clayes	24,000	100	-
Alfa Laval Spiral SNC		Nevers	79,999	100	-
MCD SAS		Guny	71,300	100	-
Alfa Laval Vicarb SAS		Grenoble	200,000	100	-
Canada Inc		Newmarket	480,000	100	-
Alfa Laval Inc		Newmarket	481,600	33	-
SCI du Companil		Grenoble	32,165	100	-
Alfa Laval HES SA		Lyon	150,000	100	-
Alfa Laval SAS		Les Clayes	46,700	8	-
Packmanagers SAS		Les Clayes	7,036,836	100	-
Packinox SA		Paris	170,101	49	-
Packinox SA		Paris	178,010	51	-
Ziepack SA		Paris	37,701	51	-
Alfa Laval Holding GmbH		Glinde		100	-
Alfa Laval Mid Europe GmbH		Wiener Neudorf		100	-
Alfa Laval Mid Europe GmbH		Glinde	1	100	-
Alfa Laval Mid Europe AG		Dietlikon	647	100	-
Alfa Laval AEBE		Holargos	807,000	100	-
Alfa Laval Kft		Budapest	1	100	-
Alfa Laval SpA		Monza	1,930,500	99	-
Alfa Laval Polska Sp.z.o.o.		Warsaw	7,600	100	-
Cetetherm Polska Sp.z.o.o.		Warsaw	5,109	100	-
Wytownia Separator Krakow Sp.z.o.o.		Krakow	80,080	100	-
Alfa Laval (Portugal) Ltd		Linda-A-Velha		1	-
Alfa Laval SRL		Bucharest	38,566	100	-
Alfa Laval Iberia SA		Madrid	99,999	100	-
Alfa Laval (Portugal) Ltd		Linda-A-Velha	1	99	-
Alfa Laval Holdings Ltd		Camberley	14,053,262	100	-
Alfa Laval 2000		Camberley	28,106	100	-
Alfa Laval Ltd		Camberley	11,700,000	100	-
Alfa Laval Finance Co Ltd		Camberley	856,000	100	-
Alfa Laval Oilfield Ltd		Aberdeen	500,000	100	-
Ibex Pumps Ltd		Sutton Coldfield	100	100	-
Alfa Laval Pumps Ltd		Eastbourne	100	100	-
SSP Pumps Ltd		Camberley	1,000	100	-
Alfa Laval Separation Ltd		Camberley	375,000	100	-
Rolls Laval Heat Exchangers Ltd		Wolverhampton	5,000	50	-
Toftejorg Ltd		Camberley	50,000	100	-
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	1	1	-
Alfa Laval USA inc		Kenosha		100	-
Alfa Laval US Holding Inc		Kenosha	180	100	-
Alfa Laval Inc		Kenosha	44,000	100	-
Alfa Laval BioKinetics Inc		Philadelphia	100	100	-
Kinetics Engineering P C		Durham	100	100	-
Hynetics Inc		Logan	100	50	-
Alfa Laval US Treasury Inc		Kenosha	1,000	100	-
AO Alfa Laval Potok		Koroljov	31,077,504	100	-
OÜ Alfa Laval		Tallinn	1	100	-
Alfdex AB	556647-7278		500	50	-
Alfa Laval Support Services Pvt Ltd		Poona	9,999	100	-
Alfa Laval SpA		Monza		1	-
Total					4,460.9

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital, %	Book value SEK in thousands
Alfa Laval KK				
Chugairo	Japan	5,250		182.5
Orugano	Japan	769		40.5
Asahi Denka	Japan	11,830		1,466.9
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		12.3
Alfa Laval Nordic OY				
Master Golf Course OY	Finland	1		131.8
Alfa Laval France SAS				
SEMACLA	France	10		9.4
Alfa Laval Vicarb SAS				
SAEM SMD	France	17	0.85	28.2
Alfa Laval HES SA				
Thermothec	France	9,130		1,308.7
Alfa Laval Benelux BV				
Bordewes	Netherlands	1		141.2
Alfa Laval NV				
Dalian Haven Automation Co Ltd	Hong Kong	102	42.5	837.9
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		590.7
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				4,750.1

Note 19. Inventories

Consolidated SEK in millions	2005	2004
Raw materials and consumables	939.0	798.2
Work in progress	978.9	677.2
Finished goods & goods for resale, new sales	807.0	617.5
Finished good & goods for resale, spare parts	323.0	323.0
Advance payment to suppliers	42.8	36.6
Total	3,090.7	2,452.5

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	December 31
2004	468.9	-14.2	93.8	-64.1	-49.4	435.0
2005	435.0	40.7	79.7	-99.5	-43.4	412.5

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 2005 amounts to SEK 171.1 (129.4) million.

Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 162.4 (153.5) 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
2004	196.4	-4.5	101.2	-35.9	-25.8	-	231.4
2005	231.4	22.2	75.9	-87.5	-37.5	0.7	205.2

Note 21. Other short-term receivables

Consolidated SEK in millions	2005	2004
Notes receivable	339.8	371.1
Tax receivable	487.6	385.4
Financial leasing receivables	8.4	8.6
Other receivables	492.3	476.9
Total	1,328.1	1,242.0
Of which, receivables not due within one year		
Notes receivable	10.6	48.1
Other receivables	24.2	18.7
Total	34.8	66.8

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 45.3 (33.2) 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 was paid for Danish Separation Systems and SEK 1.5 (-) million for Toftejorg, see more under the section "Acquisitions" below.

Acquisitions

On February 15, 2005 Alfa Laval has acquired Packinox S.A. in France for SEK 551.3 million. After deducting acquired cash and bank the impact on the cash flow was SEK -504.7 million. Out of the difference between the purchase price paid and the net assets acquired SEK 103.6 million has been allocated to patents and un-patented know-how, SEK 192.1 million to the Packinox trademark, SEK 6.8 million to accrued gross margin in work in progress, SEK 102.8 million to deferred tax liability, while the residual SEK 264.7 million has been allocated to goodwill. The step up value for patents and un-patented know-how is depreciated over 10 years and the step up value for the trademark is depreciated over 20 years. The step up for accrued gross margin in work in progress has been expensed during 2005. Packinox is a world leader in large welded plate heat exchangers for oil & gas and refinery applications, with sales of SEK 495 million in 2005 and 152 employees within R&D, manufacturing and sales.

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

Note 22. Other current deposits

Consolidated SEK in millions	2005	2004
Deposits with banks	254.3	171.7
Bonds and other securities	80.6	78.8
Other deposits	7.5	6.7
	342.4	257.2
Of which, deposits not due within one year		
Deposits with banks	39.3	67.2
Other deposits	4.9	5.2

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. 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. Toftejorg had annual sales of about SEK 210 million and approximately 100 employees.

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	2005	2004	2003
Property, plant and equipment	33.0	-	51.4
Inventory	123.3	-	49.9
Accounts receivable	62.1	-	175.3
Other receivables	90.8	-	73.2
Liquid assets	46.6	-	5.9
Long-term liabilities	-17.9	-	-23.3
Accounts payable	-86.6	-	-107.9
Advance payments and other liabilities	-164.4	-43.9	-130.7
Goodwill	264.7	-27.6	161.9
Other surplus values	302.5	5.1	23.2
Deferred tax	-102.8	14.6	16.5
Purchase price	-551.3	51.8	-295.4
Liquid assets in the acquired business	46.6	-	5.9
Effect on the Group's liquid assets	-504.7	51.8	-289.5

Purchase price reimbursement

In 2004 Alfa Laval 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.

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 where-

by 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 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	2005	2004	2003
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.

The defined benefit plans are in place in Austria, Belgium, Canada, France, Germany, Indonesia, 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 plans that have been reclassified between defined benefit plans and defined contribution plans under IAS 19.

The following table presents how the net defined benefit liability is arrived at out of the present values of the different defined benefit plans, less the unrecognised actuarial losses, the unrecognised past service costs and the fair value of the plan assets.

If the net cumulative unrecognised actuarial gains and losses at the end of the previous year are 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.

Consolidated SEK in millions	2005	2004	2003
Net defined benefit liability			
Present value of the defined benefit obligation, unfunded	-1,098.5	-935.2	-808.3
Present value of the defined benefit obligation, funded	-3,031.8	-2,609.7	-2,552.7
Present value of the defined benefit obligation at year end	-4,130.3	-3,544.9	-3,361.0
Unrecognised actuarial losses	1,101.9	1,045.9	971.5
Unrecognised past service cost	0.3	2.7	5.1
Fair value of plan assets	2,174.5	1,830.9	1,761.5
Defined benefit liability	-853.6	-665.4	-622.9
less amount disallowed	-	-	-5.2
(-) liability/(+) asset	-853.6	-665.4	-628.1

The net plan cost for the defined benefit plans describes the different cost elements of the plans and the expected return on the plan assets. The net plan cost is reported in the income statement on the lines where personnel costs are reported. The interest cost and the expected return are not part of the financial net, but instead just a way to categorize the components of the net plan cost.

Consolidated SEK in millions	2005	2004	2003
Net plan cost			
Current service cost	-76.3	-49.0	-31.0
Interest cost	-184.5	-174.7	-145.8
Expected return on plan assets	135.9	121.0	144.2
Recognised actuarial losses	-66.3	-63.1	-80.6
Recognised past service cost	-0.6	-14.8	-52.0
Effect of any curtailments or settlements	-10.3	18.5	-1.3
(-) cost/(+) income	-202.1	-162.1	-166.5

The following table presents how the present value of the defined benefit liability has changed during the year and lists the different components of the change.

Consolidated SEK in millions	2005	2004	2003
Present value of defined benefit liability at December 31			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1	-3,544.9	-3,361.0	-3,029.3
Reclassification / prior year adjustments	30.2	-187.7	-
Translation difference	-446.6	185.3	410.3
Current service cost	-76.3	-49.0	-31.0
Interest cost	-184.5	-174.7	-145.8
Employee contributions	-4.9	-5.2	-8.0
Current year change in actuarial losses	-67.1	-142.9	-677.8
Recognised past service cost	-0.6	-14.8	-52.0
Effect of any curtailments or settlements	-10.3	18.5	-1.3
Benefit payments	174.7	186.6	173.9
(-) liability/(+) asset	-4,130.3	-3,544.9	-3,361.0

The following table presents how the fair value of the plan assets has developed during the year and lists the components of the change.

Consolidated SEK in millions	2005	2004	2003
Fair value of plan assets at December 31			
Change in plan assets:			
Fair value of plan assets at January 1	1,830.9	1,761.5	1,853.1
Reclassification / prior year adjustments	-33.6	100.4	-
Translation difference	233.3	-97.8	-229.3
Employer contributions	111.1	149.0	67.6
Employee contributions	4.9	5.2	8.0
Actual return on plan assets	202.6	99.2	236.0
Benefit payments	-174.7	-186.6	-173.9
(-) liability/(+) asset	2,174.5	1,830.9	1,761.5

The table below presents how the net defined benefit liability has changed and the factors affecting the change.

Consolidated SEK in millions	2005	2004	2003
Defined benefit liability/asset at December 31			
Change in defined benefit liability/asset			
Defined benefit liability/asset at January 1	-665.4	-628.1	-613.8
Reclassification / prior year adjustments	-43.1	-82.1	-
Translation difference	-84.1	41.9	104.5
Net plan cost	-202.1	-162.1	-166.5
Employer contributions	111.1	149.0	67.6
Change in unrecognised actuarial gains/losses	27.1	17.8	-18.5
Change in unrecognised past service cost	-0.8	-	-
Change in disallowed asset amount	3.7	-1.8	-1.4
(-) liability/(+) asset	-853.6	-665.4	-628.1

The gross plan assets and gross defined benefit liabilities of each plan are to be reported as a net amount. The following table shows how the net asset and the net liability are calculated.

Consolidated SEK in millions	2005	2004	2003
Assets			
Fair value of plan assets	2,174.5	1,830.9	1,761.5
Less amount disallowed	-	-	-5.2
	2,174.5	1,830.9	1,756.3
Netting	-2,125.3	-1,707.4	-1,629.6
Assets in balance sheet	49.2	123.5	126.7
Liabilities			
Present value of the defined benefit obligation at year end	-4,130.3	-3,544.9	-3,361.0
Unrecognised actuarial gains (less losses)	1,101.9	1,045.9	971.5
Unrecognised past service costs	0.3	2.7	5.1
	-3,028.1	-2,496.3	-2,384.4
Netting	2,125.3	1,707.4	1,629.6
Provision in balance sheet	-902.8	-788.9	-754.8

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

Consolidated, %	2005	2004	2003
Discount rate	5%	5%	6%
Expected return on investment	4%	7%	8%
Expected wage increase	4%	4%	4%
Change in health care costs	10%	10%	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 2005:

Consolidated SEK in millions	2005		2004	
	1% increase	1% decrease	1% increase	1% decrease
Effect on:				
Current service costs and interest costs	-6.1	4.6	-7.8	6.2
Present value of the defined benefit obligation	-69.7	57.5	-91.3	74.0

Note 26. Other provisions

Consolidated SEK in millions

			New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	
2004	January 1	Translation difference				December 31
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
2005						
Claims & warranty	346.9	26.2	245.6	-202.1	-46.2	370.4
Deferred costs	89.2	4.0	28.7	-20.8	-11.4	89.7
Restructuring	190.8	1.1	163.6	-241.3	-15.8	98.4
Onerous contracts	31.7	0.4	64.3	-11.2	-	85.2
Environmental	0.8	0.1	-	-	-0.9	0.0
Litigations	112.9	5.0	13.1	-0.2	-12.4	118.4
Other	175.9	10.0	91.5	-80.0	-2.1	195.3
	948.2	46.8	606.8	-555.6	-88.8	957.4

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 165 (175) employees.

Note 27. Loans and net debt

Consolidated SEK in millions	2005	2004
Credit institutions	2,801.6	1,502.1
Senior notes	-	1,044.4
Capitalised financial leases	29.4	4.2
Interest-bearing pension liabilities	2.9	4.8
Total debt	2,833.9	2,555.5
Cash, bank and current deposits	-821.2	-672.0
Net debt	2,012.7	1,883.5

Cash, bank and current deposits include bank and other deposits in the publicly listed subsidiary Alfa Laval (India) Ltd of SEK 125.7 (112.0) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 64.1 percent.

The loans from credit institutions and the senior notes are distributed among currencies as follows:

Consolidated SEK in millions	Current		Non-current	
Currency	2005	2004	2005	2004
CAD	10.9	1.4	-	-
DKK	-	6.0	7.9	7.7
EUR	82.1	115.9	1,273.8	1,054.0
GBP	-	0.6	-	-
INR	4.6	0.9	11.1	8.8
JPY	1.4	-	202.8	233.8
PLN	0.2	2.2	-	-
SEK	-	100.8	-	-
USD	-	9.4	1,206.2	1,002.8
Other	0.6	2.2	-	-
Total	99.8	239.4	2,701.8	2,307.1
Of which, not due within five years:			2,672.2	1,044.4

Loan from credit institutions

On April 12, 2005 Alfa Laval has signed a new senior credit facility with a banking syndicate of EUR 250 million and USD 325 million, corresponding to SEK 4,932.8 million. The credit facility replaced the previous syndicated loan and has in addition been used for the redemption of the Group's senior notes. The new facility provides increased flexibility, extended maturity and reduced costs. At December 31, 2005, SEK 2,661.2 million of the facility were utilised.

The average interest and currency duration including derivatives is 16.8 (7.2) months at the end of 2005. 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	0.40%
2.00 - 2.50	0.325%
<2.00	0.25%

At year end the mark up is 25 (45) (65) interest points. At the end of 2005 the loans are accruing interest in the range of 0.49% - 4.62% (0.49% - 2.79%) (0.72% - 4.60%). The average interest rate at the end of 2005 was 3.36 (2.26) (1.96) percent.

At the end of December 2005, 68 (26) percent of the syndicated loans are hedged to a fixed interest rate.

Transaction costs totalling SEK 25.3 (28.1) 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 -7.2 (-6.5) (-7.8) 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 2005.

Senior notes

Alfa Laval has redeemed the outstanding senior notes on November 15, 2005 at a premium of 6.063 percent. This has incurred an additional interest cost during the fourth quarter 2005 of SEK 67.5 million for the premium and SEK 21.0 million for the outstanding capitalised transaction costs, totalling SEK 88.5 million. These costs are reported as financial comparison distortion items within interest expenses, see Note 6.

The background was the following. 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 senior notes placed with institutional investors of EUR 220 million. They were registered with the Stock Exchange in Luxembourg in December 2000. In July 2001, the notes were registered with the SEC (Securities and Exchange Commission) in the US. The notes accrued interest at 12.125 percent and fell due 2010. Transaction costs totalling SEK - (24.6) million have been capitalised and amortised over the maturity of the notes. The current year's cost for the fee amortisation is SEK -3.6 (-4.6) (-5.9) million.

Before the redemption, Alfa Laval has re-purchased senior notes 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 is reported as an interest cost.

Note 28. Other current liabilities

	Consolidated		Parent company	
SEK in millions	2005	2004	2005	2004
Financial lessee payable	29.4	4.2	-	-
Other non-interest bearing liabilities	578.9	475.3	0.2	0.2
Total	608.3	479.5	0.2	0.2

Note 29. Accrued costs and prepaid income

Consolidated SEK in millions	2005	2004
Accruals for social security	181.9	151.3
Reserve for severance pay	168.8	164.4
Accrued interest expenses	25.5	20.8
Other accrued expenses and prepaid income	602.7	465.3
Total	978.9	801.8

Note 29 continued

Consolidated SEK in millions	2005	2004
Of which, accrued costs and prepaid income not due within one year:		
Accruals for social security	29.3	22.5
Reserve for severance pay	83.1	72.0
Other accrued expenses and prepaid income	6.9	6.7
Total	119.3	101.2

Note 30. Pledged assets and contingent liabilities

Consolidated SEK in millions	2005	2004
Pledged assets		
Other pledges and similar commitments	68.4	50.6
Total	68.4	50.6
Contingent Liabilities		
Discounted bills	104.2	96.5
Performance guarantees	676.1	688.1
Other contingent liabilities	652.3	618.2
Total	1,432.6	1,402.8

In the 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 4.8 (5.4) (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 has been prolonged by two years from December 31, 2005. 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) 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 DeLaval in Germany for SEK 12.1 (12.5) (13.6) million. Tetra Pak 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	2005	2004
Assets:		
Accounts receivable	34.3	19.5
Other receivables	55.7	102.3
Liabilities:		
Accounts payable	17.2	13.8
Other liabilities	2.4	1.2

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

Consolidated SEK in millions	2005	2004	2003
Income statement:			
Net sales	788.6	805.8	789.8
Other operating income	12.1	12.5	13.6
Other operating costs	-3.3	-3.3	-3.6

Note 32. Work in progress

Consolidated SEK in millions

	2005	2004	2003
Gross amount of project sales revenue recognised in the period	554.5	636.8	467.6
Aggregated amount of costs incurred and recognised profits (including deduction for reported losses)	788.2	769.2	599.0
Advances received	152.9	288.1	219.9
Retentions	57.4	34.4	42.4
Gross amount due from customers for plant projects	148.8	112.1	175.2
Gross amount due to customers for plant projects	0.0	0.0	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 235.8 (232.4) (207.4) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 2.1 (1.2) 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 Year	Operating leases		
	2005	2004	2003
2004	N/A	N/A	77.3
2005	N/A	65.5	64.7
2006	84.5	51.5	47.0
2007	61.5	37.0	29.2
2008	50.1	25.6	20.2
2009	27.5	7.7	N/A
2010	16.5	N/A	N/A
Later	70.0	26.5	35.8
Total	310.1	213.8	274.2

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

Consolidated SEK in millions Year	Financial leases			Present value of financial leases		
	2005	2004	2003	2005	2004	2003
2004	N/A	N/A	7.1	N/A	N/A	6.8
2005	N/A	1.2	3.2	N/A	1.2	3.0
2006	3.3	0.9	2.0	3.3	0.8	1.8
2007	2.6	0.9	0.9	2.5	0.8	0.8
2008	0.7	0.8	0.4	0.6	0.7	0.3
2009	-	0.4	N/A	-	0.3	N/A
2010	-	N/A	N/A	-	N/A	N/A
Senare	-	-	-	-	-	-
Total	6.6	4.2	13.6	6.4	3.8	12.7

Note 34. Reconciliation to US GAAP**Consolidated income statement**

SEK in millions	Note	2005	2004	2003
Net income/(loss) under IFRS/Swedish GAAP attributable to the equity holders of the parent		884.8	794.7	645.8
<i>US GAAP adjustments:</i>				
Goodwill and other intangibles with indefinite useful lives	<i>a</i>	-	-	191.3
Leveraged buy-out accounting	<i>b</i>	-4.1	15.9	7.1
Derivative instruments and hedge accounting	<i>c</i>	-154.6	37.4	266.7
Tooling costs	<i>d</i>	0.2	-18.1	-4.4
Capitalised software	<i>e</i>	-	-5.8	-16.7
Sale and lease back	<i>g</i>	-3.0	-	-
Other	<i>i</i>	-0.3	-0.3	-0.3
Deferred taxes:				
Tax effect of US GAAP adjustments	<i>j</i>	43.3	-2.8	-67.6
Sum of adjustments		-118.5	26.3	376.1
Net income under US GAAP		766.3	821.0	1,021.9
Earnings per share (SEK)		6.86	7.35	9.15
Average number of shares		111,671,993	111,671,993	111,671,993

Consolidated equity capital

SEK in millions	Note	2005	2004
Equity capital under IFRS/Swedish GAAP		5,811.4	5,269.2
<i>US GAAP adjustments:</i>			
Goodwill and other intangibles with indefinite useful lives	<i>a</i>	393.3	357.6
Leveraged buy-out accounting	<i>b</i>	414.5	397.3
Derivative instruments and hedge accounting	<i>c</i>	-	154.6
Tooling costs	<i>d</i>	74.1	73.9
Minority interest	<i>f</i>	-131.7	-119.2
Sale and lease back	<i>g</i>	-3.0	-
Other	<i>i</i>	4.2	4.5
Deferred taxes:			
Tax effect of US GAAP adjustments	<i>j</i>	43.3	-2.8
Sum of adjustments		794.7	865.9
Shareholder's equity under US GAAP		6,606.1	6,135.1

Change in consolidated equity capital according to US GAAP

Consolidated, SEK in millions

As per balance sheet on December 31, 2002	5,267.1
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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
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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
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2005

Dividends	-530.4
Translation difference	235.1
Net income for 2005 according to US GAAP	766.3

As per balance sheet on December 31, 2005	6,606.1
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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.

With the implementation of IFRS 3 Business Combinations this difference between IFRS and US GAAP disappears. The difference in equity capital relating to prior years is however still there.

An impairment test has been performed at the end of 2005 and 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. Subsequent 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:

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 carry-over 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 of 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

With the implementation of IAS 39 during 2005 any major differences between IFRS and US GAAP have been removed in all areas relevant to Alfa Laval. Alfa Laval has also implemented documentation requirements to qualify for hedge accounting on derivative financial instruments.

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

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 established a new model for accounting for derivatives and hedging activities and superseded and amended 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.

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. 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.

The Group has issued long-term debt in various currencies that for IFRS 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. 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 had not been met, the change in value of the long-term debt because of currency fluctuations was reported in earnings for US GAAP purposes until 2004. With the implementation of IAS 39 in 2005, the documentation criteria are equivalent.

The profit and loss figures for 2005 concerning derivative instruments only relate to reversals of prior year balances.

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) Minority interest

In US GAAP the minority interest is not reported as a part of equity. This means that a corresponding adjustment is made in order to arrive at the equity according to US GAAP.

g) Sale and lease back

In December 2005 the property in Richmond in the US was divested for SEK 95.6 million with a realised gain of SEK 3.3 million. The sale was a sale and lease back with a 10 year renting period with a break after 7 years. US GAAP does not allow the recognition of a sale of a property if the seller retains any future obligations. Staying as tenant is such an obligation. In that case the realised gain must be phased over the remaining renting period.

h) Defined benefit obligations

The IFRS framework IAS 19 "Employee Benefits" and the US GAAP frameworks FAS 87 "Employers' Accounting for Pensions" and FAS 106 "Employers' Accounting for Postretirement Benefits Other than Pensions" are similar in many respects, but Alfa Laval is affected by the following difference.

If the accumulated benefit obligation exceeds the sum of the fair value of the plan assets and unrecognised past service costs, an additional minimum liability should be recognised under US GAAP. This amount equals the unrecognised actuarial losses. IAS 19 does not have a corresponding rule. The additional minimum liability is reported as an adjustment net after tax to comprehensive income. This adjustment was made first in 2005 and prior years have been restated accordingly.

The US GAAP reconciliation items can be summarized as follows.

Consolidated SEK in millions	2005	2004	2003
Hedges of net investments in foreign subsidiaries under IFRS/Swedish GAAP not qualifying for hedging under FAS 133	-	-19.1	194.8
Change in fair market value of interest-rate swaps not recognized under IFRS/Swedish GAAP	-	-	61.1
Change in fair market value of foreign exchange derivatives not recognized under IFRS/Swedish GAAP	-154.6	56.5	10.8
Total	-154.6	37.4	266.7

i) 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 depreciation. 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 IFRS, 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 IFRS, 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, 2005 the Group had sold receivables with recourse totalling SEK 104.2 (96.5) million. These are disclosed as discounted bills in Note 30. 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 a 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 was 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, Finland, France, Germany and Peru. Alfa Laval is using all of these properties for its operations.

Accounting under FAS 144 does not mean any difference compared to IFRS. US GAAP is however requiring a reporting of assets for sale according to the below:

Assets for sale

Consolidated SEK in millions	2005		2004	
	Carrying value	Fair value	Carrying value	Fair value
Real estate for sale	36.4	123.7	39.4	127.1

j) 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	2005	2004	2003
Swedish	223.6	593.3	744.0
Foreign	681.0	653.7	474.8
Total	904.6	1,247.0	1,218.8

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

Consolidated, SEK in millions	2005	2004	2003
<i>Current:</i>			
Swedish	-69.3	-82.4	-7.0
Foreign	-305.4	-335.0	-276.0
<i>Deferred:</i>			
Swedish	41.2	-84.1	5.3
Foreign	195.2	75.5	80.8
Total	-138.3	-426.0	-196.9

Cash Flow Information

The definitions of "cash flows" differ between IFRS and US GAAP. Cash flow under IFRS 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 IFRS and US GAAP. Both IFRS and US GAAP segregate cash flows between operating activities, investing activities and financing activities,

however, certain items are included in different categories for IFRS 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 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 items included in other comprehensive income and loss that are not part of net income, are the additional minimum liability for unrecognised actuarial losses and the currency translation adjustment. There is a tax effect relating to the first item but not to the latter. Comprehensive income is not a required disclosure under IFRS.

Comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	Note	2005	2004	2003
According to US GAAP:				
Net income		766.3	821.0	1,021.9
Defined benefit obligations	<i>h</i>	-48.5	-49.9	-270.6
Foreign currency translation		235.1	-37.8	-267.1
Comprehensive income		952.9	733.3	484.2

Accumulated comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	Note	2005	2004	2003
According to US GAAP:				
Accumulated net income		2,497.1	1,730.8	909.8
Defined benefit obligations	<i>h</i>	-749.3	-700.8	-650.9
Foreign currency translation		-386.2	-621.3	-583.5
Accumulated comprehensive income		1,361.6	408.7	-324.6

Proposed disposition of earnings

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

Unrestricted equity capital	277,041,836
Transfer from restricted funds	1,500,000,000
Received Group contribution, net after tax	82,102,443
Net income for 2005	-30,363,317
	1,828,780,962

The Board of Directors propose a dividend of SEK 5.10 (4.75) per share corresponding to SEK 569,527,164 (530,441,967) and that the remaining income of SEK 1,259,253,798 (277,041,836) be carried forward.

True and fair view

The Board of Directors and the President hereby confirm that, to the best of our knowledge, this Annual Report gives a true and fair view of the Group's financial position and results of operation, meaning that it is in accordance with International Financial Reporting Standards for publicly listed companies, that the supplied information agrees with the actual circumstances and that nothing of significance has been omitted that could have an impact on the perception of the Group that has been created by this Annual Report.

Lund, March 1, 2006

Anders Narvinger
Chairman

Gunilla Berg

Björn Hägglund

Per Olov Jakobsson

Arne Kastö

Jan Nilsson

Susanna Holmqvist Norrby

Finn Rausing

Jörn Rausing

Waldemar Schmidt

Lena Olving Öhberg

Lars Renström
President

Audit Report

To the annual 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 President of Alfa Laval AB (publ) for the year 2005. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 President and significant estimates made by the Board of Directors and the President 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 President. We also examined whether any board member or the President 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 comprising, pages 34-92, Nine-year overview and

the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual 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 Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Lund March 1, 2006

Ingvar Ganestam
Authorized Public Accountant

Kerstin Mouchard
Authorized Public Accountant

Corporate Governance Report 2005



The natural driving force

C_2H_5OH

Or ethanol, to spell it out more clearly. Ethanol is extracted from barley, wheat and other agricultural products and is used as an additive in the fuel with which you fill up your car. During the combustion process, it is converted into pure water and carbon dioxide, providing plants with the perfect atmosphere in which to thrive and thus closing the natural ecocycle. Alfa Laval plays a key role in this constantly ongoing process. We are among the world leaders in the manufacture of heat exchangers, evaporators, condensers and separators for ethanol production. And we are ready to meet the growing need for new plants.

Corporate Governance Report 2005

Alfa Laval applies the Code

The Board of Directors of Alfa Laval hereby presents its Corporate Governance Report for 2005.

Alfa Laval is listed on the Stockholm Stock Exchange's O-list and has a market value in excess of SEK 3 billion. Accordingly, the company has an obligation to apply the Swedish Code of Corporate Governance ("the Code") as of July 1, 2005. Among other requirements, this means that a Corporate Governance Report must be appended to the Annual Report. The Code stipulates that the Corporate Governance Report shall also be examined by the company's auditors, and this has been done.

The Code was introduced to establish the prerequisites for exercising an active and responsible ownership role, to guarantee shareholders the opportunity to uphold their interests vis-à-vis the company's management organs, to clarify the division of roles and responsibilities between management and control organs and to ensure optimal openness toward shareholders and the capital markets. These are principles that have guided the work of Alfa Laval's Board of Directors for many years.

If companies that are subject to the Code fail to apply it in any respect, this shall be clearly stated and the reasons explained. Alfa Laval intends to apply the Swedish Code of Corporate Governance.

Since the Code did not become effective until July 1, 2005 no interim report was reviewed by the company's auditors. The Board's Audit Committee has decided that the nine-month report will be reviewed by the auditors as of 2006.

The Board of Directors is responsible for ensuring that the Code is followed by both the Board, the Group Management and the company in general.

The Board of Directors will continually ensure that the Code is followed by Alfa Laval.

Lund, March 2006
Anders Narvinger
Chairman of the Board of Directors

Corporate Governance at Alfa Laval



The diagram gives a general picture of corporate governance at Alfa Laval.

The Annual General Meeting is the highest decision-making organ and annually appoints, among others, the members and chairman of the Board of Directors, based on proposals from the Nominating Committee. The Board's responsibilities are regulated by the Swedish Companies Act and the Board's formal work plan.

The president manages the company's operations and draws his closest support from a management group. The company's external auditors scrutinize the company, including the Annual Report. They also make a statement concerning the discharge of the Board from liability. The internal audit involves examination of a broad range of procedures and issues.

The Corporate Governance Report, in accordance with the Swedish Code of Corporate Governance (the Code), gives a detailed description of how the different units for corporate governance within Alfa Laval act and interact.

Articles of Association

In accordance with Alfa Laval's Articles of Association, the registered name of the company is Alfa Laval AB (publ). The registered office of the Board of Directors of the company shall be in Lund municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The par value of each share shall be SEK 10. The fiscal year is the calendar year.

The objective of the company's operations is, directly or through subsidiaries and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, preferably within the areas of separation, heat transfer and flow technology, to administer fixed and movable property, and other related operations.

Alfa Laval's Board of Directors shall comprise at least four and not more than ten members, with not more than four deputy members. The number of auditors shall be at least one and not more than two, with not more than two deputies. Auditors are appointed when necessary at the Annual General Meeting for the period until the close of the Annual General Meeting held during the fourth fiscal year after the election of auditors. Authorized public accountants or registered public accounting firms are appointed as auditors and, when applicable, deputy auditors.

In addition to the above information, the Articles of Association also contain rules concerning the procedures to be followed at Annual General Meetings. The Articles of Association are available in their entirety on the Alfa Laval website, www.alfalaval.com. Alfa Laval's current Articles of Association were adopted at the Annual General Meeting held on April 8, 2002. As a result of a new Swedish Companies Act with effect from January 1, 2006, a motion will be made to the 2006 Annual General Meeting to adopt new Articles of Association, with the aim of adapting the Articles of Association to the new Swedish Companies Act.

Annual General Meeting

The Annual General Meeting (AGM) is the Alfa Laval Group's highest decision-making body. According to Alfa Laval's Articles of Association, the Annual General Meeting shall be held within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the AGM takes place at the end of April or beginning of May each year in Lund.

The AGM for fiscal year 2004 was held in Lund on April 27, 2005. Lawyer Bertil Vilard was elected the meeting chairman. Following the President's report, Board Chairman Anders Narvinger spoke about the Board's activities and the Remuneration Committee's work and about the Board's intention to institute an Audit Committee. All the persons nominated to the Alfa Laval Board, except Björn Häggglund, were pre-

sent at the meeting. The company's auditors were represented by Kerstin Mouchard.

As a result of the new Companies Act, a motion will be put to the 2006 AGM to adopt new Articles of Association in which the Swedish term used to refer to the Annual General Meeting is changed from "ordinarie bolagsstämma" to "årsstämma."

Decisions made at the 2005 Annual General Meeting

The most important decisions made at the 2005 Annual General Meeting were as follows:

- The AGM adopted the income statement and balance sheet, decided in favor of disposing of the company's profits in accordance with the Board's proposal to the effect that a dividend of SEK 4.75 per share be paid for 2004 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. At the 2004 AGM, two auditors and two deputy auditors were appointed, with their assignments extending until the fourth fiscal year after the election of auditors – in other words, up to and including the 2008 AGM.
- The AGM approved the Nominating Committee's proposal that fees to the Board and its committees should be SEK 2,625,000.
- The AGM decided that remuneration of auditors shall be in accordance with invoices submitted.
- Election of members was in accordance with the Nominating Committee's proposal of Anders Narvinger, Gunilla Berg, Lena Olving, Finn Rausing, Jörn Rausing and Waldemar Schmidt. Björn Häggglund and Lars Renström were elected to the Board, replacing Christian Salamon and Björn Savén, who had declined reelection.
- The Meeting decided that the company's share premium reserve be reduced by SEK 1,500,000,000 to SEK 1,269,819,376,

that the amount of the reduction shall be allocated to a fund to be used at the discretion of the AGM,

that the decision to reduce the reserve is conditional upon permission from a court of law, and

that the Board and any person appointed by the Board are entitled to make minor changes to the above decision that may result from the application for permission from a court of law for the reduction.

- The AGM decided that a Nominating Committee should be established to prepare and present proposals to the AGM pertaining to election of the Meeting Chairman, the Board Chairman, Board members and, when appropriate, auditors, as well as the fees payable to Board members and auditors.

Extraordinary General Meetings

Extraordinary General Meetings are held if the Board considers there is reason to do so. No Extraordinary General Meetings were held during 2005.

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. At the close of the third quarter, the Board Chairman shall contact the company's five largest shareholders. These are then entitled to appoint one member each to 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 the eight largest shareholders need be consulted, if this is required in order that the Nominating Committee consists of at least three members. The chairman of the Nominating Committee shall be a shareholder representative. The chairman of the Nominating Committee shall not be the Board Chairman or any other Board member. Individual shareholders shall be entitled to submit proposals for Board members to the Nominating Committee for further consideration within the framework of its work.

Information about the Nominating Committee's composition shall be published in Alfa Laval's interim report for the third quarter and on the company's website not later than six months before the AGM.

The Nominating Committee has the right to charge costs to the company for engaging recruitment consultants if this is deemed necessary to achieve a proper selection of candidates for the Board.

The Nominating Committee shall report on its activities at the AGM.

Nominations for the 2006 Annual General Meeting

In accordance with a decision made at Alfa Laval AB's AGM on April 27, 2005, the five major shareholders in Alfa Laval appointed the following members to the Nominating Committee prior to the 2006 AGM: Finn Rausing, Tetra Laval; Magnus Wärn, AMF Pension; Björn Franzon, Fourth AP Fund; Jan Anderson, Robur; Cecilia Lager, SEB Fonder; and Alfa Laval's Board Chairman Anders Narvinger. The chairman of the Nominating Committee is Björn Franzon. Individual shareholders can put forward

proposals for Board members to any member of the Nominating Committee. For contact details, see Alfa Laval's website, www.alfalaval.com.

Nomination process

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 met four times. As the basis for its work, information was analyzed regarding the company's operations, financial and strategic development, 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, the Board's reviews with the auditors and late changes among the company's major owners. The Board Chairman, as part of the 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 Code. As part of the Nominating Committee's work, the Board Chairman shall also report on other circumstances affecting the Board's work, such as the need for particular expertise that could be of importance for the nomination process.

Candidates for the Nominating Committee are sought through recommendations, recruitment consultants and nomination proposals from shareholders.

The Board and its work

In regard to the Board members elected by the AGM, the Board shall consist of at least four and not more than ten members, and a maximum of four deputies. These are elected annually for the time until the conclusion of the next AGM. Four members and four deputies are appointed by the employees. Key persons within the company are invited to Board meetings as consultants and experts. The company's chief legal counsel serves as Board secretary. The work of the Board is regulated by an annually updated formal work plan that sets 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 to the Board to enable the latter to properly assess the financial situation on an ongoing basis.

The Board forms two committees within itself – a Remuneration Committee with two members and an Audit Committee with three members. The Board holds normal meetings at least four times each year.

For further information about the Board's members, see pages 100-101.

The Board's responsibilities

According to the Swedish Companies Act and the Board's format work plan, the Board is responsible for preparing and evaluating Alfa Laval's overall, long-term

strategies, adopting budgets and business plans, checking and approving financial statements, adopting key guidelines, making decisions on acquisitions and divestments of operations and deciding on major investments and significant changes in Alfa Laval's organization and operations.

The Board (through its Audit Committee) also procures auditing services and maintains ongoing contact with the company's auditors. The Board appoints the president and defines the instructions the president must follow. The Board (through the Remuneration Committee) also determines salaries and remuneration to the president and members of the Group Management.

The Board's formal work plan

The Board's formal work plan is determined annually in a statutory meeting following the AGM.

The formal work plan describes the Board's work assignments and the division of responsibility between the Board and the president. The formal work plan also prescribes that the Board shall have a Remuneration Committee and an Audit Committee, as well as defining the role of the Board Chairman.

The company president prepares an agenda for each meeting in consultation with the Board Chairman. Board members

who wish to discuss a particular matter must inform the Board Chairman well in advance, so that the requisite information or documentation on which to base decisions can be prepared.

Notices of meetings, together with the requisite information or documentation on which to base decisions, shall reach Board members not later than seven days prior to the date of the meeting. Minutes from Board meetings shall be numbered, and all Board members shall receive copies. The original shall be stored in a safe manner by the company. This is the responsibility of the company president.




















Matters discussed by the Board are by definition confidential, and every Board member is subject to a duty of confidentiality regarding matters that could harm the company.

Board Chairman

The Board Chairman directs the work in a manner that will ensure its accordance with the Swedish Companies Act. The Chairman is also responsible for ensuring that the Board's work is well organized and efficiently conducted, so that the Board fulfills its tasks.

In dialog with the company's president, the Chairman monitors developments and is responsible for the other members

Present at Board meetings and committee meetings

Main Board	Remuneration Committee**	Audit Committee***		
			 Chairman	
			 Member	
10 	2 	2 	Anders Narvinger	Elected at AGM
8 	-	2 	Gunilla Berg	
4 	-	-	Björn Häggglund*	
7 	-	-	Lena Olving	
10 	-	2 	Finn Rausing	Employee representatives
10 	2 	-	Jörn Rausing	
6 	-	-	Lars Renström*	
9 	-	-	Waldemar Schmidt	
7 	-	-	Per Olov Jacobsson	
10 	-	-	Susanna Norrby	
8 	-	-	Arne Kastö	
8 	-	-	Jan Nilsson	
10	2	2		No. of meetings

* Elected at the company's Annual General Meeting on April 27.

** Until the Annual General Meeting Björn Savén was also a member of the Remuneration Committee

*** Until the Annual General Meeting the entire Board served as the Audit Committee

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.

The Chairman represents the company in ownership issues.

Independent Board members

All Board members selected by the AGM are considered to be independent of the company, except Lars Renström, who is president and CEO of the company. Two members, Finn Rausing and Jörn Rausing, are considered to have a relationship of dependence to the company's largest owner, Tetra Laval, which, as at December 31, 2005, owned 17.68 percent of the shares. The other members are independent of major shareholders. Board members have a duty to devote the necessary time and attention to their Board work and to possess the knowledge this requires, in order to further the company's and its shareholders' interests in the best possible manner.

Board work during 2005

Ten Board meetings were held during 2005. The meetings normally lasted four hours. Board meetings normally take place in Lund. In one case, the meeting took the form of a telephone conference.

The normal agenda items for Board meetings include earnings results, order trends, investments, acquisitions and shareholder trends.

In addition to the normal agenda items, the Board meetings held during 2005 addressed the following matters:

- the company's strategic direction
- overall financing
- corporate governance
- asbestos-related lawsuits in the US
- audit planning
- raw material prices

Major decisions made by the Board during the year included the acquisitions of Tranter and Packinox.

Board decisions are made based on open discussion led by the Chairman. During the year, no dissenting opinion on any issue was entered in the minutes.

Audit Committee

Until the 2005 AGM, the entire Board acted as an Audit Committee. Thereafter, a special Audit Committee was instituted. Members of the Audit Committee are appointed annually within the Board. During 2005, the committee comprised Finn Rausing (chairman), Gunilla Berg and Anders Narvinger. During the year, the Audit Committee held two meetings averaging approximately three hours in length. Minutes are kept at all meetings of the Audit Committee and are distributed

to Board members. The Audit Committee has the right to make decisions regarding, among other matters, the focus of both the external and internal audits, and the formulation of guidelines for financial reporting and follow-up.

The Audit Committee's work includes continually monitoring the effectiveness of the internal controls. The Committee's duties also involve evaluation and discussion of significant issues within the area of accounting and financial reporting. The Audit Committee examines the procedures for reporting and financial control, the auditors' work, their qualifications and their independence. Its supervision also encompasses other key matters related to financial reporting. The committee assists management in identifying and evaluating the primary operational risks and ensures that management focuses on these matters.

Remuneration Committee

Alfa Laval's Remuneration Committee is appointed on an annual basis within the Board. During 2005, it comprised Anders Narvinger (chairman) and Jörn Rausing. Until the AGM on April 27, Björn Savén was also a member. The Remuneration Committee held two meetings during 2005. In addition, the committee maintains contacts in connection with hirings and is involved when other conditions of employment relating to the president or other members of Group Management require discussion. Minutes are kept at all meetings of the Remuneration Committee and the contents are distributed to Board members.

The Remuneration Committee's assignment is to prepare material relating to salary and employment conditions for the president and senior executives who report directly to the president, and to propose principles regarding employment conditions for Group Management to be submitted to the AGM for approval.

Evaluation of the Board's work

The Board evaluates its work on an ongoing basis through open discussions and interviews between the Board Chairman and

individual Board members. In addition, the Board Chairman ensures that the work of the Board is evaluated annually. The evaluation of the Board's work focuses on the Board's work forms, work climate and access to and need for special Board expertise. Among other purposes, the evaluation serves to aid the Nominating Committee in its task of nominating Board members and proposing remuneration levels.

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. Supplements are paid to the chairman of the Audit Committee and to members of the audit and Remuneration Committees. No Board member is entitled to pension payments from the company.

The table on this page summarizes the remuneration received by all Board members from Alfa Laval for the period from the 2005 AGM until the 2006 AGM.

Group Management

Alfa Laval's Group Management comprises 11 persons led by President Lars Renström, who is also CEO of the Alfa Laval Group. The president directs daily operations and is responsible for the Board receiving information and the necessary decision-making foundation. The president is responsible for ensuring that the company's accounting complies with applicable laws and provisions.

The Group Management staff consists of the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board. For further information about Group Management, see pages 102-103.

The individuals in Group Management are responsible both for their own area of operation and the Group as a whole. The management held 11 minutes meetings during 2005. In addition to these meetings, quarterly reviews of operations are held with the heads of divisions and geographical regions. These deal with the business situation, earnings projections

Remuneration to the Board

Compensation is fixed, with no variable element. There is no remuneration for Board members employed in the company.

	Main Board	Remuneration Committee	Audit Committee
Anders Narvinger (Chairman)	675,000	50,000	50,000
Gunilla Berg	275,000	0	50,000
Björn Hägglund	275,000	0	0
Lena Olving	275,000	0	0
Finn Rausing	275,000	0	100,000
Jörn Rausing	275,000	50,000	0
Lars Renström	0	0	0
Waldemar Schmidt	275,000	0	0
Total	2,325,000	100,000	200,000

for the upcoming 12 months and specific questions for the various operational components.

Fixed and variable remuneration

President and CEO Lars Renström currently has a base salary of SEK 4,400,000 per year. He has a bonus provision with a non-guaranteed target bonus of 25 percent of the base salary and an upper limit of 50 percent.

Other senior executives comprise the ten members of Group Management other than the president. Their remuneration totals SEK 21.1 M (19.1), of which bonuses made up SEK 2.4 (2.2). The bonus figure relates to bonuses paid during the year.

Pensions

Company President Lars Renström 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 to work for Alfa Laval after the age of 60, he will not receive any pension during the time he is still receiving salary. On top of the ordinary ITP he has a defined-contribution benefit comprising 50 percent of the base salary.

Lars Renström receives severance pay corresponding to two years salary when notice of termination is from the company prior to 58 years of age, which gradually declines to six months at 60 years of age.

A few members of Group Management have older defined-benefit commitments that preferentially relate to retirement at 62 years of age.

Old age pension after 65 and family pension according to ITP also include salary amounts above the ITP plan's 30 base amounts. Members of Group Management have a special family pension that represents a supplement between the old-age pension and the family pension according to ITP. In addition, they may exchange salary and bonuses for a temporary old age and family pension.

During 2005, Alfa Laval's expenses for pension premiums totaled SEK 376.9 M (382.7).

Currently, Alfa Laval is working on a solution for management that will be fully premium based.

Severance pay/Termination of employment

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 a severance payment to be made.

Decision procedures for remuneration to Group Management

The remunerations to the Chief Executive Officer/President and other members of Group Management are decided in the Remuneration 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, a variable remuneration in the form of a yearly bonus up to 30 percent of salary. The size of the resulting bonus depends on the outcome of a number of financial measurements and the results of special projects, all compared with the objectives established for the year.

Fixed salary and maximum variable salary are shown in the table below (SEK 000s).

	Fixed	Variable
Lars Renström, President	4,400	Max 50%
Others	18,700	Max 30%

Financial reporting

The Board oversees financial reporting through instructions to the president. The Audit Committee handles all the financial reports issued by the company, while the Board as a whole handles the company's quarterly reports and year-end report. The Audit Committee also handles quarterly risk reporting and information about risk assessments, disputes and any irregularities that may occur.

Policy documents

As governance instruments, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples of such documents include the Board's procedural rules, the president's instructions, reporting instructions, code of ethics, investment policy, finance policy and communication policy. The Board annually checks that these instructions and policies remain relevant and up-to-date.

Internal controls

The Board is responsible for the company's internal controls, the overall purpose of which is to protect shareholders' investments and the company's assets. At Board meetings during 2005, the Board as a whole received reports from the company's external auditors on one occasion. In addition, the Board's Audit Committee received reports from the company's external auditors on two occasions. In one instance, the Board received a report from the company's external audi-

tors without the president or any other representative of Group Management being present.

Internal audit, organized directly under the Audit Committee, reported to the Audit Committee on one occasion.

For further information about internal controls, see the Board's report on internal controls on page 106, which describes the control environment, risk assessment, control operations, information and communication, and the supervision of the internal control system.

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 2005, 20 internal audits were carried out. The audits encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining, for example:

- efficiency within the Group
- the processes that ensure that the principles for best practice are applied and that the controls that have been systematically integrated are relevant
- the processes that identify and handle business risks
- the existence of systems to ensure that financial transactions are implemented, archived and reported in an accurate and lawful manner
- the systems and processes established by the management group to ensure that business operations are conducted in accordance with the policies and procedures that management has established.

Opportunities to improve management control, the company's profitability and the organization's image may be identified during audits.

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

To ensure that concrete effects result from the internal audits, a follow-up procedure based upon agreed measures has been established.

Risk management

Alfa Laval's risk management processes are explained in the Risk management section on pages 60-63 of the Annual Report.

Audits and auditors

The 2004 AGM gave a renewed mandate to auditor Ingvar Ganestam and newly elected Kerstin Mouchard. Both are elected until the 2008 AGM. As deputy auditors, the 2004 AGM reelected Håkan Olsson and newly elected Thomas Swenson, who are both elected until the 2008 AGM. All are authorized public accountants with Ernst & Young AB.

Ingvar Ganestam, born in 1949, has been an auditor for Alfa Laval since 2000. Kerstin Mouchard, born in 1952, has been an auditor for Alfa Laval since 2004. Håkan Olsson, born in 1961, has been a deputy auditor for Alfa Laval since 2000. Thomas Swenson, born in 1957, has been an auditor for Alfa Laval since 2004.

In Alfa Laval's judgment, none of these

auditors has any relationship to Alfa Laval, or a company close to Alfa Laval, that could affect their independent status in relation to the company. All of the auditors also possess the requisite competence to be able to execute their assignment as auditors for Alfa Laval.

Remuneration of auditors (see note 4 on page 68)

An audit assignment involves examining the Annual Report, evaluating the accounting principles employed, making significant judgments concerning corporate management and evaluating the overall presentation in the Annual report. It also involves making the necessary checks on which to base a decision on discharging the Board from liability. Any other tasks

performed are defined as other assignments.

US Securities 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 US Securities and Exchange Commission (SEC). Through registration, Alfa Laval became subject to legislation referred to as the Sarbanes-Oxley Act, which is mainly intended to improve corporate governance. Effective November 15, 2005, Alfa Laval redeemed the outstanding elements of the bond loan, thereby removing the obligation to SEC and eliminating the need for Alfa Laval to comply with the Sarbanes-Oxley Act.

As an extension of our audit engagement we have on assignment to the Board of Directors audited the Corporate Governance Report (pages 93-103) for Alfa Laval AB 2005. The Corporate Governance Report is prepared in accordance with the Swedish Code of Corporate Governance.

Lund, March 1, 2006

Ingvar Ganestam
Authorized Public Accountant

Kerstin Mouchard
Authorized Public Accountant

Board of Directors

Elected by the Annual General Meeting



Anders Narvinger
Chairman since 2003.
 Born: 1948.
 President of Teknikföretagen and formerly President and CEO of ABB Sweden.
 Education: BSc Eng and BSc Econ.
 Chairman of Trelleborg AB, Ireco Holding AB and Swedish Trade Council.
 Board member of Volvo Car Corporation.
 Independent of company and major shareholders.
 Number of shares in Alfa Laval AB: 10,000*.



Gunilla Berg
Board member since 2004.
 Born: 1960.
 CFO SAS Group, formerly Executive Vice President and CFO of KF Group.
 Experience from various positions in banking and industry.
 Education: BSc Econ.
 Board member of LE Lundbergföretagen AB.
 Independent of company and major shareholders.



Björn Hägglund
Board member since 2005.
 Born: 1945.
 Former positions include Deputy CEO of Stora Enso.
 Education: Ph D (For).
 Vice President at IUI (Swedish Industrial Institute for Economics and Social Research).
 Board member of Bergvik Skog AB and Mistra.
 Vice Chairman at IVA (Royal Academy of Engineering Science).
 Independent of company and major shareholders.



Lena Olving
Board member since 2002.
 Born: 1956.
 Senior Vice President, Volvo Car Corporation Process Operational Excellence.
 Education: BSc Eng.
 Board member of Gunnebo AB.
 Independent of company and major shareholders.



Finn Rausing
Board member since 2000.
 Born: 1955.
 Board member of the Tetra Laval Group and De Laval Holding AB.
 Education: B.L., MBA (Insead).
 Chairman of R.R. Institute of Applied Economics AB. Board member of Swedeship Marine AB.
 Independent of company.



Jörn Rausing
Board member since 2000.
 Born: 1960.
 Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group.
 Education: BSc. Econ.
 Board member of the Tetra Laval Group and DeLaval Holding AB.
 Independent of company.



Lars Renström
Board member since 2005.
 Born 1951.
 President and CEO of Alfa Laval.
 Education: BSc Eng., BSc. Econ.
 Board member of Profilgruppen AB.
 Independent of major shareholders.
 Number of shares in Alfa Laval AB: 10,100*.



Waldemar Schmidt
Board member since 2000.
 Born: 1940.
 Former President and CEO of ISS Group.
 Education: BSc Eng.
 Chairman of Superfos Industries A/S and Thrane & Thrane A/S. Vice Chairman of Majid Al Futtaim Group LLC, Dubai.
 Board Member of Enodis plc, Group 4 Securicor plc, Welzorg Group BV Cicor S/A and Industri Kapital Ltd. 1994, 1997, 2000 and 2004.
 Independent of company and major shareholders.
 Number of shares in Alfa Laval: 21,749*.

Employee representatives



Per Olov Jacobsson
Union representative since 2003.
Born: 1942.
Employed by Alfa Laval since 1959. Union representative of the Association of Management and Professional Staff. (Ledarna).



Arne Kastö
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
Union representative since 2000.
Born: 1952.
Employed by Alfa Laval since 1974. Union representative of the Swedish Metal Workers Union (Metall).

Deputy employee representatives



Susanna Norrby
Union representative since 2003.
Born: 1967.
Alfa Laval employee since 1992. Union representative of the Swedish Association of Graduate Engineers (CF).

Kalevi Huotari
Deputy member since 2000.
Born: 1951.
Employed by Alfa Laval since 1973. Deputy union representative of the Swedish Metal Workers' Union. (Metall).

Britt Ekman
Deputy member since 2005.
Born: 1960.
Employed by Alfa Laval since 1999. Deputy union representative of the Swedish Association of Graduate Engineers (CF).

Maria Fröberg
Deputy member since 2005.
Born: 1973.
Employed by Alfa Laval since 2001. Deputy union representative of the Swedish Union of Clerical and Technical Employees in Industry (SIF).

Stefan Sandell
Deputy member since 2005.
Born: 1971.
Employed at Alfa Laval since 1989. Deputy union representative of the Association of Management and Professional Staff (Ledarna).

Auditors



Ingvar Ganestam
Authorized Public Accountant, Ernst & Young AB, Malmö
Born: 1949.
Auditor for Alfa Laval since 2000. Re-elected auditor at 2004 Annual General Meeting. Ingvar Ganestam has years of experience in auditing exchanged listed companies and among other assignments is the auditor for Nolato AB, Strålfors AB and the IKEA Group.



Kerstin Mouchard
Authorized Public Accountant, Ernst & Young AB, Malmö
Born: 1952.
Auditor for Alfa Laval since 2004. Elected as auditor at the 2004 Annual General Meeting. Kerstin Mouchard has years of experience in auditing exchanged listed companies and among other assignments is the auditor for Cardo AB and Strålfors AB.

Deputy auditors

Håkan Olsson
Authorized Public Accountant Ernst & Young AB, Malmö.
Born: 1961
Deputy auditor for Alfa Laval since 2000.

Thomas Swensson
Authorized Public Accountant Ernst & Young AB, Malmö
Born: 1957
Deputy auditor for Alfa Laval since 2004.

Group Management



Lars Renström
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.

Education: BSc Eng and BSc Econ.

Number of shares: 10,100*.



Thomas Thuresson
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.

Boardmember of Dynapac AB.

Education: BSc Econ.

Number of shares: 45,000*.



Göran Mathiasson
President, Operations Division.

Born: 1953.

Employed by Alfa Laval since 1979.

Göran Mathiasson 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 & Development, production development, system development and purchasing.

Education: BSc Eng.

Number of shares: 8,647*.



Svante Karlsson
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 he was President of the Marine and Power business segment.

Education: BSc Econ.

Number of shares: 37,486*.



Ulf Granstrand
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.

Education: BSc Eng.

Number of shares: 73,572*.



Peter Leifland
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.

Board member of Observer AB.

Education: Bachelor of Laws, lic. spec. IMD (PED).

Number of shares : 116,716*.

* Relates to holding at December 31, 2005.



Lars Henriksson
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.
 Education: BSc Eng.
 Number of shares: 9,000*.



Ray Field
Executive Vice President in charge of the 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. Prior to this, he served as President of Alfa Laval China for slightly more than 10 years.
 Education: BSc Eng.
 Number of shares: 13,647*.



Jesper Bulskov
Senior Vice President, Human Resources.
 Born: 1956.
 Employed by Alfa Laval since 2002.
 Jesper Bulskov has been Senior Vice President, Human Resources since January 1, 2005. He was previously responsible for personnel matters within SAS Service Partner (now Gate Gourmet Int.) and Rockwool.
 Education: BSc Econ.



Nils Olof Björk
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.
 Education: M.Sc. Ph.D.
 Number of shares in Alfa Laval AB: 15,944*.



Peter Torstensson
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: 24,000*.



Vegetable oils

Extracted from plant materials such as sunflower seeds or soya beans, these oils are a rich and nutritious source of unsaturated fatty acids. In the home they offer a healthy choice in the preparation of food. For the food industry they are an important ingredient in the production of quality products. Alfa Laval has developed a range of unique equipment and methods for the extraction, production and refining of these oils. Thanks to our world-leading expertise we are able to transform a simple raw material into a high-energy food. Vegetable oils represent a huge world market amounting to tens of millions of tons a year. And demand is still growing fast. Luckily for a raw material that never dries up.

Board of Directors' report on internal control for fiscal year 2005

Board of Directors' report on internal control for fiscal year 2005

"The Swedish Code of Corporate Governance" stipulates in § 3.7.1 that the Board of Directors shall ensure that the company has effective internal control and continuously remains informed with respect to, and evaluates how, the system for internal control functions.

The report is divided into two main sections:

- A description of the Code's requirements and the Board's approach. This section has been included in the report, since the requirement to submit a report constitutes a new element of the external information concerning the company's operations.
- The Board's description of the company's internal control.

Code requirements and the Board's approach

In accordance with the Code as stipulated in § 3.7.2, the company's Board of Directors is obliged to submit an internal control report to the extent that it pertains to the company's financial reporting. The report shall describe how the financial reporting is organized and how well it functioned during the past year.

As a transitional solution, the Swedish Corporate Governance Board has resolved to waive the Code's requirements in deference to statements by the Board concerning the functionality of internal control.

In accordance with § 3.7.3, the Board shall, for cases in which the company does not have an Internal Audit function, annually evaluate the need for such a function and justify its standpoint. The report shall be reviewed by the company's auditor.

In this context, internal control shall be described as a process intended to identify, quantify and minimize, or optimize, the risks to which the company is exposed with respect to the fulfillment of operational goals (strategic, operational and financial), compliance with regulations (laws and rules) and reporting (external reporting and communication).

The Board's description of internal control is based on the structure presented in

the framework for Internal Control issued by COSO* and includes the following categories:

- Control environment
- Risk assessment
- Control structures
- Information and communication

As stated above, the Code requires the company's auditors to review the report. The Swedish Corporate Governance Board has approved transition regulations for fiscal year 2005 that eliminate the demand for an auditor's review, partly because of a lack of guidelines for the auditor's review.

This report is not a part of the formal annual report and in accordance with the transition rules has not been reviewed by the auditors.

The Board's description of the internal control

Control environment

Effective work by the Board forms the foundation for good internal control. The Board has established clearly defined processes and priorities for its work and the Board's committees. An important part of the Board's work is to formulate and approve fundamental rules and guidelines. These include Finance Policy, Business Principles, Rules for Investment Decisions, Financial Reporting Requirements and Communications Policy. These rules and guidelines are intended to create the foundation for good internal control. They are revised and updated continuously as requirements arise.

The Board has also ensured that the organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes that enhance effective management of inherent operational risks and enable the company to fulfill its goals. The structure of responsibility includes evaluations by the Board of business performance and results through a defined package of reports that contain results, forecasts and analyses of important key figures.

The Audit Committee's work includes efforts to continuously monitor the effectiveness of internal controls. Its work also includes evaluations and discussions of important issues in the areas of financial accounting and reporting.

The company's executive management maintains and manages the system of internal controls needed to manage significant risks in the ongoing business operations. This work includes efforts to ensure compliance with relevant rules and guidelines for HR matters, staffing and skills development. Management's responsibility also includes a commitment to active efforts to ensure that all employees understand the demands on, and the individual's role in, maintaining effective internal control.

Risk assessment

The framework for ongoing business operations and follow-up includes procedures for risk assessment and, accordingly, opportunities to create accurate financial reporting. These procedures include the following areas:

- Risk assessments related to strategic planning, forecasts and acquisition activities that are intended to identify events in the market or business operations that might lead to changes in valuations of assets, for example, and the impact of currency exchange rates on earnings.
- Processes to adopt changes in accounting regulations that ensure that these changes are implemented correctly in the financial reporting.

Control structures

The control structures have been designed to manage risks that the Board and management consider to be significant for the business operations, internal control and financial reporting. The control structures consist partly of an organization with clearly defined roles that support an effective, and from an internal control perspective, appropriate division of responsibility, as well as specific control activities that are intended to discover or prevent the risk of errors in the reports. Examples of

* The Committee of Sponsoring Organization of the Treadway Commission

control activities include clearly defined decision-making procedures and priorities for important decisions (investments, agreements, acquisitions, divestments, etc.), profit analyses and other forms of analytical follow-up, reconciliation, inventory-taking and automatic controls in key IT-systems related to financial reporting.

Information and communication

The company's main control documentation in terms of regulations, guidelines and manuals, to the extent they are related to financial reporting, are updated continuously and communicated via the intranet, memorandums, internal meetings, etc. The effectiveness of this communication is monitored continuously to secure reception of the information. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors.

A clearly defined policy has been formulated for communication with external interests, including guidelines for modes of communication. The policy is intended to ensure accurate and complete compliance by all persons responsible for the dissemination of information.

Follow-up

The internal control is monitored mainly by three entities outside the line organization: the Audit Committee, External Audit and Internal Audit.

The Audit Committee establishes the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations. The Audit Committee meets with the external auditors regularly to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audit. The Committee also establishes

the direction, extent and time plans for the internal audit work requirements.

Internal Audit reports the results of its audits to the Audit Committee in conjunction with its meetings; results of the audit reviews are also reported continuously to executive management for eventual measures.

The extent of the Internal Audit includes operational efficiency, compliance with regulations and guidelines and the quality of internal financial reporting from the subsidiaries.

In accordance with the recommendation regarding the Board's reporting on internal control for 2005 issued by the Swedish Corporate Governance Board on December 15, 2005, this report comprises only a description of how internal control is organized without expressing an opinion on how well it functions.

*Lund, March 2006
Board of Directors*

Nine-year overview**

	Successor					Predecessor			
	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval pro forma	Alfa Laval Holding	Alfa Laval Holding	Alfa Laval Holding
SEK millions, unless otherwise stated	2005	2004*	2003	2002	2001	2000	1999	1998	1997
PROFIT AND LOSS INFORMATION									
Net sales	16,330.4	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	-73.3	36.7	5.6	-29.2	5.3	129.9	29.8	497.2	236.3
Operating income	1,377.2	1,438.4	1,138.5	1,219.5	1,231.4	810.1	248.9	772.4	562.5
Financial net	-278.2	-176.8	-321.1	-542.6	-1,189.6	-1,106.6	-132.9	-204.8	-394.3
Result after financial items	1,099.0	1,261.6	817.4	372.1	41.8	-296.5	116.0	567.6	168.2
Minority share in income			-41.6	-33.6	-32.0	-47.6	-26.7	-15.6	4.0
Taxes	-171.0	-421.5	-130.0	-218.3	26.3	-60.6	-333.3	39.7	-278.8
NET INCOME FOR THE YEAR	928.0	840.1	645.8	120.2	36.1	-404.7	-244.0	591.6	-120.1
Balance sheet information									
Goodwill	3,530.6	2,977.6	3,098.5	3,369.0	3,372.9	3,314.2	1,692.2	2,069.1	2,758.8
Other intangible assets	1,067.5	923.9	1,101.5	1,334.3	1,640.4	1,805.4	22.9	24.8	32.6
Property, plant and equipment	2,552.8	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	676.5	601.4	670.7	751.9	1,102.4	1,094.5	324.4	635.1	135.9
Inventories	3,090.7	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	4,467.1	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	342.4	257.2	658.6	414.3	293.3	595.5	283.1	95.7	163.9
Cash and bank	478.8	414.8	554.6	605.9	666.4	634.5	677.0	550.7	506.2
TOTAL ASSETS	16,206.4	14,084.0	14,689.5	15,427.3	17,631.8	18,791.2	12,703.5	13,647.1	14,983.1
Equity capital	5,811.4	5 269.2	4,897.0	4,512.3	1,445.1	1,312.3	3,342.6	3,652.1	2,967.4
Minority interest			104.2	108.2	131.8	169.5	147.7	119.0	173.0
Provisions for pensions etc.	902.8	788.9	754.8	720.6	774.9	658.3	520.5	671.8	745.8
Provisions for taxes	766.8	760.3	817.0	990.3	1,143.6	1,413.1	199.1	182.0	240.0
Other provisions	957.4	948.2	891.2	989.3	1,063.2	1,179.1	949.7	0.0	0.0
Non-current liabilities	2,701.8	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	5,066.2	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.	16,206.4	14,084.0	14,689.5	15,427.3	17,631.8	18,791.2	12,703.5	13,647.1	14,983.1

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP.

	Successor					Predecessor			
	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval	Alfa Laval
SEK millions, unless otherwise stated	2005	2004*	2003	2002	2001	Alfa Laval pro forma	Holding	Holding	Holding
	2000						1999	1998	1997
KEY RATIOS									
Order received	18,516.3	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	7,496.9	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	1,692.4	1,731.8	1,632.6	1,726.2	1,743.3	1,289.8	964,0	1,462.1	1,252.2
EBITDA	1,956.7	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 %	10.4	11.6	11.7	11.8	11.0	8.6	6,7	9.9	8.0
EBITDA-margin %	12.0	13.3	13.8	14.1	13.5	11.7	10,0	13.3	11.3
Adjusted EBITA	1,765.7	1,695.1	1,627.0	1,755.4	1,738.0	1,159.9	934,2	964.9	1,015.9
Adjusted EBITDA	2,030.0	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 %	10.8	11.3	11.7	12.0	11.0	7.7	6,5	6.5	6.5
Adjusted EBITDA-margin %	12.4	13.1	13.8	14.3	13.5	10.8	9,8	9.9	9.8
Profit margin %	6.7	8.4	5.9	2.5	0.3	-2.0	0,8	3.9	1.1
Excl. Goodwill and step-up values:									
Capital turnover rate, times	5.5	5.3	5.0	4.4	4.1	3.4	3.2	3.4	3.7
Capital employed	2,957.5	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 %	57.2	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	2.2	2.0	1.8	1.7	1.7	1.9	2.3	2.2	2.4
Capital employed	7,469.8	7,317.3	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 %	22.7	23.7	21.3	20.2	18.5	16.1	15.2	21.6	18.9
Return on equity capital %	16.0	15.9	13.2	2.7	2.5	-30.8	-7.3	16.2	-4.0
Solidity %	35.9	37.4	33.3	29.2	8.2	7.0	26.3	26.8	19.8
Net debt	2,012.7	1 883,5	2 401,1	3 498,5	7 777,5	8 422,4	2 854,5	2 808,7	4,079.5
Net debt to EBITDA, times	1.0	0.9	1.2	1.7	3.6	4.8	2.0	1.4	2.3
Debt ratio, times	0.35	0.36	0.49	0.78	5.38	6.42	0.85	0.77	1.37
Interest coverage ratio, times	6.9	7.4	5.0	3.0	1.9	1.6	5.9	6.2	4.1
Cash flow from:									
operating activities	1 616,5	1 203,3	1 653,5	1 923,8	1 998,7	1 630,4	1,324.4	911.0	-83.0
investing activities	-664,6	35,8	-457,4	-547,8	114,9	-8 284,0	-599.5	-256.4	-3 199.0
financing activities	-972,7	-1 353,2	-1 167,2	-1 320,3	-2 095,0	6 617,9	-586.4	-625.7	3 042.1
Investments	323.7	387.5	258.5	276.7	274.9	311.7	431.2	438.4	485.9
Average number of employees	9,524	9,400	9,194	9,292	9,693	11,001	11,696	12,613	13,704
Earnings per share, SEK	7.92	7.12	5.78	1.41	0.96	-10.79	-19.52	47.30	-4.00
Free cash flow per share, SEK	8.52	11.10	10.71	16.10	56.37	-177.45	57.99	52.37	-109.40

* Restated to IFRS. ** 2003 and earlier in accordance with Swedish GAAP.

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.

Net debt to EBITDA, times

Net debt in relation to EBITDA is one of the covenants of Alfa Laval's syndicated loan and an important key figure when reviewing the proposed dividend.

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. Financial items classified as comparison distorting are excluded from the calculation.

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 ratio-nalisation that is taking place.

Earnings per share, SEK

Net income for the year attributable to the equity holders of the parent 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.

Annual General Meeting 2006

The Annual General Meeting of Alfa Laval AB will be held on Thursday, April 27, 2006 at 4.00 p.m. Swedish time in the Scandic Star Hotel, Glimmervägen 5, Lund, Sweden. Light refreshments will be served after the Meeting.

AGM program

1:30 p.m. (Swedish time)	Bus departs Star Hotel to Alfa Laval's production unit for heat exchangers in Lund
3.30 p.m. (Swedish time)	Registration starts
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 21, 2006, and register their intention to participate – along with any assistants – not later than Friday, April 21, 2006 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 21. 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 arsstamma.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 5.10 per share be paid and that the record date for this dividend should be Wednesday, May 3, 2006. If the Meeting approves the proposal, the dividend will be distributed by VPC on Monday, May 8, 2006.

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 assembly 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.

Financial information during 2006

Alfa Laval will publish financial reports during 2006 on the following dates:

First-quarter report 2006	April 27
Annual General Meeting in Lund	April 27
Second-quarter report 2006	July 25
Third-quarter report 2006	October 25

Shareholder information

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Analysts tracking Alfa Laval

ABG Sundal Collier	Anders Jegers	Handelsbanken	Kenneth Toll
Carnegie	Oscar Stjerngren	JP Morgan	Julia Varesko
Chevreux	Patrik Sjöblom	Kaupthing	Peder Frölén
Credit Suisse First Boston	Patrick Marshall	Lehman Brothers	Brian Hall
Danske Securities	Patrik V. Setterberg	Morgan Stanley	Gustaf Lindskog
Deutsche Bank	Christofer Sjögren	Standard & Poor's	Larts Glemstedt
Dresdner Klienwort Wasserstein	Alisdair Leslie	Swedbank	Mats Liss
Enskilda	Anders Eriksson	UBS Warburg	Fredrik Liljewall
Evli Bank	Magnus Axén	Öhmans	Anders Roslund
Hagströmer & Qviberg	Hans-Olov Öberg		

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 100 countries to help them stay ahead.

More information on the Internet

Contact details for all countries are continuously updated on Alfa Laval's website. Please visit www.alfalaval.com for more information.