

**Alfa Laval AB's President and Chief Executive Officer
Sigge Haraldsson at Annual General Meeting on April 27, 2004**

I wish you all a cordial welcome to Alfa Laval's second Annual General Meeting!

Today, I will talk not only about the past year, but also the first quarter of 2004. I shall start with 2003, however.

A little more than one year ago, we presented our forecast for 2003. We said that order intake was expected to show a marginal increase during the year, and that further cost-saving initiatives would reduce the negative exchange-rate effects. We also projected a significant improvement in operating income before tax. Well, how did we do?

Orders received amounted to SEK 14,415 million, and we are now looking at the distribution of orders per quarter, compared with 2002. Orders during the first quarter increased by 1.6 percent and declined by 3 percent during the second quarter. During the third and fourth quarters, the order intake increased by 5.6 percent and 15.7 percent, respectively. It is particularly interesting to note in this picture that our order intake actually started to gain momentum toward the end of the second quarter. Orders continued to improve during the third and fourth quarters, and the improvement was not attributable to a handful of large projects, but rather distributed evenly among all customer segments in which the company operates. If we look at the company as a whole during 2003, orders increased by 5 percent. However, as you can see in this picture, the increase during the second half of the year was 10.7 percent.

If we now look at the customer segments in which we operate – we have ten customer segments in the company, divided between two divisions, the Equipment Division and the Process Technology Division – and every customer segment has total responsibility for its respective customer group. The segments sell everything Alfa Laval has to offer to the respective customer's groups in the form of products, packaged products, system solutions and process lines. If we illustrate trends in the different customer segments with plus and minus signs, whereby plus naturally represents an improvement over the corresponding period in 2002 and minus indicates a decline, the order intake increased in nine of ten segments during 2003, compared with 2002. The only segment that showed a lower level of orders received was Process Industry, which is a highly chemicals-intensive sector of the processing industry, an area in which large capacity-related investments have still not gained momentum. The outlook for 2004 – we expect strong growth in all 10 customer segments. It is possible that the Marine & Diesel segment will not show any improvement in 2004, compared with 2003, which was somewhat of a record-year, but the segment will still perform favourably. We expect order intake to improve over the order intake during 2003 in all other segments. We project strong growth, accordingly, in all customer segments during 2004.

If we now look more closely at one country, an important country for Alfa Laval – although all countries are important – let us focus on the very large and highly expansive market in China. We established our first sales office in China in 1984. Our organization in China today includes our local headquarters in Shanghai and several sales offices in different parts of the country. We have 411 employees and two production plants wholly owned by Alfa Laval. One of the plants produces plate heat exchangers and the other manufactures flow equipment. Production volumes, naturally, meet the needs of the Chinese market, but a significant percentage of volumes produced are also exported to other countries throughout the world. Orders received during 2003 increased by 12 percent, compared with 2002, and China accounted for 6 percent of the Group's total order intake during the year. Ray Field is the President of Alfa Laval in China, and we have asked Ray to comment on trends for the Marine & Diesel segment in China during 2003.

(See separate film)

If we now look at the rest of the world, we see this picture showing the distribution of order intake by geographical regions, which illustrates that the Nordic countries, Western Europe and Central and Eastern Europe account for a combined total of 52 percent of Alfa Laval's total order intake, with North America accounting for 17 percent and Asia 25 percent. The region with the most rapid growth during the past 3-4 years is Asia. North America has lost some ground, and Europe has consistently hovered at a level of slightly more than 50 percent. Some orders received are also attributable to operations in Latin America and the rest of the world, a region consisting primarily of Australia and New Zealand.

If we now look at trends in the different regions during 2003, in the same way that we reviewed the customer segments, we see that orders received in the Nordic countries, Western Europe and in Australia and New Zealand were at a lower level than orders received in 2002. In the Nordic countries and Western Europe, the situation improved continuously during the year, but not by enough to reach the level of order intake achieved during 2002. North America, Latin America, Central and Eastern Europe as well as Asia all reflected improved business trends during 2003, compared with 2002. Weak development was noted in North America during the first half of the year, but business recovered during the second half of 2003, and strong results were reported during the fourth quarter, particularly in the US. In Asia, which was clearly the brightest star during 2003, favourable growth was reported in all countries. Japan, China, India – all the large countries, but also South Korea, Taiwan, the Philippines and Thailand – all countries in the region showed favourable development during the past year. Looking at the outlook for 2004, we believe that all regions will show favourable business development this year.

Let's look more closely at another important country – India. Alfa Laval established operations in India in 1937. We now own 64 percent of the company, which is listed on the stock exchange in Mumbai. The company has 1,031 employees, and we have three production plants – one for plate heat exchangers, one for the production of flow

equipment and one for separators and decanters. Orders received increased by 21 percent during 2003, and India now accounts for about 4 percent of the Alfa Laval Group's total sales. We shall now hear a few brief comments about business trends in India during 2003 by Satish Tandon, the President of our company in India.

(See separate film)

As I already mentioned, the order intake started to gain greater momentum during the second quarter, and we showed strong growth during the third and fourth quarters. If we look at market growth, we see growth in the range of 2-3 percent, which means that based on the growth we have already achieved, we are not only looking at stronger demand, but we have also taken market shares. We have been able to take these market shares with the help of a growth program that we have conducted within the company for the past year-year and a half, which is now starting to generate results. A good example is reflected in our product development activities. Every year, we invest 2.5 percent of our sales in Research and Development. Every year, we introduce 25-30 new products on the market. We are the market leader, and we should maintain a level that corresponds with our present level of investments and new product launches. What you see in this picture is an example of the products we launched during 2003.

Let me make a few brief comments. At the extreme left is a stainless steel pump that offers extremely favourable hygienic properties – it is a product that will become particularly important in the food industry. Next is the Aldec G2, a new decanter, or rather a new range of decanters. With the launch of this new product range, we have become much more competitive in a market that is highly exposed to intense competition. The third product is a new plate heat exchanger. We have historically worked with liquid/liquid in our plate heat exchangers, an area in which we have high market shares. We have now used the same technology and developed a plate heat exchanger for steam and gases. This represents a transfer of the technology we have historically used mainly for liquid/liquid to a steam and gas market, which we believe is an attractive future segment of the market. The fourth product is called Culturefuge, a separator developed specially for the biotechnology market. It is designed to process and separate sensitive products used in different types of biotechnology and pharmaceutical applications. The last product in the picture is called Alfa Nova, which is a new category of fusion-brazed, plate heat exchangers, whereby we have introduced a patented brazing technique that enables us to penetrate markets that we were not previously able to cultivate.

With our development work over the years, we have continuously stretched the technical boundaries and, in turn, potential markets for our types of compact heat exchangers. If you look at the history of our heat exchangers, it all started in 1931 when a man by the name of Pontus Larsson developed and designed the first plate heat exchanger. Pontus Larsson's father was the famous artist Carl Larsson. Subsequently, through the years, we have developed the concept and several variations have been added to supplement the original product. Each and every one of these versions has helped to expand the size of the market for compact heat exchangers and increase our

sales. Alfa Nova, the last product I showed in the preceding picture, has further stretched the technical boundaries, which are naturally inherent in all types of products. One example of a boundary that we have extended considerably with the help of Alfa Nova is the temperature limit. Older models of fusion-brazed, plate heat exchangers were able to work at temperatures up to 225°C. With this product, we are now able to work with temperatures up to 550°C. Alfa Nova is very definitely a product of the future.

Our growth program is much more than product development. It actually consists of six different programs. We work with these programs in all parts of the world and in all Group companies, and this naturally is one of the reasons for the increase in our order intake.

Naturally, acquired growth is also an important part of our growth program. If we examine organic and acquired growth together, we have communicated to the market that we are striving to achieve average annual growth of 5 percent over a business cycle. Comments have been made that 5 percent is conservative, and I am the first to agree, but we have also said there is no reason whatsoever to consider a revision of our growth target before we know for sure that we have reached the level we established as our target. Our goal of 5 percent is divided between 3 percent organic growth and 2 percent acquired growth. The 2 percent acquired growth figure, of course, indicates that we are looking mainly at small and mid-size acquisitions. We purchased two businesses during the past year. The first was Toftejorg, a Danish company that reported sales of SEK 210 million in 2002. It was consolidated within Alfa Laval on January 1, 2003. Toftejorg is the market's leading supplier of tank cleaning equipment. It works mainly in two segments – Marine & Diesel and Sanitary. New sales during 2003 increased by 15 percent, compared with 2002.

The other acquired company is bioKinetics, which reported sales of SEK 550 million in 2002. Consolidated within Alfa Laval on October 2, 2003, bioKinetics markets processing products for biotechnology and pharmaceutical companies. This offers development opportunities in the segment we call Life Science, which is focused on the biotechnology and pharmaceutical industries, and represents what we believe is a growth market. The company's operations are concentrated in North America and, naturally, we shall help with our organization to create a market presence in the European and Asian markets.

In two different press releases in December and March of this year, respectively, we announced that we have initiated and are pursuing legal action against the former owner of bioKinetics based on suspected accounting irregularities. That is the situation today, and there is no further information available at this time.

Now let us turn to the figures. Profit after depreciation according to plan totalled SEK 1,627 million, which yields an operating margin of 11.7 percent, compared with a level of 12 percent in 2002. If we look at how Group earnings have fluctuated per quarter over the past three years, we have generally held steady around the 12 percent level.

In looking at our operating income with and without exchange-rate effects, we see that income after depreciation according to plan in 2002 amounted to SEK 1,755 million and, as I mentioned, SEK 1,627 million in 2003, a decline of SEK 128 million. If we exclude exchange-rate effects of SEK 273 million, which are mainly attributable to the weak US dollar, we see an improvement of SEK 145 million. Our cost-savings program has offset more than half of the negative exchange-rate effect.

This was made possible with the support of the cost-savings program we refer to as "Beyond Expectations," which was introduced in 1999, when we also stated that we would achieve annual savings of SEK 850 million by year-end 2003. We reached this target level of savings in the third quarter of 2003, and it is a pleasure to announce that the goals of Beyond Expectations have been achieved. Beyond Expectations has now been completed as a restructuring program. This does not mean, however, that projects started under the program have been stopped; they will be continued, of course, but they will now become a natural part of our normal operations, and we shall always strive to achieve greater operating efficiency.

If we look at the number of Group employees, which provides an accurate reflection of actual operating costs development, we see that the total number of employees in Alfa Laval increased from 9,133 to 9,358. However, not including our acquisitions during 2003 of Toftejorg and bioKinetics, the total number of Group employees declined during the year by 232 persons.

Profit before tax amounted to SEK 817 million, compared with SEK 372 million in the preceding year. Cash flow in 2003 amounted to SEK 1,654 million, compared with SEK 1,924 million in 2002. The entire difference in cash flow from operating activities was related to an increase in working capital. We reduced our working capital in 2002 by SEK 20 million and increased it during 2003 by SEK 250 million. For the past several years, we have continuously reduced our working capital and have now reached a level at which we will see future variations that will correspond with volume changes.

Return on capital employed in 2003 amounted to 21.3 percent, an improvement over 2002, and the equity/assets ratio was 33.3 percent, also an improvement over the preceding year.

Let us now look at the company's financial goals – we have already communicated that our growth goal is 5 percent over the course of a complete business cycle and, in 2003, we achieved this target level for the first time in many years. Our target level for operating margin is 12-15 percent and, in this context, we have also stated that we shall achieve an operating margin of 12 percent with the help of our "Beyond Expectations" restructuring program. We reached 12 percent in 2002 and were only slightly below 12 percent in 2003. Accordingly, we are now in the range of our 12 percent target level, but we have also stated that we will not reach 15 percent without the support of growth. Naturally, it is particularly gratifying, therefore, to announce that our order intake during the second half of 2003 reached a growth level of 10.7 percent, which is clearly in

excess of the 5 percent average we are talking about. Our goal for return on capital employed is 20 percent. Last year we reported 21.2 percent.

Growth in orders received during the second half of 2003, accordingly, amounted to 10.7 percent. An increase in the order intake was noted already toward the end of the second quarter, which continued throughout the remainder of the year, and it will be interesting, of course, to follow our development during 2004. What were our results during the first quarter of 2004? Did the order intake remain strong? Has profitability continued to improve? Let's take a look.

You saw this picture earlier in my presentation – it shows the distribution of order intake by quarter during 2003, compared with corresponding quarters in 2002, and we also see the increase I have talked about. If we now add the first quarter of 2004 to the picture, we see that orders have continued to rise. The increase during the first quarter of this year was 22.6 percent, compared with the first quarter of 2003.

Orders received amounted to SEK 3,929 million, and invoiced sales totalled SEK 3,184 million. Sales increased by 6.5 percent and, excluding exchange-rate effects, sales were up 12 percent. Profit after depreciation according to plan amounted to SEK 383 million, with an operating margin of 12 percent, compared with 10.7 percent in the corresponding period last year, obviously a clear improvement.

If we also look at the effects of exchange-rate fluctuations on operating income, we see that our first-quarter profit after depreciation according to plan in 2003 was SEK 321 million, compared with SEK 383 million in the first quarter of 2004, an improvement of SEK 62 million. Furthermore, if we adjust earnings for negative exchange-rate effects of SEK 62 million, our earnings for the first quarter improved by SEK 130 million.

Profit before tax rose to SEK 211 million, from SEK 141 million last year. The cash flow amounted to SEK 321 million, compared with SEK 215 million in the first quarter of 2003. Return on capital employed was 22 percent, also an improvement in relation to last year.

Asbestos-related legal proceedings in the US – what was the situation during the first quarter of 2004? What we can say is that Alfa Laval Inc, our American subsidiary, was named as one of many co-defendants in a total of 131 asbestos-related class-action lawsuits involving approximately 20,000 plaintiffs. The lawsuits filed in the state of Mississippi account for about 99 percent of the total number of plaintiffs. We maintain our earlier assessment that the claims and legal costs involved will be covered by insurance policies, and that the lawsuits will not significantly affect the Group's financial position or financial results.

Let's take another look now at the order intake during the first quarter of this year, not only in terms of total numbers, but also per segment and regionally. Let us begin by studying the trend of orders received for our different segments. What we can see is

that all segments performed better during the first quarter of 2004, compared with the corresponding period in 2003.

An important region in the world market is the area we call Mid-Europe. It consists of three countries – Germany, Austria and Switzerland. Alfa Laval established operations in this region around 1900 – in Austria toward the end of the 19th century and in the beginning of the 20th century in Germany and Switzerland. We have 292 employees in this region today. Orders received during the first quarter of 2004 increased by 11 percent, compared with the same period in 2003. The region accounted for about 7 percent of the Group's total order intake during the first quarter. The president of operations in Mid-Europe is Susanne Pahlén Åklundh, and you will hear a few brief comments by her, with particular emphasis on the markets cultivated by the Process Technology Division.

(See separate film)

And now for a look at order intake per region. No major changes were noted in proportionate shares of orders received in the different regions during the first quarter, compared with the order intake toward year-end 2003. However, some changes can be seen in the development of order intake in relation to the first quarter of 2003. In summary, it may be said that all regions in Latin America showed improved order intake during the first quarter of this year, compared with the same period in 2003. Latin America was marginally lower than last year's level, accounting for 3 percent of the Group's total orders received. North America's positive development during the fourth quarter of 2003 has continued in 2004. The favourable trends of business in Central and Eastern Europe during recent years have also continued. It is particularly gratifying to note that both Western Europe and the Nordic countries showed improved order intake compared with the same period in 2003. Partly because it has been quite some time since we have been able to enter a plus sign for these two regions, and partly because they represent a substantial percentage of the whole, nearly 45 percent. Asia continues to show sequential improvement over the corresponding period in the preceding year, which means that growth is continuing at unabated strength – which is also particularly gratifying. Business growth in the rest of the world also showed improvement during the first quarter.

The US accounted for 14 percent of our total order intake during the first quarter and is naturally an important market for us, so let's take a closer look. Alfa Laval has been established in the US since 1885, the same year Alfa Laval was founded, so the US has been a key element in Group operations right from the start. We have 742 employees in the US and two production plants, one for the manufacture of plate heat exchangers and one for the manufacture of flow equipment. Orders received during the first quarter of this year increased by 27 percent over first-quarter order intake in 2003. Kirk Spitzer, president of our subsidiary in the US, will make a few brief comments on business trends during the first quarter of this year.

(See separate film)

The outlook for full-year 2004 is as follows – Alfa Laval expects the market recovery noted during the second half of 2003 to continue during 2004. I stated a few minutes ago that the first quarter of 2004 was a very strong quarter. The improvement during 2004 will almost certainly remain strong. The operating margin, or EBITA-margin, excluding exchange-rate effects, will continue to improve. During the first quarter of the year, we noted a clear improvement, even including exchange-rate effects. This is naturally very encouraging.

In conclusion, let me remind you of our business strategy – *“To optimise the performance of our customers’ processes. Over and over again.”* I believe that our business concept reflects our efforts and our focus, and it projects an accurate picture of the value we offer and deliver to our customers.

Thank you!

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