Annual Report 2002

Highlights 2002

- The Alfa Laval share was listed on the Stockholmsbörsen (Stockholm Exchange) O-list on May 17 and on the Attract 40-list on July 1. Effective January 1, 2003, Alfa Laval is included in the OMX index of Stockholmsbörsen.
- Acquisition of Danish Separation Systems A/S (DSS), a specialist company that will add membrane filtration expertise and products to Alfa Laval – an important technology for the biotech, pharmaceutical and food-processing industries.
- Alfa Laval becomes exclusive distributor worldwide of sludge dryers from Vandebroek, a leading supplier of drying equipment for wastewater sludge.
- Launch of the first complete e-commerce system for the global marine industry in cooperation with other leading marine industry suppliers and Cap Gemini Ernst & Young.
- Alfa Laval and Haldex start joint project for cleaning crankcase gases in diesel engines.

Amounts in MSEK unless otherwise stated	2002	2001
Orders received	14,675	15,894
Net sales	14,595	15,830
Adjusted EBITDA [1]	2,087	2,138
Adjusted EBITA [2]	1,755	1,738
Operating margin (adjusted EBITA) [2], %	12.0	11.0
Profit after financial items	372	42
Return on capital employed, %	20.2	18.5
Return on shareholders' equity, %	2.7	2.5
Earnings per share, SEK	1.41	0.96
Equity per share, SEK	40.4	38.5
Cash flow per share, SEK	0.65	0.50
Equity ratio, %	29.2	8.2
Debt/equity ratio, multiple	0.78	5.38
Average number of employees (unit) [3]	9,125	9,259

1) Adjusted EBITDA – Operating income before depreciation and amortisation of goodwill and other step-up values, adjusted for comparison distortion items.
2) Adjusted EBITA – Operating income before amortisation of goodwill and other step-up values, adjusted for comparison distortion items.
3) Average number of employees at the end of the period.

Alfa Laval in 2 minutes

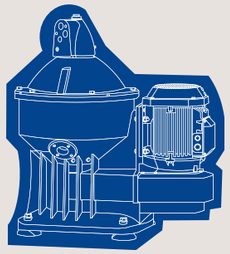
100 countries

Alfa Laval is active worldwide, with sales representation in some 100 countries. The company has 20 production units (13 in Europe, five in Asia, one in the U.S. and one in South America) and 70 service centers. This provides Alfa Laval close proximity to customers, whereby the company can gain broad insight about customers' needs. The large number of service centers and the geographical spread forms the platform for the company's focus on the aftermarket.

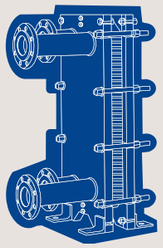
3 key technologies

The core of Alfa Laval's operations is based on three key technologies: heat transfer, centrifugal separation and fluid handling. All three have great significance to industrial companies in diversified sectors. Alfa Laval holds leading global market positions within its fields of technical expertise.

Centrifugal separation



Heat transfer



Fluid handling

14.6 billion in sales

Alfa Laval posted sales of approximately SEK 14.6 billion in 2002.

2 billion in operating cash flow

Alfa Laval generated nearly SEK 2.0 billion in operating cash flow in 2002, about the same amount was reported in 2001.

12.0 percent in operating margin (adjusted EBITA)

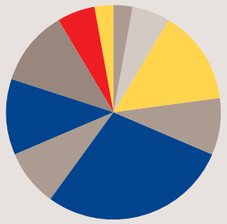
"Check the bottom line!" – A key internal philosophy that instills cost awareness and thereby creates the conditions for generating good margins. In four years the operating margin has increased from 6.5 percent to 12.0 percent. The goal is to achieve an operating margin of between 12 percent and 15 percent.

Growth in 6 steps

The public listing and financial contribution it generated for the Group have created a platform for a more aggressive approach to future growth. The basic philosophy is to grow at a faster rate than the market. But it is not only about expanding for growth's sake. As a minimum, growth must be achieved with profitability. The growth strategy is based on six steps.

9,125 employees

At year-end 2002, Alfa Laval had 9,125 employees worldwide. Most employees are in Sweden (approx. 1,890), India (1,050), Denmark (1,050), U.S. (850) and France (600).

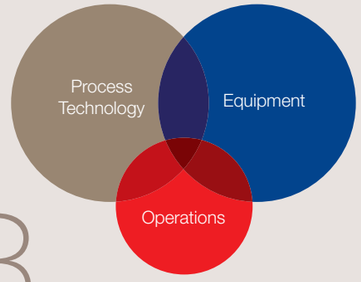


10 customer segments

The geographic spread of customers means that sales of the company's systems, products and services functions best when decentralized. This market orientation has been strengthened further through the creation of ten specialized customer segments: Energy & Environment, Food, Life Science, Process Industry, Comfort & Refrigeration, Fluids & Utility, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary and Parts & Service.

120 years young

Gustaf de Laval was a great technical genius who, among other products, invented the centrifugal separator and the first functioning steam turbine. In his lifetime he registered 92 patents and founded 37 companies. In 1883 he established, along with his partner Oscar Lamm Jr., the AB Separator company – the origin of today's Alfa Laval.



3 divisions

To create a distinct customer focus, Alfa Laval's operations are divided into two market-oriented divisions – the Equipment Division and the Process Technology Division. The resources of both divisions are directed toward specific customer groups and their needs. Supporting the two principal divisions is a centralized Operations Division that performs three tasks for the Group: manufacturing, procurement and logistics.

Contents

Cover photo:

From juicy idea to global brand. 1883. That was the year when Gustav de Laval founded the company that today is Alfa Laval. Its success was based on his brilliant invention of the continuous separator. Since then Alfa Laval has added heat transfer and fluid handling to its expertise in separation. Alfa Laval is now the world market leader in all three of these technologies, with strong positions in segments that offer attractive growth opportunities. The company grows by helping its customers to grow. It's a fruitful partnership.

Increased profitability

through more efficient cost structure and an even more focused marketing organization

This year, 2003, Alfa Laval will be 120 years old. The 119th year – 2002 – will probably go down in history as one of the most eventful in the company's history.

After having being listed on Stockholmsbörsen from 1901 to 1991, then privately owned for ten years, Alfa Laval was reintroduced on Stockholmsbörsen on May 17, 2002. The performance during the year was in line with both the Stockholmsbörsen General Index and Alfa Laval's benchmark industry index.

Increased profitability

Over the past few years, Alfa Laval has focused on further increasing its profitability. In just a few years, we doubled our operating margin from approximately 6 percent to 12 percent. Our target operating margin is between 12 and 15 percent.

To reach this goal, we apply two main strategies. On the one hand, we are streamlining our total cost structure, and on the other creating an even more focused marketing organization, to continuously increase customer value.

More efficient cost structure

"Beyond Expectations" is a programme designed to streamline the Group's cost structure. The programme is scheduled to be completed by year-end 2003, when it is to have achieved savings totalling at least MSEK 850. "Beyond Expectations" is an aggressive package of activities designed to contribute to the ongoing improvement of costs, tying up of capital, earnings and cash flow.

The programme has included divesting units outside core operations and restructuring production – primarily through plant closures and increased outsourcing. We have improved considerably in purchasing and logistics, and rationalized and streamlined administration throughout the company. A good example is the introduction of an advanced web-based order and logistics system that allows us to distribute products directly from plant to customer. Today, we are selling more than we did three years ago, using about 80 percent of the workforce we had then.

A more focused marketing organization

A key element in creating increased order bookings and better profitability is the new marketing organization. Alfa Laval is now organized in two divisions that in turn are divided into ten customer segments that sell the Group's key products in its three technology areas of separation, heat transfer and fluid handling. With our new organization, we can be closer to the customers and live up to our business concept of optimising performance in customer processes – time and time again.

The Equipment Division has a broad range of high-quality products and services for customers with well-defined regular requirements. Sales take place through Alfa Laval's own sales company and external sales channels such as distributors, entrepreneurs, installers, system architects and OEMs.

> "In just a few years, we doubled our operating margin from approximately 6 percent to 12 percent."

The Process Technology Division provides solutions that support the customers in their efforts to optimize their own processes. The division delivers everything from components to systems including service.

This customer focus gives us better knowledge of customers' requirements today and tomorrow, and enables us to take a proactive approach to creating customer value.

In the past few years, we have broadened our marketing efforts and strengthened our cooperation with agents, distributors and other cooperation partners. In 2002, we added approximately 250 new sales channels. To exploit our expertise across national borders, we have also regionalized several of our own sales companies by creating a common sales organization from the Nordic countries, Belgium/Netherlands and Italy/Greece. More amalgamations will be carried out in 2003.

Sigge Haraldsson, President and CEO

Continued weak business climate

In 2002, there have been no signs of any general improvement in business conditions. Alfa Laval's order bookings dropped two percent, excluding acquisitions/divestments and currency variations, which was better than expected. The decrease is primarily attributable to a decline in the market in the US. The smaller markets – Oceania, Latin America and Eastern Europe – improved somewhat over 2001, while the rest of the world remained basically at the same level as in 2001.

Fragmented market

The overall market scenario for 2002 is fragmented. In half of our customer segments, order bookings increased compared with 2001, whereas in the other segments, order bookings declined. Order bookings increased primarily in the Food Technology segment. The decline was particularly apparent in Energy & Environment. This was due partly to larger orders in the preceding year in the environmental area, not matched by anything this year, and partly to the strong investment climate in the oil and gas industry in the preceding year, a climate that has now returned to a more normal level.

Increased aftermarket

An interesting trend in the past few years has been that the Group's aftermarket, Parts & Service, increased sharply, accounting in 2002 for approximately 27 percent of total net sales. Order bookings rose six percent in 2002.

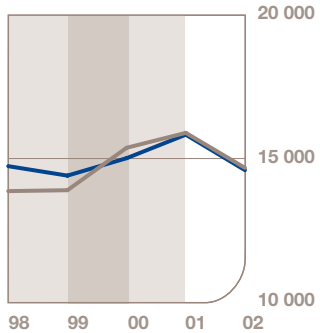
Production investments

In 2002, Alfa Laval made several major production investments. In the US, the unit in Kenosha, Wisconsin was closed down and a completely new plant for pumps and couplings was erected in Richmond, Virginia. We also invested in new production facilities in Grenoble, France, for a special type of welded plate heat exchanger. This investment resulted in a completely new product series with superior performance, shorter delivery times and lower costs. We also made significant capacity investments for brazed heat exchangers – in Sweden, Italy and China.

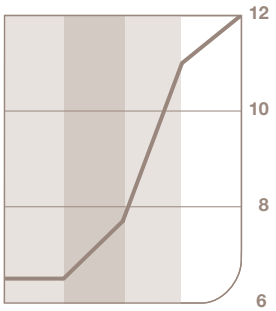
Ongoing development focus yields results

Alfa Laval invests about 2.5 percent of its net sales annually in research and development of new products. In 2002, R&D operations continued to deliver new and more efficient products in all key areas. In total, we had over 30 product launches during the year. Our segmented marketing organization

Order bookings and net sales, MSEK

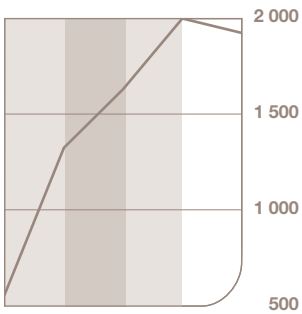


	Order bookings	Net Sales
1998:	13 866	14 734
1999:	13 897	14 405
2000:	15 374	15 012
2001:	15 894	15 830
2002:	14 675	14 595



Adjusted EBITA margin, %

1998:	6.5
1999:	6.5
2000:	7.7
2001:	11.0
2002:	12.0



Cash flow from business operations, MSEK

1998:	559
1999:	1 324
2000:	1 630
2001:	1 999
2002:	1 924

facilitates closer cooperation with our customers and a more customer-specific product development. Examples of this are new separators and decanters for latex and for use in distilleries. Moreover, in 2002 several new products were launched in the flow equipment group, to further reduce costs and improve our competitiveness, as well as new products in the heat exchanger group – both the brazed and the welded types.

The most spectacular new product was the development of a small separator that separates particles and oil drops from gases. Historically, separator technology has been used primarily for fluids. This is the first time we have worked with gases. There are many areas of application for this type of separator. Initially, we are cooperating with the Swedish Haldex company to launch the product for cleaning of emissions from crankcases in trucks. Demand for improved cleaning of emissions will steadily increase in the future.

Asbestos lawsuits in the US

In its nine-month interim report for 2002, published on October 31, Alfa Laval wrote that it had been mentioned in several asbestos-related lawsuits in the US. The number of suits had increased in the third quarter, accelerating in October. The market's reaction was sharp, causing the share price to drop 40 percent. We readily acknowledge that we had never imagined there would be such a reaction. The explanation is simple: in our view these lawsuits are without merit and will not have a material adverse effect on the company's financial condition or results of operation.

Growth in six stages

For some time, we have focused mainly on streamlining our operations and reducing our cost base. The public listing of the company and the injection of new capital it generated have provided an important platform for the company's approach to future growth.

Our basic philosophy is to grow more rapidly than the market, but it is not a matter of growth for its own sake. Growth shall be achieved with, as a minimum, sustained profitability.

Alfa Laval's strategy for profitable growth is described in six stages:

Strong growth with current products and services

Close cooperation with the customers to understand and satisfy their requirements will ensure that the growth we have had in the past, based on our key products, is strengthened in the future.

Market-driven R&D

One of the cornerstones of Alfa Laval's success has been to be the market leader in our key technologies. The mission of the company's R&D organization is to improve current products and make them even more competitive in the market. Our customer segment-based organization will further strengthen the dialog with our customers.

The new marketing organization, with ten focused customer segments

Since the marketing organization focuses on customer segments while simultaneously working with the company's entire product range, it can work more closely with customers and help improve customers' processes. We have *one* face for every customer, and can effectively add value for the customer. Corporate acquisitions and alliances to supplement our product range are one way to strengthen our customer segments and make their offerings more complete.

Aftermarket

The aftermarket offers considerable possibilities for further growth. We have a large base of installed equipment and systems, and through our global network of workshops and personnel, we are well equipped to manage this service. Our product range has

increased substantially, and service contract, particularly, are now playing a more important role.

New marketing concepts
We are constantly looking for new ways to improve our service to help customers to optimize their processes. It is a matter of looking at things in different ways, being cost-driven instead of product-driven. One example is Octopus – groundbreaking software for optimising the operation of decanter centrifuges.

New key products
Identify and adding, within the framework of our strategy, not only supplementary products but also new key products is a step that can provide an extra boost to growth. It enables us to further increase our product offering and be a more complete and an even more valuable partner.

Average volume growth of about 5 percent annually

We believe that these six stages will result in average growth of about five percent per year over a business cycle. The underlying market in which Alfa Laval operates is growing by an average of about two percent per year.

Strategy for acquisitions and alliances

Alfa Laval's business concept of optimising the performance of our customers' processes, time and again is also the basis of our acquisition/alliance strategy. This means that we must undertake acquisitions/alliances:

- that strengthen our existing key products
- of new key products if such products can be identified
- around products that complement our current products and that can strengthen the customer offering that our customer segments make.

As a result of the public listing in 2002 and the financial strength it generated, growth by acquisitions has become an interesting option. In September 2002, we acquired Danish Separation Systems (DSS) – specialists in membrane filtration, the established solution for separating tiny particles, particular in the biotechnology, pharmaceuticals and food industries. In the beginning of 2003, we acquired the Danish company Toftejorg. The company is market-leading in equipment for advanced tank purification, and fits in well in our Marine & Diesel and Food Technology customer segments.

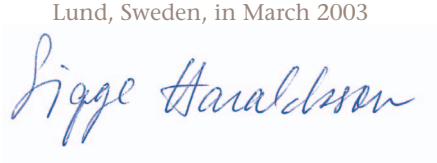
> "Our basic philosophy is to grow more rapidly than the market. Growth shall be achieved with, as a minimum, sustained profitability."

Outlook

Alfa Laval is expecting the orders received during 2003 to show a limited increase compared to 2002. The major part of the increase is expected through acquired activities together with a marginal organic growth during the latter part of 2003. It must though be added that the uncertainty that is characterising the situation in the world of course means that all forecasts are uncertain.

The restructuring programme "Beyond Expectations", that is to be completed by the end of 2003, will give continued savings during the year.

Lund, Sweden, in March 2003



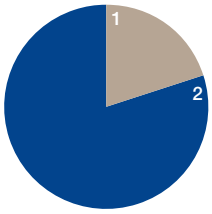
Sigge Haraldsson
President and Chief Executive Officer

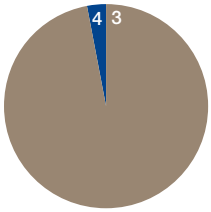
Geographic distribution of net sales, MSEK

	2001	2002
Sweden	770	835
Other EU	5 449	4 953
Other Europe	1 426	1 498
USA	2 816	2 639
Other North America	347	424
Latin America	728	627
Asia	3 835	3 297
Other	459	323
Total	15 830	14 595

The Alfa Laval share

– again listed on the exchange





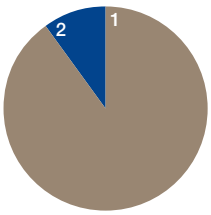
Legal entities/Individuals

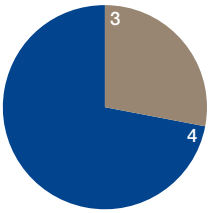
Number of owners in percent

1	Legal entities	20	(1 168)
2	Individuals	80	(4 578)

Percentage of holding:

3	Legal entities	97
4	Individuals	3





Swedish/Foreign

Number of owners in percent

1	Swedish owners	90	(5 181)
2	Foreign owners	10	(565)

Percentage of holding:

3	Swedish owners	28
4	Foreign owners	72

Alfa Laval was listed for the first time on Stockholmsbörsen (Stockholm Exchange) in 1901. In 1991, Alfa Laval was acquired by the Tetra Pak Group and in 2000, Industri Kapital became the majority shareholder of the Alfa Laval Group.

After being privately owned for more than 10 years, Alfa Laval was re-listed on the stock market on May 17, 2002. The Initial Public Offering (IPO) involved 56.5 million shares; nearly 33 million of which were issued and slightly more than 23.5 million shares sold by the main owners. As a result, about 55 percent of Alfa Laval was held by new owners.

The Alfa Laval share is traded on the O-list and is part of the Attract 40 group of most-traded O-listed companies. Since the start of 2003, Alfa Laval is included in the OMX index. A trading lot is 100 shares.

Share capital

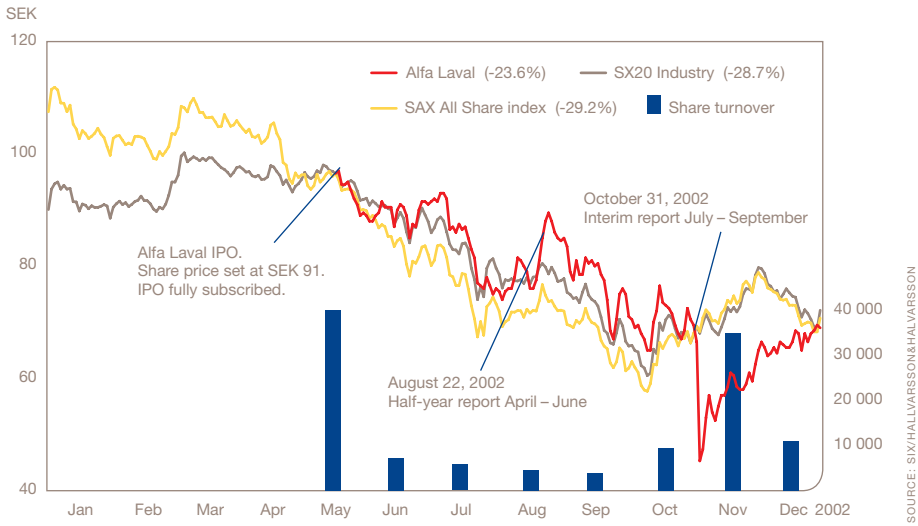
The IPO strengthened Alfa Laval's share capital by MSEK 330 through the new share issue that was carried out. At year-end 2002, the company's share capital amounted to MSEK 1,117. Alfa Laval has a total of 111.7 million shares with a par value of SEK 10 per share. All shares carry equal voting rights and rights to the company's assets.

Share performance

Stockholmsbörsen developed negatively in 2002 for the third consecutive year. A comparison between Alfa Laval and the stock market as whole (SAX All Share index) shows that the Alfa Laval share developed in line with the exchange, from its IPO on May 17 until year-end 2002. Compared with the benchmark industry sector index (SX20 Industry), Alfa Laval also performed in line with the sector trend.

Alfa Laval shares were actively traded during the year. A total of 117 million shares changed owners, which corresponds to a value of SEK 8.6 billion. Measured on a full-year basis, turnover rate was approximately 200 percent, which is substantially higher than the stock exchange, which had an average turnover rate of 122 percent in 2002.

Price trend, May 17 – December 31, 2002



The average size of transactions was around 5,300 shares and a total of 140 transactions, on average, were carried out per trading day.

Dividend

The dividend is subject to regulations of the Swedish Companies Act and general market practices, and may only be allotted following a decision by the Annual General Meeting.

The Board of Directors of Alfa Laval intends to propose a dividend that reflects the Group's development, financial position, capital-generating capacity and estimated capital needs.

The Board will also take into account contractual, legal and regulatory restrictions on Alfa Laval's ability to pay dividends to shareholders, or dividends from subsidiaries, and other similar factors that the Board may deem significant in determining the dividend amount.

For 2002, the Board has proposed to the Annual General Meeting a dividend of SEK 2.00.

Alfa Laval shareholders

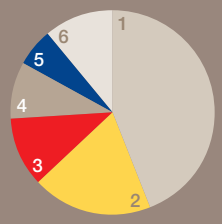
Alfa Laval gained 4,500 new shareholders in conjunction with the IPO. At year-end 2002, the company had a total of 5,746 shareholders. Industri Kapital and Tetra Laval remain as the two largest owners even after the stock-market listing. The ten largest shareholders/asset managers of the company own a combined 68.56 percent of the total number of shares.

Shareholder information update

We provide regular updates on the company on our website www.alfalaval.com. The latest information regarding Alfa Laval share's performance on the stock market is also provided on the website.

The 10 major owners/asset managers at December 31, 2002

	Number of shares	Capital %
The Industri Kapital 2000 Fund	30 010 391	26.87
Tetra Laval BV	19 744 014	17.68
Robur Funds	4 553 660	4.08
State Street Bank & Trust (US)	4 283 520	3.84
Alecta	3 789 300	3.39
Deutsche Bank	3 457 261	3.10
Third AP-Fund	3 414 000	3.06
ATP (Denmark)	2 497 828	2.24
SEB/Enskilda	2 467 996	2.21
HQ Funds	2 334 221	2.09
Total	**76 552 191**	**68.56**



Geographic division of ownership
(Free float, excluding Industri Kapital and Tetra Laval), %

1	Sweden	44
2	US	19
3	UK	11
4	Denmark	9
5	Germany	6
6	Others	11

Ownership distribution by size at December 31, 2002

Holdings	Number of shareholders	Number of shares	Holding, %
1 – 500	4 159	720 691	0.65
501 – 1 000	552	482 732	0.43
1 001 – 5 000	620	1 521 278	1.36
5 001 – 10 000	110	871 547	0.78
10 001 – 15 000	59	768 757	0.69
15 001 – 20 000	37	675 432	0.60
20 001 –	209	106 631 556	95.49
Total	**5 746**	**111 671 993**	**100.00**

To constantly increase added value for customers

The SoftColumn deoderization process provides added value to the vegetable oil industry in the form of flexible production, low operating costs and high product quality.

Founded in 1883, Alfa Laval has undergone dramatic changes in recent years and is now a totally new company. Spearheading this change in corporate identity is the company's business concept – to constantly increase added value for customers in a more comprehensive and distinct manner than before. Satisfied customers create a company with competitive, continuous value growth for shareholders.

A distinct business concept

"To optimize the performance of our customers' processes. Time and time again."

For 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.

This is a demanding concept, but Alfa Laval probably has greater experience and knowledge about its process segments than most companies with similar operations. This strength and time-tested stability can serve as a catalyst in the ongoing change within the company.

Visions guide daily operations

Four visions form the basis for how Alfa Laval employees should act in order to help fulfill the business concept and the financial objectives of the company. These are Market vision, Leadership vision, Team vision and Financial vision.

Market vision: Be alert, act now
To act quickly is imperative in realizing the goals set by the company. Now is the best time to take action.

Leadership vision:
Have the courage to change
To test oneself and be bold enough to do things differently. Alfa Laval prioritizes the result and wants to be a winner. It is first when the organization starts to view change as something natural that it acquires the best possibilities to help customers.

Team vision: Think flexibly
Be flexible and cooperate! The strength of one employee must be combined with the strengths and resources of the other individuals. Only then can the organization become truly efficient and fulfill its commitment to customers.

The financial vision: Look at the bottom line
Cost and price awareness is necessary to meet the financial goals. Work manners, both towards the customers and within the company, can be steadily polished. The guiding factor here is cost efficiency.

Financial goals

Volume growth

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

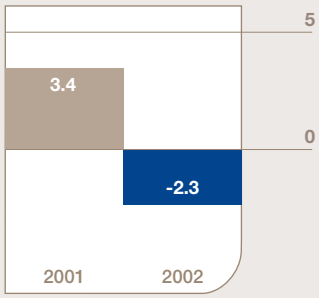
EBITA* in relation to sales

Goal: 12–15 percent
The goal is to reach an EBITA margin of 12 to 15 percent of sales. The lower end of the target range, at least 12 percent, applies during the ebb of an economic decline while the upper end, approximately 15 percent, applies during the peak of economic prosperity. The purpose of this objective is to put the company on par with the best companies in the engineering industry and thereby make the share an attractive investment. The primary goal, however, is to enable Alfa Laval to secure financial flexibility.

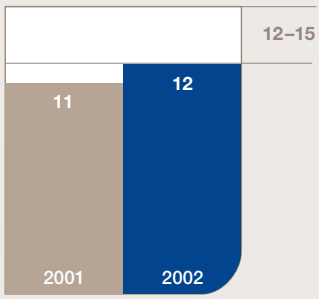
Return on capital employed (ROCE)

Goal: 20 percent
Despite substantial goodwill and allocated surplus values, ROCE should reach 20 percent. This level is established with the low tied-up capital in mind, and as a result of the current profitability and the goal of further improving profitability.

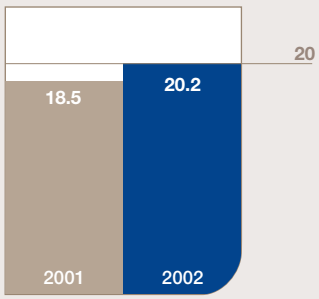
Volume growth, %



EBITA margin, %



Return on capital employed, %



Financial standards

As a supplement to the aforementioned objectives, the standards for a number of relevant financial key ratios that will help Alfa Laval meet the financial goals are described below.

Debt/equity ratio

Goal: below 1.0 (2002: 0.78)
Alfa Laval has a strong cash-flow generating capacity. But to yield a good return on shareholders' equity, the company should have a debt/equity ratio that is above, rather than below, the average for engineering companies. As a standard, Alfa Laval aims to have a debt/equity ratio that, in the long term, will be lower than the shareholders' equity. Debt/equity ratio may increase in connection with major acquisitions but this has to be viewed as temporary when cash flow and profits are expected to offset this effect.

Cash flow from current operations

Goal: 10–14 percent of sales (2002: 13.2 percent)
The standard is set slightly lower than the operating-margin, adjusted EBITA, goal because organic growth normally results in an increase in tied-up working capital. The unrestricted cash flow will generate a substantial amount, regardless of the debt/equity ratio, but within the framework of the guidelines for debt/equity ratio that the company has established.

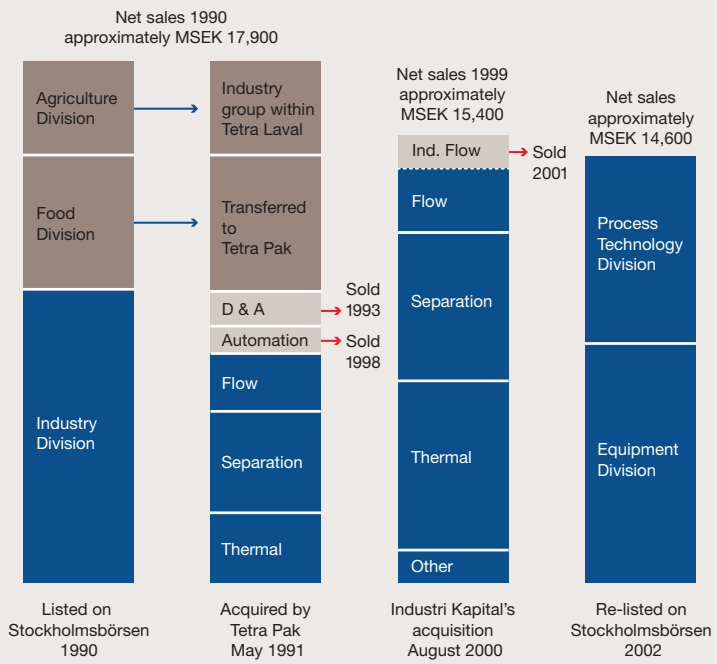
Investments

Goal: approximately 2.5 percent of sales (2002: 1.9 percent)
For existing operations, Alfa Laval's objective is to maintain investments in fixed assets at a level corresponding to about 2.5 percent of sales, or approximately corresponding to depreciation according to plan. The purpose of this standard is to allow some scope for replacement investments and create a capacity expansion in line with organic growth for the Group's current key products.

*EBITA= Operating profit before amortization of goodwill and depreciation of other step-up values

Streamlining

implemented – now it's time for customer focus and growth



So has the new Alfa Laval emerged since 1990

When Alfa Laval was acquired by the Tetra Pak Group in 1991, it consisted of three divisions. Two of these are now part of Tetra Laval while the third, the Industry Division, serves as the framework of today's Alfa Laval. After the streamlining in the 1990s, three key technologies made up Alfa Laval by the turn of the millennium – centrifugal separation, heat transfer and fluid handling – and the company was organized accordingly. The technology segment fluid handling, which consisted of an industrial and a sanitary unit, has been further streamlined with the divestment of the industrial unit in 2001.

In 1999 Alfa Laval initiated a process of change with the aim of creating, in many aspects, a new Alfa Laval, and most of all, a new way of cultivating customer relations. The three key technologies naturally form the base of the Group's ongoing operations. However, the organization of today and tomorrow is marked by decentralized sales and marketing while a row of joint Group functions such as purchasing, manufacturing and logistics are centralized.

Two divisions set up according to customers' purchasing behavior

Alfa Laval's business operations are currently split in two divisions: Equipment Division and Process Technology Division. While both divisions market and sell all the product technologies, they package different offers to diverse customer groups and use a variety of distribution channels.

The Equipment Division offers a wide range of products and services to customers with a well-defined and regular product-based equipment need. Sales are generated through Alfa Laval's direct sales force as well as via external channels such as distributors, entrepreneurs, installation-service providers, systems builders and OEM (Original Equipment Manufacturers).

The Process Technology Division offers solutions that help customers optimize their processes. It supplies everything from components to systems, service included. A thorough knowledge of products and processes, combined with innovative technologies, serves as platform for this division.

"Business is local"

The wide geographic spread of customers means that sales of the company's systems, products and services function best when decentralized. This market orientation is further strengthened by the establishment of ten specialized customer segments: Energy & Environ-

ment, Food, Life Science, Process Industry, Comfort & Refrigeration, Fluids & Utility, Marine & Diesel, OEM, Sanitary and Parts & Service. With the segments combining Alfa Laval's technologies, the Group's sales force can now offer customers the entire range of Alfa Laval products and services.

Increase shareholder value through higher margins

Alfa Laval's overall objective is to increase shareholder value by delivering growth and improving margins. To attain this goal, the company focuses on the following strategies:

Further develop sales efforts in close cooperation with customers

The new organization with ten customers segments leads to closer cooperation with customers, and at a lower cost than previously. Alfa Laval's sales force can now offer customers the company's entire range of products and services. Product development as well as customer service gain higher quality in the process.

Strengthen and enhance market-leading positions

Alfa Laval is the leading global provider of plate heat exchangers, centrifugal separators and sanitary flow equipment. Leading market positions offer possibilities and often lay the platform for good growth and strong financial development.

Safeguard and develop a first-class brand

The Alfa Laval brand is widely recognized all over the world. Independent external surveys show that customers associate the brand with qualities such as reliability, superior product quality and high performance.

Expand Parts & Service

Parts & Service has increased its contribution to total Group revenues from around 22 percent of net sales in 1999 to approximately 27 percent in 2002. Alfa Laval is convinced there is still substantial scope to further develop this segment. Sales of spare parts and services yield higher gross margins compared with new sales. A comprehensive installed base of Alfa Laval products among customers makes it possible to generate a steady stream of revenues.

Develop new applications

To continue improving existing products and identifying new applications for these also form an important part of the strategy.

Identify new growth opportunities

Alfa Laval's growth potential became an attractive possibility after the company's Initial Public Offering (IPO) and the financial contribution it provided. Alfa Laval unveiled its growth strategy during the second half of 2002. President and CEO Sigge Haraldsson describes this strategy in his comments for year 2002 on page 4–5 of this annual report.

Reduce cost base through continued efficiency measures

A restructuring program called "Beyond Expectations" was started in 1999. Alfa Laval assesses that the savings will amount to at least MSEK 850. The timetable entails that the stated level of cost savings should be reached by the end of 2003. At year-end 2002, the changes carried out resulted in cost savings of MSEK 775. The income statement for 2002 again includes cost savings corresponding to approximately MSEK 670.

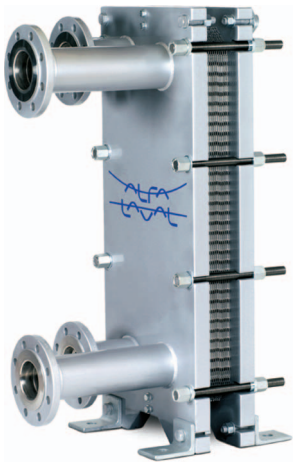
Cost-cutting measures include rationalising and improving production efficiency, centralizing purchasing, logistics and manufacturing, divesting non-core operations and selling properties and some production plants. Substantial savings were also generated within support functions when the reorganization was carried out.

Global market share

	Position	Percent
Plate heat exchangers	1	36
Centrifugal separators	1	24
Sanitary fluid handling	1	10

Source: Alfa Laval

The stable platform



The plate heat exchanger is Alfa Laval's main product within heat-transfer technology.

Alfa Laval's competitors
Heat transfer

Plate heat exchangers:
Tranter/SWEP, Invensys-APV,
MG Technologies/GEA (globala), Hisaka.

Spiral heat exchangers:
Kapp/HES, Kurose,
MG Technologies/GEA.

Air-coolers:
Gunter, Eco, Frigabohm.

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 for industrial companies in the various sectors. Alfa Laval is a leading provider of these technologies and aims to sustain and strengthen its leadership by further developing and identifying new products, applications, customer groups and markets.

Heat transfer

Trend toward compact heat exchangers

Heating and cooling are essential parts of most industrial processes. The demand is for these applications to be carried out with the least energy consumption. Heat exchangers provide an efficient technology for heating and cooling.

Alfa Laval's heat exchangers are used for applications such as heating, cooling, refrigeration, ventilation, evaporation and condensation. 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.

Alfa Laval's heat-transfer product range consists of plate heat exchangers, spiral heat exchangers and air heat exchangers. The plate heat exchanger is the main product and has many applications. Alfa Laval is the market leader in plate heat exchangers in the European and US market, with a combined market share of approximately 36 percent in 2002. Spiral heat exchangers are used when fluids contain a high level of solids, such as sludge or pulp fibres. Air heat exchangers are used for air conditioning and refrigeration.

There is a clear tendency in the processing industry to switch from traditional shell-and-tube heat exchangers to compact heat exchangers such as plate heat exchangers because the latter save space and energy and provide better operation security than shell-and-tube heat exchangers. Industries are displaying greater confidence in compact heat exchange technology – a favourable trend for Alfa Laval, which focuses on, and has a global-leading position in this technology.

Separation

– membrane filter a new product

Alfa Laval has led the development of centrifugal separation since the company was formed in 1883 to capitalize on Gustaf de Laval's invention, the cream separator. Since then, the separation technology has become a central part of the operations, with constantly new applications. Today, the technology is used to separate liquids from other liquids and solid particles from liquids, in a large number of industrial processes. Separation solutions are used in the food, chemical and pharmaceutical industries as well as onboard ships to clean fuel and lube oil, on oil platforms to separate oil and water, in the engineering industry to clean industrial fluids and in sewage treatment plants for sludge treatment. Alfa Laval is a global market leader in centrifugal separation equipment with an estimated global market share of 24 percent in 2002.

High-speed separators and decanter centrifuges are Alfa Laval's dominant products within separation. High-speed separators are primarily used

The centrifugal separator has been a central part of operations for 120 years.

Alfa Laval's competitors
Centrifugal separation

Food processing, chemical and pharmaceutical industries: Westfalia (MG Technologies/GEA).

Mineral oil separation market: Mitsubishi, Veronesi.

Decanter market: Hiller, Broadbent (waste separation), Pieralisi (olive oil separation), Swaco (Oil & Gas industry).

Filter market: Boll & Kirsch.

for separating fluids but are also used for sludge that contains solid particles of up to 30 percent.

A decanter centrifuge is a horizontal separator that uses a slower speed than the high-speed separation technique. It is mainly applied in the separation of a relatively higher solid content. For example, decanter centrifuges are used in dewatering in wastewater treatment plants.

As a key supplement to its own range of separator products, Alfa Laval in 2002 brought the membrane filtration system into the company through the acquisition of Danish Separation Systems A/S (DSS). Membrane filtration is the accepted industry standard for separating less dense particles, which is a growing need within the food, biotechnology and pharmaceutical industries.

Another addition to the product offering, with interesting potential, is the separator to clean crankcase gases from diesel engines that Alfa Laval is developing jointly with Haldex.

Fluid handling
– a safe and smart technology

Transporting and regulating fluids in a safe and efficient manner is vital for industries. Alfa Laval focuses its competence on 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, health and personal care products. Alfa Laval is a market leader in fluid handling with an estimated global market share of 10 percent in 2002.

There are three types of high-sanitary pumps. The centrifugal pump combines high efficiency rate with careful product treatment. A rotary lobe pump is used to facilitate the flow of thicker and more sensitive fluids. The third type is the liquid ring pump, which has a wide range of applications.

Valves are used to regulate and redirect liquid flows. Alfa Laval's mix-proof valves are delivered as a complete package of solutions, complemented by intelligent control equipment. Butterfly valves are suitable for very liquid products and seat valves are characterized by a few movable parts and are used, for example, as stop or divert valves.

Sanitary valves are used to divert liquid flows.

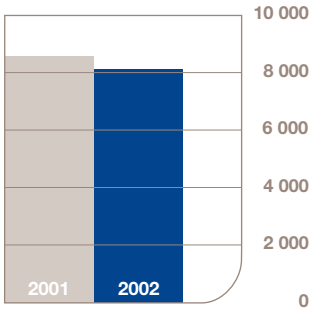
Alfa Laval's competitors
Fluid handling

Main competitors:
Invensys/APV, MG Technologies/GEA.

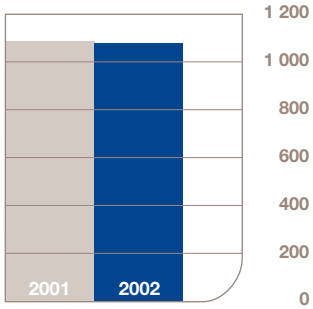
Others:
Waukesha/Cerry Burell, ITT Industries, Fristam Pumps, Norit Sudmo, Jensen, Toyo Stainless, Johnson Pump.

A diversity

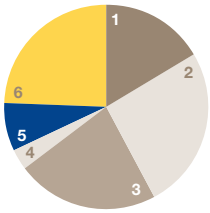
of products, customers and channels



Net sales, MSEK
2001: 8 576
2002: 8 130



Operating income, MSEK
2001: 1 084
2002: 1 078



Segment distribution in percent of Equipment sales
1 Marine & Diesel
2 Sanitary
3 Comfort & Refrigeration
4 Fluids & Utility
5 OEM
6 Parts & Service

The Equipment Division offers a wide range of products to customers that have a well-defined, recurring and regular need. Sales are generated mainly through systems builders, contractors and OEM companies as well as through distribution and retail outlets. The division focuses on three ways to increase value for customers – 1) a high level of accessibility for products worldwide through increased sales and distribution channels, 2) differentiation and customization through module concepts and 3) product development in cooperation with customers.

The Equipment Division posted net sales of MSEK 8,130 in 2002, or 56 percent of Alfa Laval's total sales. The division had about 2,100 employees.

The Equipment Division's goal is to be customer's first choice and strives to maintain its leading global positions by identifying new product applications in segments with favourable growth prospects.

While the Process Technology Division focuses on customized solutions, the Equipment Division sells volume products to a more price-sensitive market. To be competitive, the division concentrates on fulfilling the customers' needs with respect to accessibility, reliability, price and quality.

Customers' needs set the pace

The Equipment Division is organized in five customer segments: Sanitary, Comfort & Refrigeration, Marine & Diesel, Fluids & Utility and OEM. In full-year 2002 OEM reported order intake that exceeded that of the preceding year, while the rest of the segments suffered a decline.

Sanitary

US is main market

The bulk of sales within the Sanitary segment is generated in the beverage, dairy, food processing and biotech and pharmaceutical industries, all of which have stringent hygiene and safety requirements. Alfa Laval's pumps, valves, heat exchangers, measurement and control equipment, installation material and tank equipment are used in manufacturing liquid and viscous food products, as well as pharmaceutical and hygiene products. The equipment is of very high standard, as exemplified by the mixproof valves and intelligent valve control that automatically issues updates on the conditions of the valves to avoid shutdowns and contribute to greater security for customers.

Important end-customers include AstraZeneca, Cadbury Schweppes, Procter & Gamble and Unilever.

The US is the most important market for Sanitary, which is underscored by the fact that a new plant for manufacturing sanitary flow equipment was set up in Richmond, Virginia. The new production plant was the Group's largest investment in 2002.

Tetra Pak, a leading supplier of processing and packaging systems for the food and beverage industry, is an important customer for the Sanitary segment. Alfa Laval's products are integral components in the production plants sold by Tetra Pak. At the same time Tetra Pak is a key customer, vital distribution channel and strategic partner.

Comfort & Refrigeration

A broad spectrum of customers

In the Comfort & Refrigeration segment, Alfa Laval sells a broad assortment of heat exchangers used in sys-

Highlights during 2002

- Establishment of approximately 300 new sales and distribution channels worldwide, mostly in Germany, Japan, India, Denmark, Italy and Russia.
- Investment in a new plant in Richmond, Virginia, US for the production of sanitary flow equipment – the largest investment made by the Group in 2002.
- Focus on the production, sale and distribution of brazed heat exchangers for use in applications such as air conditioning and district heating.
- Signing of a strategic agreement between Alfa Laval and Euroship, a group of European shipyards, for supply of separator modules in accordance with jointly developed standards.

Compact and efficient brazed heat exchangers are suitable for air-conditioning and district heating systems

tems for district heating, district cooling and air conditioning of factories, offices and shopping malls. They are also used for keeping refrigerated counters and ice rinks at right temperature.

The plate heat exchanger is the main product for these applications. The product range consists of welded plate heat exchangers, which can cope with extremely high pressure, half-welded units and small brazed heat exchangers that are easy to use for a variety of heating and cooling applications. Alfa Laval also supplies air-cooled heat exchangers for air conditioning and refrigeration as well as shell-and-tube heat exchangers for evaporation and condensation.

Alfa Laval sells heat exchangers to a broad spectrum of customers ranging from large multinational companies to small, local installation firms. Some of the major customers are Climespace, York, Mycom and Uppsala Energi.

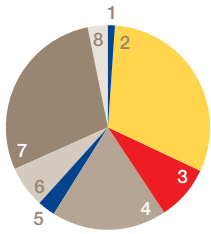
Eastern Europe, where several countries still use obsolete district heating, is an important and growing market for Comfort & Refrigeration whose compact, efficient solutions replace the old, energy-consuming systems. Alfa Laval has already delivered numerous plate heat exchangers for district heating in Eastern Europe.

Marine & Diesel

Clear market leader

In Marine & Diesel, Alfa Laval is a significant supplier to shipyards and diesel-engine manufacturers. More than half of the ships in the world that are in service are equipped with Alfa Laval products. They are used, among other applications, for fuel and lubricating oil cleaning processes, engine cooling and water purification. The list of customers includes Hyundai, Mitsubishi Heavy Industries, Finncantieri, Wärtsilä Group and MAN/B&W.

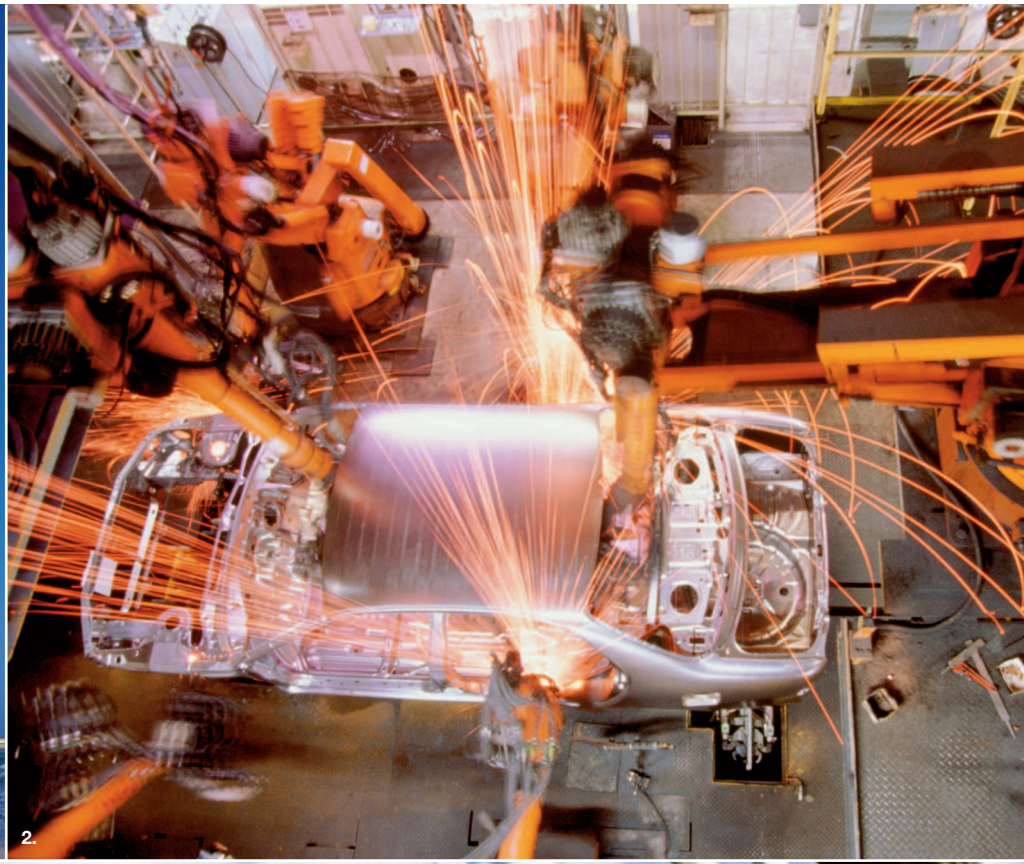
Alfa Laval has steadily strengthened its position in the marine segment by launching new products and solutions that help shipowners improve their operating finances and meet increasingly stringent environment-protection requirements. A couple of years ago, the Group launched a separator module that is easy to install, operate and maintain and which generates considerably lower operating costs. A new system for fuel conditioning also saves space and money. Treatment of oily wastewater is becoming all the more important in line with the more stringent environmental legislation. Alfa Laval also furnishes such efficient systems for installation onboard. Qualified service personnel covering



Geographic distribution in percent of Equipment sales

1 Sweden
2 Other EU
3 Other Europe
4 US
5 Other North America
6 Latin America
7 Asia
8 Others


1.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the 50 largest shipping ports in the world also constitute a major resource for the marine industry.

In 2002 Alfa Laval signed a strategic alliance agreement with Euroship, a group of European shipyards. The agreement covers supplies of fuel- and lube-oil separator modules for new-buildings at Euroship yards. The aim is to harmonize standards between Alfa Laval and Euroship so that supplies can be specified and shipped according to agreed standards, thereby shortening delivery times and lowering costs for all parties.

The market for Marine & Diesel products suffered a slump in 2002, following a sharp rise in the number of newly built ships in 1999 and 2000. Alfa Laval's order intake within the Marine & Diesel segment declined in 2002.

Fluids & Utility

Favourable growth prospects

While currently a small segment within Alfa Laval, Fluids & Utility has large growth potential. Nearly all manufacturing industries use all sorts of fluids in their production, liquids that need to be cleaned and temperature-controlled in order to attain a high level of operational security. Such fluids range from lubricating oil for machines to water for washing the manufactured products. With Alfa Laval's separators, costly oil and fluids are cleaned and recycled, helping to trim operating costs and protect the environment. Robust brazed heat exchangers are used for cooling hydraulic oil which, in effect, helps raise the machinery's performance, minimize wear and enhance security.

The customer base comprises companies in the automotive, metal, electronic and plastic manufacturing sectors such as GM, Scania, DaimlerChrysler and Samsonite.

Alfa Laval's market share within the Fluids & Utility segment may be modest at the moment, but efforts in recent years to build a customized product portfolio and suitable distribution channels will lead to favourable growth possibilities.

OEM

Shorter lead times for customers

In the OEM customer segment, Alfa Laval has close relationships with manufacturers of diesel engines, air-conditioning units, air compressors, air dryers and boilers. These customers integrate the company's products, such as small brazed heat exchangers, into their units. Alfa Laval's goal is to build partnerships with these manufacturers for joint development of new products.

After developing a product in accordance with the customer's specifications, Alfa Laval often signs a supply contract for large volumes covering several years. The customers place high demands on competitive prices, quality-proof systems and short and exact delivery times. Alfa Laval has developed reliable quality assurance programs as well as cost-effective production and logistics to meet these demands. The Group delivers its products to customers direct from the production plants. This shortens lead times, cuts costs, and limits risks for errors as well as saves marketing resources in the organization.

OEM transactions are a growing area of operations within Alfa Laval. The customers include Vaillant, Caterpillar and Carrier.

1. Burj Al Arab Hotel in Dubai, one of the most luxurious hotels in the world, is equipped with heat exchangers from Alfa Laval that keep the building, swimming pool and the 300,000-liter aquarium at a comfortable temperature.

2. The automotive industry is an important customer group for the Fluids & Utility segment which offers sanitary flow products for temperature control and cleaning of industrial fluids. This equipment results in a more efficient production, lower costs and better environment.

3. More than half of all ships in service are equipped with Alfa Laval products and solutions that are used, among other purposes, for cleaning of fuel and lubricating oil and oily water, engine cooling and fresh water production.

Customized

solutions and partnerships

The Process Technology Division serves customers who require solutions that, to a greater or lesser extent, have been specially adapted to improve the efficiency of their processes. The division's sales are mostly effected through the Group's own sales companies. Alfa Laval combines expertise in its key technologies with thorough knowledge of its customers' processes and offers package solutions ranging from single products to systems and turnkey solutions, as well as efficient customer service.

Process Technology Division posted net sales of MSEK 6,377 in 2002, which corresponds to 44 percent of total net sales. The division had about 2,700 employees.

The division's goal is to be a partner to its customers and work with them to create solutions that improve their efficiency and profitability. Its growth strategy is based on a clear focus on products, solutions and market presence. The products must possess unique characteristics, and be compact and developed for continuous production. Solutions must be based on Alfa Laval's specialist know-how concerning products and processes and provide a clear added value for customers. In order to optimize its market presence, the division focuses on good relations with key customers, alliance-based cooperation and market segmentation.

The Process Technology Division operates within four customer-oriented segments: Process Industry, Food Technology, Energy & Environment, and Life Science. Food Technology and Life Science increased their order intake compared with 2001, Process Industry was at the same level as the preceding year while Energy & Environment posted a decline.

Highlights during 2002

- Launch of two-phase technology for efficient evaporation and condensation in the process industry.
- Alfa Laval signs agreement with Dutch company Vandenbroek for exclusive global sales of dryers for handling wastewater sludge.
- Launch of innovative software that dramatically reduces operating costs and enables wastewater treatment plants to operate round-the-clock.
- Acquisition of Danish Separation Systems brings valuable addition of a key new product – membrane filters.

Food Technology

China, India, Russia and the US create growth

In the Food Technology segment, Alfa Laval has a strong and established position as a supplier of process solutions to the beverage and food industries. Customized solutions are used in the production of juices, dairy products, beer, wine, vegetable oils, soups, sauces, confectionery products and meat, fish and vegetable proteins, among other products.

Since Alfa Laval laid the foundations for the dairy industry 120 years ago, the company has accumulated an extensive knowledge of processes for separating, heating, cooling, pumping and transporting various foodstuffs, including viscous products that are difficult to handle.

Alfa Laval has also developed many special solutions for the food industry. A few examples are:

– a surimi process that enables the fishing industry to increase its profits by

1. Alfa Laval's list of customers includes many of the world's largest breweries.

2. Alfa Laval delivers solutions that meet high performance and safety requirements within the chemical and processing industries.

converting surplus fish raw material into a high-quality end product;
– scraped-surface heat exchangers that can handle viscous and sticky products;
– a cleaning system for vegetable oils that effectively eliminates undesired aromas and flavors;
– a complete process for producing olive oil of the highest quality.

Alfa Laval's growth in the brewery area exceeds market growth by a considerable margin. One of the reasons for this is the partnership that the company has developed with many customers, including many of the world's largest brewery groups. Special modules have been developed in cooperation with the brewing industry for processes such as pasteurisation, mixing, wort boiling and deaeration. The acquisition of Scandi Brew of Denmark has added key technology for advanced yeast handling, which provides both a quality guarantee and savings for breweries.

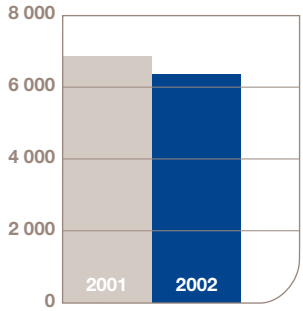
The customers served by Food Technology include such multinational groups as Nestlé, Coca-Cola, ADM, Heineken and Anheuser-Busch. Alfa Laval considers that favourable growth opportunities exist for the segment in general in China, India, Russia and the US. Market trends point to a global increase in consumption of beverages, beer and vegetable oils. The acquisition of Danish Separation Systems A/S – and with it, access to membrane filters – has created exciting potential for Food Technology.

Process Industry

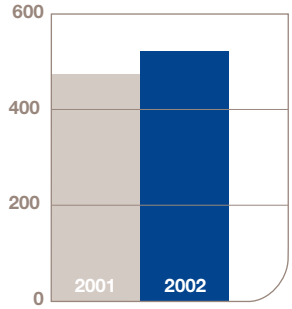
Plate heat exchangers in focus

Within the process industry, Alfa Laval's solutions are used by a large number of customers for producing petrochemical products, plastics, polymers, metals, minerals, ethanol, starch, paper and sugar, among other products.

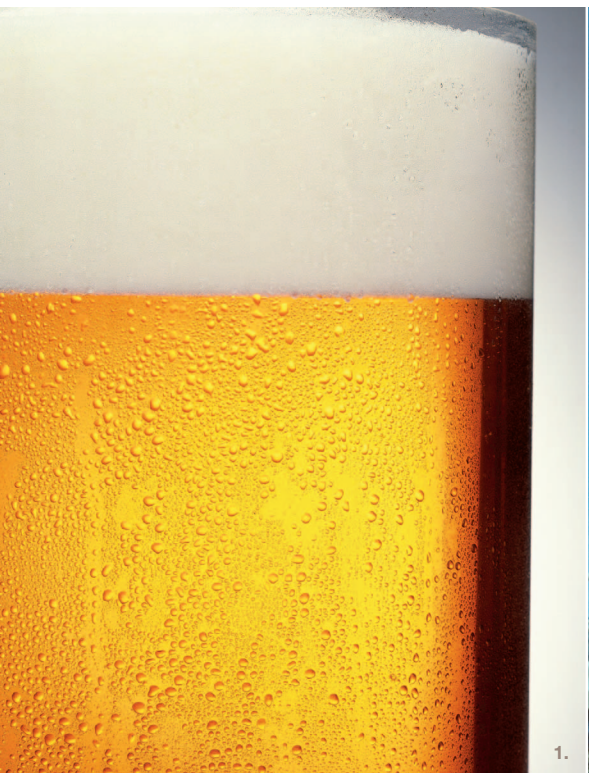
Heat exchangers play a key role for cost-efficient production in processes that demand large amounts of energy. Alfa Laval offers an extensive choice of heat exchangers, covering a broad range of applications, temperatures, pressures and capacities. Plate heat exchangers, in particular, have great potential, since they can in many cases replace shell-and-tube heat exchangers, thereby providing added value for customers in the form of greater efficiency and substantial savings, in terms of space as well as



Net sales, MSEK
2001: 6 872
2002: 6 377



Operating income, MSEK
2001: 473
2002: 521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1. Stricter environmental laws make the efficient treatment of wastewater and sludge an increasingly important issue for municipalities and industries.

2. Life Science is a growing area of operations within Alfa Laval. The company, for example, is at the forefront of advanced cell separation technology.

installation and service costs. Welded and half welded plate heat exchangers, which can handle extremely high temperatures and pressures, are particularly suitable for evaporation and condensation, a segment that is currently totally dominated by tube heat exchangers.

Alfa Laval's separators are also used for many applications in the process industry, where extremely high levels of performance and reliability are required. The company gained a valuable supplement to its separator range through its acquisition of the Merco brand, which is well known in the starch industry. The robust design of the Merco separators has also proved suitable for use in demanding applications, in the chemicals industry for example.

Alfa Laval has many well-known customers in the process industry, such as BASF, Bayer, DuPont, Cargill and International Paper.

A number of market trends point to promising growth potential for Alfa Laval in the process industry. Examples include opportunities in distilling as a result of the increased use of ethanol as motor fuel, and a clear increase in the consumption of starch in Asia.

Energy & Environment

Benefits from stricter environmental requirements

Alfa Laval's products, modules and systems are of great importance in the energy sector, both in the extraction of energy sources such as oil and gas and in the production of energy in power plants. The company also has a strong position in the environmental area as a supplier of equipment for sludge processing at wastewater treatment plants.

For the oil and gas industry, Alfa Laval supplies solutions for drilling and production of crude oil and gas, fresh-water production, cleaning of fuel oils and lubricating oils and treatment of oil-contaminated water. The equipment is suitable for the demanding applications on offshore platforms. It is light and compact, and conforms to the most stringent environmental requirements. In the oil and gas segment, lower order intake was noted in 2002 than in 2001 due to the decline in world production.

Alfa Laval's products and systems are installed in power plants throughout the world that use water, steam or gas turbines, diesel engines or nuclear power to generate electricity. Power plant applications involve the use of separators for effective cleaning of lubricating oils and

fuel oils, including heavy oil and crude oil, compact heat exchangers for heating and cooling purposes, and systems capable of desalinating large volumes of seawater. A general expansion of the power industry is under way in Asia, while the US market stagnated in 2002. There is growth potential for heat exchangers in the nuclear power industry, which is expanding in countries such as India, South Korea and China. Another market is upgrades of existing nuclear power plants in various parts of the world, involving, for example, the replacement of shell-and-tube heat exchangers with more efficient and compact plate heat exchangers.

As a result of more stringent environmental legislation, the need for efficient handling of wastewater and sludge is increasing worldwide, creating a valuable growth area for Alfa Laval. The company supplies systems that reduce the volume of wastewater, so that it can be treated more efficiently. The customers include municipalities, private water companies, major international contractors and the paper, food, chemicals and other industries. Alfa Laval is the only supplier that offers a complete product range covering the entire process: sludge thickeners, spiral heat exchangers for regulating temperatures, and decanter centrifuges for dewatering. Through its cooperation with Dutch company Vandenbroek, Alfa Laval can now also offer equipment for the final stage in the process – drying. This, combined with revolutionary software that greatly reduces operating costs and assures guaranteed round-the-clock operation at wastewater treatment plants, gives Alfa Laval additional competitive advantages and growth potential in the wastewater treatment area.

The customers within the Energy & Environment segment include Exxon, Petrobras, Statoil, General Electric, China Nuclear Corp., Thames Water and the City of Chicago.

Life Science

Valuable supplementary range of new products

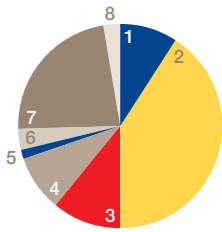
Life Science, which is a small but growing area of operations within Alfa Laval, serves the pharmaceutical, biotechnology and hygiene products industries.

With shell-and-tube heat exchangers as the newest addition to its product range, Alfa Laval now has the broadest offering of heat exchangers in the market for the pharmaceutical and biotechnology industries.

The company has developed a number of products and solutions that meet the stringent safety and hygiene requirements applied by the supervisory authorities and the industries. Products aimed at this market include centrifugal separators for advanced cell separation, heat exchangers for condensation and sterilisation, and pumps and valves for precise transport and flow control.

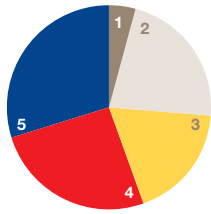
Through its own development work, partnerships and acquisitions, Alfa Laval is steadily expanding its product range in the Life Science segment with equipment that will further strengthen the segment's growth potential. Membrane filters now supplement the separator offering and are harmonized with the separators to help customers make an optimal choice and to facilitate the demanding validation process, which is of crucial importance in the pharmaceuticals industry. Alfa Laval also ranks among pioneers in the development of advanced separators for the increasing production of pharmaceuticals from mammal cells. A new series of shell-and-tube heat exchangers, specially developed with a partner for the pharmaceuticals industry, offers new applications, such as heating and cooling of water for injection (WFI). Alfa Laval now has the market's most extensive offering of heat exchangers for the pharmaceuticals and biotechnology industries.

Life Science's customer list includes many of the major pharmaceuticals groups, such as Eli Lilly, GlaxoSmithKline, Genentech and Aventis.



Geographic distribution in percent of Process Technology sales

1 Sweden
2 Other EU
3 Other Europe
4 US
5 Other North America
6 Latin America
7 Asia
8 Others



Segment distribution in percent of Process Technology sales

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

1.

Highlights during 2002

- New investments in production lines for plate heat exchangers in Sweden and Italy led to a substantial rise in capacity.
- Concentration of fluid-handling equipment production in the US implemented. Kenosha plant in Wisconsin shut down. A new, smaller production unit linked to the heat-exchange factory in Richmond, Virginia was installed.
- Investment in a manufacturing plant for brazed heat exchangers in Jiang Yin in China – to meet a strong rise in demand – doubled the production capacity.
- Planned savings within purchasing carried out.


2.

Coordinated and streamlined supply chain

The Operations Division is a centralized function that performs all manufacturing, purchasing and logistics functions within Alfa Laval. In centralizing these functions, which began in 2000, the company aims to improve delivery relibaility for customers, increase productivity, reduce operating costs and exploit economies of scale. More than 40 percent of the Group's employees work in the Operations Division.

Alfa Laval believes it is necessary to have a global perspective and coordinate purchasing, manufacturing and logistics in order to create a reliable access to the company's products in the world market.

Manufacturing

Right production in the right place

Alfa Laval has 3,900 production employees and 20 manufacturing units, of which 13 in Europe, five in Asia, one in the US and one in South America. During the past several years, global production has been restructured and concentrated on a few, product-specialized factories that are localized according to two criteria: proximity to the market and cost benefits. High-value products requiring advanced technical know-how are manufactured in production centers mainly located in Western Europe, US and Japan.

Manufacturing has been divided into component units that focus on cost-efficient production and delivery units where the emphasis is on customized service. Several factories have both component and delivery units.

Logistics

Clear and cost-efficient distribution

Just a year ago, Alfa Laval's logistics was a resource-demanding network of transports and invoices between factories, distribution centers, warehouses, sales companies and customers. The company has now introduced an advanced web-based order and logistics solution – One4AL – that simplifies the distribution flow in an all-embracing manner. The system makes it possible to distribute goods directly from the factory to the customer. Order processing, booking, delivery and invoicing occur in an integrated, transparent process so that sales companies and customers can easily track the flow. Apart from offering better service to customers, the system frees up valuable sales and marketing resources in the sales companies. The goal is for 80–85 percent of all transactions to take place via One4AL.

In 2002 Alfa Laval also completed the restructuring of its physical distribution networks in Europe and North America. From a large number of local warehouses that tie up capital, stocking is now concentrated to a handful of distribution centers: three for Europe and one for North and South America. An equivalent structure in Asia is being established.

Purchasing

Volume benefits through fewer suppliers

The company has centralized purchasing by assigning six units for the various raw-material groups to be in charge of developing suppliers and handling contracts. Apart from reducing the number of suppliers and deliveries, a relocation process, patterned after that of manufacturing, is under way. New suppliers are being sought out in Middle America, Eastern Europe and Asia through locally placed purchasing resources for less technically advanced products.

1. A new plant for manufacturing sanitary fluid-handling equipment was set up during the year in Richmond, Virginia in the US.

2. Alfa Laval has 20 manufacturing centers worldwide. The largest production plant for plate heat exchangers is located in Lund, Sweden.

Growth and good margins

Parts & Service accounts for an increasing share of Alfa Laval's revenues. In 2002, this area of operations accounted for 27 percent of Group sales compared with 23 percent in the preceding year and 22 percent in 1999.

The company intends to continue developing and expanding the Parts & Service business for several reasons – partly because it generates usually higher margins than new sales of products and systems, and partly because professional service enhances the value of Alfa Laval's deliveries to clients. By creating regular contacts with customers, Parts & Service also contributes to new sales.

Alfa Laval's new organization, with customer-oriented divisions, has also affected Parts & Service. The company's sales outlets now have a joint organization for this business, encompassing Alfa Laval's entire product offering. This, combined with raising the competence and status of service managers and staff, has resulted in a new culture and new perspective on service. It is no longer a matter of merely selling spare parts and services. The new motto is to become a genuine partner to customers, tapping the company's skills and know-how to help them maintain and trim processes so they become as efficient and safe as possible – all these with the view of improving profitability.

A large installed base of products with long life spans

The large and expanding installed base of products forms the solid platform for Parts & Service. The company estimates there are about 500,000 heat exchangers, 75,000 separators and 20,000 decanter centrifuges worldwide. Furthermore,

Alfa Laval's global service network covers 70 service units worldwide. This means customers have access to spare parts and services wherever they are. At the service centre in Jeddah, Saudi Arabia, the company services and changes packing of up to 10,000 plate heat exchangers annually for customers in industries such as petrochemical.

the products have long lifetimes, with heat exchangers having a typical lifetime of 5 to 20 years and separators, which usually have a life span of 10 to 20 years. Alfa Laval has a global network of 70 service centers that makes spare parts and services accessible to customers everywhere.

Alfa Laval's service offering not only covers spare-parts sales, repair, preventive maintenance and acute servicing of equipment and systems. It also includes training of the customers' service personnel, which is a foolproof measure to avoid production disruptions. Upgrades or substitution of existing equipment can lead to significantly improved performance, large savings in energy and raw material costs and higher productivity. On-line measuring and efficiency controls provide automatic updates on the status of the equipment, warning when it is due for service or repair. The customers can choose the package of services they prefer and get service contracts tailored to suit their needs.

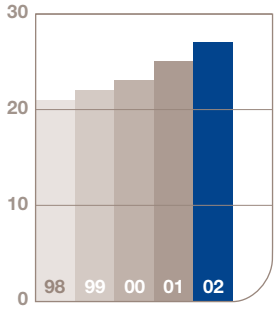
Spare-parts sales still dominate Parts & Service operations. Alfa Laval's global logistics network ensures that customers receive the spare parts they have ordered within 24 to 48 hours after booking them. Speedy delivery is important for most industries, not the least for the marine industry.

BHP Steel in Australia has concluded a service contract with Alfa Laval for regular inspection and maintenance of its heat exchangers.

Favourable growth prospects

Alfa Laval intends to expand its Parts & Service business by more efficiently tracking its installed base of equipment and by selling service contracts along with systems and products at the time of their original sale. Another potential growth driver is the increasing tendency in the industry to outsource service and maintenance as companies streamline to focus on core operations. The inclination to outsource is most apparent among companies with sophisticated production plants and high stagnation costs, thereby making it expensive to keep a high level of competence and sufficient resources internally. A customized service contract, with access to the supplier's entire range of expertise, is often a surefire and cost-effective solution.

Another means to broaden Parts & Service's customer base and sales is to exploit Alfa Laval's global network of service centers and provide repair and other services to competitor products. This concept is already being applied to a wide extent in the servicing and change of packages for heat exchangers, with application on the other products soon to follow.



Parts & Service share of group's total sales, %

Focusing on technical leadership

Research and development is decisive for Alfa Laval to sustain and develop its global market leadership and the quality mark of its brand name. Alfa Laval's technical leadership, established 120 years ago, serves as the platform for both brand-new as well as improved products for existing and new applications. The R&D operation is strongly market- and customer oriented. All investments taken are preceded by thorough analyses of business prospects and potential yield.

Total R&D expenses amounted to MSEK 355 in 2002. The Group has about 290 employees and four centers within R&D. Process Technology Division and Equipment Division have their own R&D functions for overseeing their respective customer segment and funnel resources to areas where there is most growth potential.

The financial and personnel resources for R&D are basically split equally between the two divisions.

Alfa Laval's R&D operations result in 30 to 35 new products annually. Apart from new product launches, R&D units upgrade just as many existing products. Alfa Laval holds more than 200 patents on its own products, and the brand name Alfa Laval is registered in around 100 countries.

Alfa Laval runs its R&D operations according to four main strategies: to stay competitive within current markets and applications; to increase growth potential within these areas; to develop new products for new applications and to operate a more long-term research and technological development.

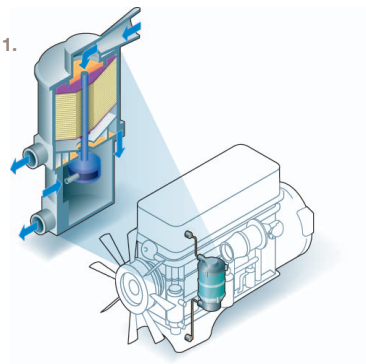
Constant product improvements sharpen competitive edge

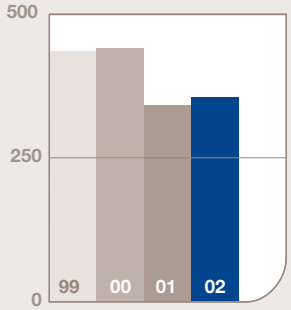
To remain competitive and stay in business, Alfa Laval needs to constantly upgrade its products to cope with the changing demands and needs of customers. This often involves relatively minor adjustments that could lead to major improvements for customers, such as in the matter of cost efficiency. One example is the multi-phase upgrades on the marketing success Think-Top, an operating unit for advanced control of hygienic valves launched by Alfa Laval three years ago.

This fundamental level of the R&D operation is cost-oriented and often focused on standardizing products. In

1. The newly developed Alfdex separator is an innovative solution for cleaning exhaust gases from diesel engines.

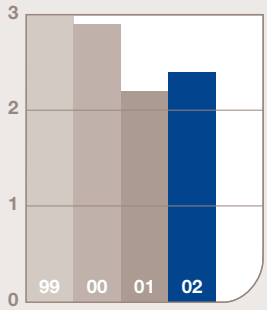
2. Alfa Laval's estimated 290 employees within R&D work closely with the market and the customers.





R&D costs in MSEK

1999:	435
2000:	441
2001:	341
2002:	355



R&D costs in percentage of net sales

1999:	3.0
2000:	2.9
2001:	2.2
2002:	2.4

the Equipment Division, the customer's demand for tailored solutions is met effectively through the production of standard modules that can be adjusted and mixed to suit individual needs.

New capacities, materials and functions boost market potential

To boost market potential in the existing operations, Alfa Laval can broaden its offering by adding products suitable for other capacities, pressures and temperatures. Enhancing growth prospect may also involve producing versions of new material, and to automate and integrate intelligent functions in the products, such as measuring and re-introducing information, or analyzing and forecasting.

Alfa Laval has also developed a new technology for welded plate heat exchangers for new applications. These heat exchangers can handle considerably higher pressures and temperatures than the gasketed products. The latest development is a concept for the so-called two-phase applications such as evaporation and condensation. The foremost advantage of plate heat exchangers with two-phase technology is that they save energy, installation space and investment costs compared with traditional technology with shell-and-tube heat exchangers. Alfa Laval has significant potential within the two-phase technology. The Group currently has a 3-percent share of the total market for two-phase technology, 65 percent of which is met by traditional technology.

New products and technologies create future possibilities

In order to develop new products for new applications, Alfa Laval focuses on variations of the current key technologies as well as on new technologies. A concrete example of this is the acquisition of the Danish Separation Systems A/S (DSS) that supplements Alfa Laval's product portfolio with a new core product – membrane filtration. This product meets the need of the food processing, pharmaceutical and biotech industries for a solution that can separate less dense particles. Another example is Alfdex, an innovative solution for cleaning exhaust fumes from diesel engines by separating oil drops and particles from crankcase gases. The solution was developed in response to increasingly more stringent environmental legislation. Still another example is Octopus, an epoch-making software for optimized operation of decanter centrifuges, resulting in substantially lower operating costs and problem-free, round-the-clock maintenance of wastewater treatment plants.

Alfa Laval works with future-directed research and technological development in a number of segments that the company believes can create profitable growth in the long term. This includes in-depth studies and trends within segments such as fluid dynamics, heat transfer and material developments.

Success through joint solutions

Alfa Laval has an immense need for comprehensive cooperation and solid relations with customers in order to improve existing products, solutions and technologies. Innovation and speed are catchwords in the company's efforts to boost customer value. Cooperation does not only cover the client-company's technology and purchasing divisions but also includes, to a growing extent, their central development functions. This trend offers greater possibilities for Alfa Laval to take a larger responsibility for the customers' processes and in meeting their needs and expectations. This also creates the conditions for cooperating on forward-looking solutions for the industry.

The Equipment Division runs development projects regularly in close cooperation with OEMs (Original Equipment Manufacturers) that use Alfa Laval products as integrated components of their own products. York International and Carrier International, US companies within cooling, heating and ventilation systems, are examples of these OEMs. Process Technology Division has cooperation agreements with key customers, such as BASF, on a global basis.

Additionally, Alfa Laval cooperates closely with suppliers and other partners such as Haldex, Sweden, for the above-mentioned system for cleaning of crankcase gases, the Dutch company Vandenbroek for sewage-sludge processing and British Spirax Sarco, for developing innovative heat exchangers for steam applications.

The Intellectual Potential

The Intellectual Potential management tool and Alfa Laval University are key parts of Alfa Laval's ambition to identify and improve skills necessary for the company's continuing success.

Developed by Alfa Laval in cooperation with Lund University, The Intellectual Potential is a tool for improving the managers' business acumen. Simply put, it is a system for ensuring that the company's theoretical business strategy works in reality.

The Intellectual Potential is a hybrid of the concept The Intellectual Capital, which is already being applied in a number of companies. The intention is to meet the industry trend towards greater emphasis on knowledge and skills. The value of a company and its competitiveness rest not only on existing products and machinery but also, to a growing degree, on the employees' ability to develop and apply new concepts and ideas that are of value to customers.

"Looking at our results describes our history. The Intellectual Potential is that which transpires tomorrow. It is like viewing our transactions through the windshield rather than through the back mirror."

Peter Norrby,
Energy & Environment

The Intellectual Potential works according to four value categories and links them to each business unit in the following manner:

The human potential
Do we have the right people for the right jobs? Do we possess the competence necessary for future success?

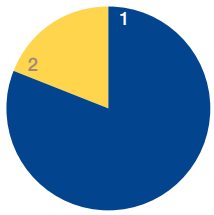
Leadership potential
Have we succeeded in applying our know-how, systems and processes for us to duplicate our success with sustained high quality? How innovative are we?

Relationship potential
How can we improve our relations with customers, suppliers and strategic partners?

Financial potential
How can we improve our sales and delivery capacities?

The system clearly marks where the focus and resources should be. This enables business unit managers to gauge how the company is faring in terms of the employees' competence. Enhancement of skills in areas where it is needed will increase the chances of the company achieving its stated objectives.

In 2002, training efforts were directed to support the new customer-based organization, with sales personnel trained on how to become more effective in offering customers the right products. Management training has focused on the growth possibilities of the new organization.



Gender division, %

1	Men	81
2	Women	19

Geographic distribution
(Average number of employees in 2002)

Ten largest countries		
1	Sweden	1 891
2	Denmark	1 054
3	India	1 042
4	US	849
5	France	610
6	Italy	488
7	China	378
8	UK	344
9	Germany	256
10	Russia	244
11	Others	2 136
	Total	9 292

The first applications

The OEM customer segment was the first to use The Intellectual Potential. Management regarded the system as an effective tool to guarantee that the stated goals are met.

The Energy & Environment customer segment within the Process Technology Division was the first to introduce the system in the Environment business unit, which views it as a welcome shift to a more forward-looking instrument.

> "Intellectual Potential is an excellent way to show the strengths and weaknesses in our processes. We can now evaluate some of the 'soft' values that otherwise would have been impossible to gauge."
>
> Claes Ericsson,
> Industrial OEM

Alfa Laval University

Alfa Laval University was created in 2001 to ensure that the competence backing up the company's strategy is properly developed. An important matter for the University's board was to take in members from outside of Alfa Laval's sphere in order to get an external perspective on education and develop the processes within the company. The external members are Professor Sören Sjölander, Chalmers, Gothenburg, and Assistant Professor Carl-Henric Nilsson, Lunds University.

The University is divided into three faculties:

Technology
Marketing and Sales
Management

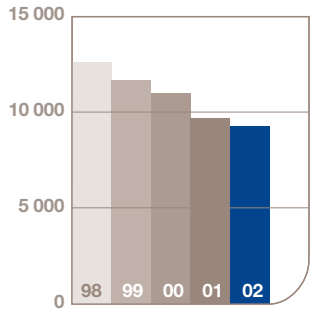
Each faculty is responsible for ensuring that Alfa Laval has the training and development programs that focus on required skills. The boards of the faculties comprises line managers in the company and the instructors have been recruited either from within the organization, or externally. With the new customer-oriented organization, the University's focus in 2002 was to develop activities that support the new skills and culture needed in the new organizational structure.

Technology faculty
The Technology faculty has focused on identifying skills that may become necessary in the future and on prioritizing training programs within R&D, Operations division, and IT/IS. "Project Management" and "How we generate new business" are examples of prioritized training areas.

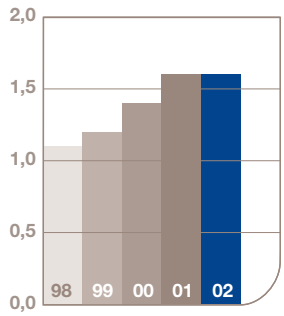
Marketing and sales
The reorganization being carried out within Alfa Laval entails that each part of the sales force accounts for the sale of a significantly broader product assortment than previously. Training of the sales force on products as well as processes, and with particular emphasis on the segments the sellers operate in, has been most important for this faculty.

Management
In 2002, the University developed measuring methods linked to The Intellectual Potential for all managers worldwide. This has yielded the following results:

1. How managers have been successfully gauged vis-à-vis key figures related to their area of operation.
2. Managerial performance is developed according to Alfa Laval's four core values.
3. Managers have designed a development plan that is linked to their work and career goals.
4. Managers are also measured against the progress of their staff and the training of prospective successors.



Average number of employees
1998: 12 613
1999: 11 696
2000: 11 001
2001: 9 693
2002: 9 292



Sales per employee, MSEK
1998: 1.17
1999: 1.23
2000: 1.37
2001: 1.63
2002: 1.57

Take a sip of the ocean

H_2O. More than three quarters of our planet is covered by water. Unfortunately, 97.5 percent of it is salty. So, ironically, about 500 million people living in coastal areas don't have enough water to drink.

Desalination of sea water is therefore a very important process. Not just for people, but also to ensure that different types of industry run smoothly. Alfa Laval has revolutionized this field with a completely new technology that's space-saving, energy-efficient, reliable and long-lasting. Providing thirsty people with what they most desire: a glass of fresh water.

Board of Directors' Report

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the fiscal year January 1, 2002 to December 31, 2002.

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 organization number 556587-8054. The visiting address of the head office is Rudeboksvägen 3 in Lund and the postal address is Box 73, SE-221 00 Lund, Sweden.

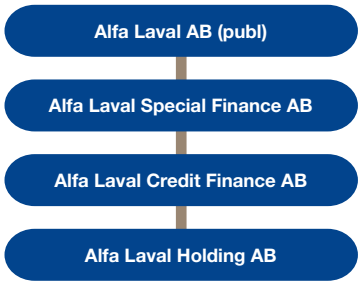
Ownership and legal structure

Alfa Laval AB (publ) is listed on the Stockholm Stock Exchange's O-list since May 17, 2002 and on Attract 40 since July 1. The total number of shareholders is 5,746. After the IPO, the two largest owners are Industri Kapital and Tetra Laval, where 26.9 (62.2) percent are owned by the partnerships that are controlled by Industri Kapital 2000 Ltd, United Kingdom and 17.7 (36.7) percent are owned by Tetra Laval B.V., the Netherlands. In November 2002, Tetra Laval BV has increased the ownership in Alfa Laval by 1.8 percentage points from the 15.9 percent that was valid after the IPO. Thereafter, there are eight institutional investors with ownership interests of 4.1 to 2.1 percent. These ten largest owners own 68.6 percent of the shares.

Until August 24, 2000, the Alfa Laval Group with its parent company Alfa Laval Holding AB was owned 100 percent by Tetra Laval BV., the Netherlands. On August 24, 2000, Industri Kapital with partnerships acquired control over Alfa Laval. The acquisition is described in Note 15.

In connection with the acquisition on August 24, 2000, the Alfa Laval Group got a new parent company, Alfa Laval AB (publ). This company was formed on March 27, 2000 specifically for the acquisition.

Due to the above transactions, the following group structure exists:



IPO of the Alfa Laval share

On April 8, the owners of Alfa Laval decided to list the Alfa Laval share in connection with a new issue of shares in the order of MSEK 3,000. The IPO was completed on May 17, 2002. All warrants held by Alfa Laval management have been used for subscription of new shares at the IPO. The capital injection totalling MSEK 3,136.6 from the new issue of shares has been used to repay the debt to Tetra Laval Finance Ltd and to amortize 35 percent of the listed bond loan. In connection with the IPO, the previous syndicated loan has been replaced by a new loan at conditions that better reflect the financial position of Alfa Laval after the new issue of shares. In connection with the IPO an additional purchase price of MEUR 40.0, corresponding to MSEK 367.5, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Credit Finance AB Group. This has entirely been reported as goodwill in the Group and is amortized over 20 years.

Accounting consequences of the change of ownership and the change of parent company.

The Alfa Laval AB Group was created in connection with the change of ownership on August 24, 2000. Due to this, comparison figures for 2000 are presented on a combined pro forma basis for the predecessor the Alfa Laval Holding AB Group for the period January 1, 2000 to August 23, 2000 and for the successor the Alfa Laval AB (publ) Group for the period from August 24, 2000 to December 31, 2000. In the pro forma calculation, amortization of goodwill and other step-up values and the financing costs that arose in connection with the acquisition on August 24 and the consequential tax adjustments, have been accounted for as if the acquisition occurred on January 1,

2000 in order to be comparable with 2001, see Note 34. The figures for 2002 are accompanied by comparison figures within parenthesis for (2001) and (pro forma 2000 for the successor). Comparison figures for 2000 are only stated for items in the income statement.

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. As of January 1, 2001, the sales and marketing activities are performed in two divisions – "Equipment" and "Process Technology". The divisions are based on ten customer segments. The Group also has a common function "Operations" for procurement, production and logistics. The Group's secondary segments are geographical markets.

Sale of business

An agreement was signed on December 19, 2000 concerning the divestment of the Industrial Flow operations. The agreement was made with Crane Co in the US and the divestment was made on April 2, 2001. The sales price was MSEK 330.6. After considering the reversal of Group step-up values and provisions for deferred costs, the divestment has resulted in a gain of MSEK 10.0 in the annual report for 2001. A few activities have remained before the divestment could be considered to be completed. During September 2002 a final settlement has been made with the buyer, resulting in an increase of the realized gain by MSEK 14.0. These items are reported as comparison distortion items. During 2000, Industrial Flow had net sales of MSEK 655.5 and 689 employees.

RemaControl, operating within sawmill automation, was divested to the management of the operation per January 1, 2001. This divestment resulted in a loss of MSEK 15. The loss was provided in full in the annual closing for 2000. During 2000, Rema Control had net sales of MSEK 67.9 and 76 employees.

On January 1, 2000 the subsidiary Ållekulla AB was sold for MSEK 4.8. The capital gain of MSEK 4.5 is included in the operating profit of the predecessor the Alfa Laval Holding AB Group. The company did not have any sales or employees.

The Tetra Pak division of the Indian subsidiary was divested in May 2000 for MSEK 38.6, which resulted in a realized gain of MSEK 30.8. During 1999, this division had net sales of MSEK 47.3 and 58 employees.

One of the Spanish subsidiaries, Aircoil SL, which manufactures heat exchangers for cooling equipment, was sold on December 1, 2000 for MSEK 0.0. The realized loss of MSEK -4.8 was eliminated against the restructuring provision that was set up in connection with the change of ownership. During the first 11 months of 2000, the company had net sales of MSEK 17.7 and 102 employees.

Sale of real estate

The sale of the property in Warminster in the United States was completed at the end of March at a price of MUSD 6.4 corresponding to MSEK 62.1. The realized loss was MSEK -43.2. The sale of the real estate in Kenosha in Wisconsin has been delayed due to the situation on the real estate market in the US. Another piece of real estate in Canada and one in Brazil are planned for sale.

During 2001 the following properties were sold. The real estate in Johannesburg in South Africa was divested in May. The sales price was MSEK 13.6. The sale of the real estate in Glinde in Germany was completed in October for a price of MSEK 196.4. In addition, some smaller properties in Spain and Sweden and one condominium in Sweden were sold for a total of MSEK 14.2. During 2000 the real estate in Eskilstuna and Tumba in Sweden, in Les Clayes in France, in Brentford and Northwich in the United Kingdom, in Maarssen in the Netherlands, in Oslo in Norway and in Zürich in Switzerland were sold for a total of MSEK 695.6.

Purchase of business

On September 4, 2002, Alfa Laval acquired Danish Separation Systems A/S, specialists within membrane filtration in the biotechnology, pharmaceutical and food industries. The difference between the purchase price paid and the net assets acquired was MSEK 102.4. This has entirely been allocated to goodwill. This goodwill is amortized over 20 years. The company has annual sales of about MSEK 90 and 65 employees within R&D, manufacturing and sales.

A public offering for an additional 25 percent of the share capital in Alfa Laval (India) Ltd was made on July 14, 2001. The offering to the minority shareholders was a requirement according to law as a consequence of the change of majority owner of Alfa Laval. The offering expired on August 14 and resulted in Alfa Laval acquiring an additional 2.4 million shares corresponding to 13.1 percent of the total number of shares. After the acquisition, Alfa Laval's shareholding is 64.1 percent. This has resulted in a cash payment of MSEK 87.3. The difference between the purchase price paid and the net assets acquired was MSEK 39.2. This has been allocated to goodwill in entirety. This goodwill is amortized over 20 years. During 2001, Alfa Laval (India) Ltd had external net sales of MSEK 530.8 and on average 1,003 employees.

On September 4, 2000, the separator division of the Polish company Wytwornia Sprzetu Komunikacyjnego "Krakow" SA was acquired for MSEK 10.4. The company had 50 employees at the time of the acquisition.

Orders received and order backlog

Orders received amounted to MSEK 3,501.4 (3,706.3) for the fourth quarter. Excluding exchange rate differences and after adjusting for divested activities, the orders received for the Group were 4.4 percent higher than the corresponding period last year.

Orders received amounted to MSEK 14,674.8 (15,893.9) (15,374.4) during 2002. Excluding exchange rate differences and after adjusting for divested activities, the orders received for the Group were 2.0 percent lower than last year.

The comments below on the development of the orders received by Division and the respective customer segments are based on the development

excluding exchange rate differences. An increase in orders received has been reported from the customer segments "Food Technology", "Life Science", "OEM" and for "Parts & Service". The increase in "Food Technology" is explained by increased investments within applications like brewery and vegetable oil. "Life Science" has continued its growth based on continued investments within pharmaceuticals and biotechnology. For "OEM" the upturn is explained among other factors by a inventory reduction at certain customers that has been completed and the orders have returned to a more normal level. Decreases in orders received have been noted from primarily the "Energy & Environment" and the "Marine & Diesel" customer segments. The decrease within "Energy & Environment" is partly the result of large orders last year within the environmental area that have not been repeated this year and partly the strong investment climate within the oil and gas industry last year that this year has returned to a more normal level. "Marine & Diesel" has shown decreased orders received compared with 2001. This is fully in line with the expectations due to the fewer contracts for new buildings at the shipyards. Orders received from the after market "Parts & Service" has continued to develop positively and thereby increased its relative share of the Group's total orders received to 26.8 (24.8) percent.

With reference to the geographical split of orders received, it can be noted that North America, mainly due to the United States, has reported a decrease in orders received that almost corresponds to the decrease for the entire Group, excluding the impact of changes in exchange rates. The decrease in orders received in the United States is explained primarily by the generally weak business climate, but also a specialization of the product range within the customer segment "Sanitary" in the United States and by reduced public investments within the environmental area.

The order backlog at December 31, 2002 was 4,340.1 (4,313.5). Excluding exchange rate differences and after adjusting for divested activities, the order backlog was 1.9 percent higher than the order backlog at the end of 2001.

Net sales

Net sales of the Alfa Laval Group amounted to MSEK 4,175.1 (4,738.6) for the fourth quarter of this year. Excluding exchange rate differences and divested activities, invoicing was some 4.4 percent lower than the fourth quarter of last year.

Net sales of the Alfa Laval Group during the year amounted to MSEK 14,594.9 (15,829.6) (15,012.3). Excluding exchange rate differences and divested activities, invoicing was 2.3 percent lower than last year.

The invoicing increased strongly in Central and Eastern Europe and rose in Latin America and North America as well as in the Nordic countries. Asia and Western Europe are below the level of last year. This is after taking into account acquisitions and disposals and the effect of exchange rate differences.

Personnel

The parent company does not have any employees.

The Group has on average had 9,292 (9,693) (11,001) employees. The restructuring programme has meant a reduction in the number of employees and the number of sites where the Group operates. At the end of December 2001 the Group had 9,259 employees. The number of employees has been reduced to 9,125 on December 31, 2002.

The distribution of employees per country and per municipality in Sweden and between men and women 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 exchange. The product development within fluid handling has resulted in a strong position within the market 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 MSEK 355.2 (341.4) (441.3), corresponding to 2.4 percent (2.2 percent) (2.9 percent) of net sales.

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 effected through limited discharges into the air and water and through waste and noise.

The foreign manufacturing sites within the Alfa Laval AB 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 US, Alfa Laval Inc, was as of February 15, 2003, named as a co-defendant in a total of 73 asbestos-related lawsuits with a total of approximately 15,000 plaintiffs. Alfa Laval Inc. is only named as one of numerous defendants. The lawsuits do not identify any Alfa Laval products that the company believes could form the basis for liability. Eleven multiple plaintiff lawsuits, filed in the State of Mississippi,

account for 99 percent of all plaintiffs. Alfa Laval strongly believes the claims against the company are without merit and intends to vigorously contest each lawsuit. Developments since November 4, 2002:

- 13 lawsuits have been dismissed, which gives a total of 30 lawsuits that have been dismissed for lack of connection to Alfa Laval Inc. Moreover, one multiple plaintiff lawsuit in Mississippi, with 507 plaintiffs, has been dismissed from state court and transferred to a federal court, which is expected to dismiss all claims from plaintiffs with no manifested illness. This lawsuit, however, is still included in the total count.
- Alfa Laval Inc. has been named as a co-defendant in an additional 19 lawsuits with a total of approximately 7,500 plaintiffs.
- 99.7 percent of the increase of plaintiffs is related to multiple plaintiff lawsuits filed in Mississippi. The State of Mississippi has adopted a new law, which took effect on January 1, 2003, that legal experts expect to limit the filing of multiple plaintiff lawsuits after December 31, 2002. It is believed that this new law is the principal driving force behind the increase of lawsuits during the latter part of 2002.
- Alfa Laval is not aware of any new multiple plaintiff lawsuits filed against Alfa Laval Inc. during 2003.

After thorough investigations Alfa Laval continues to believe that potential claims in connection with the asbestos related lawsuits against Alfa Laval Inc. will be covered by insurance policies. Furthermore, primary insurance policies issued in favour of Alfa Laval Inc. provide for coverage of its defence costs.

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 operations.

Result for the parent company

The parent company's result after financial items was MSEK -87.9 (-331.3) (-176.5), out of which comparison distortion costs were -14.1 (-) (-), net interest costs were MSEK -94.3 (-244.4) (-76.8), unrealized exchange rate losses on loans MSEK 24.8 (-84.5) (-99.7), fees to the Board MSEK -2.2 (-2.2) (-) and other administration costs the remaining MSEK -2.1 (-) (-). Net income for the year was MSEK -72.9 (-331.3) (-176.5).

Equity capital for the Group

The unrestricted equity capital of the Alfa Laval Group was MSEK 511.2 (1,407.8) (1,311.9). The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of MSEK 22.0 (60.7).

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 2.00 (-) per share corresponding to MSEK 223,3 (-) and that the remaining income available for distribution of MSEK 450.3 (1,457.7) be carried forward, see page 87.

Events after the balance sheet date

On January 31, 2003, the Danish Toftejorg A/S group was acquired, with effect from January 1, 2003. The group has annual sales of about MSEK 210 and approximately 100 employees. 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 group has sales companies in Sweden, Norway, Germany, the UK, France, Singapore, the US and a own representation in South Korea.

On January 27, 2003 a voluntary amortization of MSEK 227.7 was made on the syndicated loan.

On February 26, 2003 the real estate in Newmarket in Canada was sold for MSEK 20.0, with a capital gain of MSEK 3.9.

The main owners of Alfa Laval, representing about 57 percent of capital and votes, have formed a nomination committee with the task to suggest election of Board members and remunerations to them to the shareholders' meeting on May 8, 2003. The nomination committee comprises the following members: Christian Salamon, Industri Kapital (convening); Jörn Rausing, Tetra Laval; Marianne Nilsson, Robur; Ramsay Brufer, Alecta; Mats Andersson, Tredje AP-fonden and Niels-Erik Petersen, ATP (Denmark). Shareholders in Alfa Laval are welcome to submit opinions and suggestions to the committee.

The balance sheets and the income statements will be adopted at the Annual General Meeting of shareholders on May 8, 2003.

Date for the next financial report

The interim report for the first quarter of 2003 will be published on April 29, 2003.

Six-year overview

Amounts in MSEK	Alfa Laval 2002	Successor Alfa Laval 2001	Alfa Laval *pro forma* 2000	Alfa Laval Holding 1999	Predecessor Alfa Laval Holding 1998	Alfa Laval Holding 1997
PROFIT AND LOSS INFORMATION						
Net sales	14 594.9	15 829.6	15 012.3	14 405.4	14 733.6	15 676.4
Comparison distortion items	-29.2	5.3	129.9	29.8	497.2	236.3
Operating income	1 219.5	1 231.4	810.1	248.9	772.4	562.5
Financial net	-542.6	-1 189.6	-1 106.6	-132.9	-204.8	-394.3
Result after financial items	372.1	41.8	-296.5	116.0	567.6	168.2
Minority share in subsidiaries' income	-33.7	-32.0	-47.6	-26.7	-15.6	4.0
Taxes	-218.2	26.3	-60.6	-333.3	39.7	-278.8
NET INCOME FOR THE YEAR	**120.2**	**36.1**	**-404.7**	**-244.0**	**591.6**	**-120.1**
BALANCE SHEET INFORMATION						
Goodwill	3 369.0	3 372.9	3 314.2	1 692.2	2 069.1	2 758.8
Other intangible assets	1 334.3	1 640.4	1 805.4	22.9	24.8	32.6
Property, plant and equipment	3 082.7	3 598.9	4 111.8	2 882.5	2 913.0	3 070.0
Financial long-term assets	751.9	1 102.4	1 094.5	324.4	635.1	135.9
Inventories	2 279.0	2 623.9	2 882.0	2 930.4	3 321.1	3 432.3
Current receivables	3 590.3	4 333.7	4 353.4	3 891.1	4 037.6	4 883.4
Current deposits	414.3	293.3	595.5	283.1	95.7	163.9
Cash and bank	605.9	666.4	634.5	677.0	550.7	506.2
TOTAL ASSETS	**15 427.3**	**17 631.8**	**18 791.2**	**12 703.5**	**13 647.1**	**14 983.1**
Equity capital	4 512.3	1 445.1	1 312.3	3 342.6	3 652.1	2 967.4
Minority interest	108.2	131.8	169.5	147.7	119.0	173.0
Provisions for pensions and similar comm.	720.6	774.9	658.3	520.5	671.8	745.8
Provisions for taxes	990.3	1 143.6	1 413.1	199.1	182.0	240.0
Other provisions	989.3	1 063.2	1 179.1	949.7	0.0	0.0
Long-term liabilities	4 233.4	8 321.4	8 899.3	449.3	2 957.4	3 313.0
Current liabilities	3 873.3	4 751.6	5 159.6	7 094.7	6 064.8	7 543.9
TOTAL EQUITY CAP. & LIAB.	**15 427.3**	**17 631.8**	**18 791.2**	**12 703.5**	**13 647.1**	**14 983.1**

MSEK unless otherwise stated	Alfa Laval 2002	Successor Alfa Laval 2001	Alfa Laval *proforma* 2000	Alfa Laval Holding 1999	Predecessor Alfa Laval Holding 1998	Alfa Laval Holding 1997
KEY RATIOS						
Orders received	14 674.8	15 893.9	15 374.4	13 896.8	13 865.7	14 551.3
Order backlog at year end	4 340.1	4 313.5	4 063.0	3 532.0	3 906.7	4 362.9
EBITA	1 726.2	1 743.3	1 289.8	964.0	1 462.1	1 252.2
EBITDA	2 057.5	2 143.6	1 756.0	1 439.8	1 957.9	1 776.6
EBITA-margin,%	11.8	11.0	8.6	6.7	9.9	8.0
EBITDA-margin ,%	14.1	13.5	11.7	10.0	13.3	11.3
Adjusted EBITA	1 755.4	1 738.0	1 159.9	934.2	964.9	1 015.9
Adjusted EBITDA	2 086.7	2 138.3	1 626.1	1 410.0	1 460.7	1 540.3
Adjusted EBITA-margin, %	12.0	11.0	7.7	6.5	6.5	6.5
Adjusted EBITDA-margin, %	14.3	13.5	10.8	9.8	9.9	9.8
Profit margin, %	2.5	0.3	-2.0	0.8	3.9	1.1
Excl. Goodwill and step-up values						
Capital turnover rate, times	4.4	4.1	3.4	3.2	3.4	3.7
Capital employed, MSEK	3 283.0	3 901.0	4 385.1	4 475.8	4 367.0	4 281.7
Return on capital employed, %	52.6	44.7	29.4	21.5	33.5	29.2
Incl. Goodwill and step-up values						
Capital turnover rate, times	1.7	1.7	1.9	2.3	2.2	2.4
Capital employed, MSEK	8 564.5	9 401.2	8 010.8	6 356.5	6 781.0	6 631.4
Return on capital employed, %	20.2	18.5	16.1	15.2	21.6	18.9
Return on equity capital, %	2.7	2.5	-30.8	-7.3	16.2	-4.0
Solidity, %	29.2	8.2	7.0	26.3	26.8	19.8
Net debt, MSEK	3 498.5	7 777.5	8 422.4	2 854.5	2 808.7	4 079.5
Debt ratio, times	0.78	5.38	6.42	0.85	0.77	1.37
Interest coverage ratio, times	3.0	1.9	1.6	5.9	6.2	4.1
Cash flow from:						
operating activities	1 923.8	1 998.7	1 630.4	1 324.4	558.5	-491.5
investing activities	-547.8	114.9	-8 284.0	-599.5	-189.2	-3 168.9
financing activities	-1 320.3	-2 095.0	6 617.9	-586.4	-324.8	3 420.5
Investments, MSEK	276.7	274.9	311.7	431.2	438.4	485.9
Average number of employees	9 292	9 693	11 001	11 696	12 613	13 704
Earnings per share, SEK	1.41	0.96	-10.79	-19.52	47.3	-4.00
Cash earnings per share, SEK	0.65	0.50	-0.95	11.08	3.56	-7.99

Consolidated cash-flow statements

Amounts in MSEK	Note	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
Cash flow from operating activities						
Operating income		1 219.5	1 231.4	810.1	14.2	630.7
Adjustment for depreciation		838.0	912.2	945.9	315.2	795.9
Adjustment for non cash items		35.0	3.9	140.8	393.8	-253.0
		2 092.5	**2 147.4**	**1 896.8**	**723.2**	**1 173.6**
Taxes paid		-396.2	-462.9	-360.1	-198.3	-161.8
Cash flow from operations before changes in working capital		1 696.3	1 684.5	1 536.7	524.9	1 011.8
Changes in working capital:						
(Increase)/decrease of current receivables		339.3	230.3	-252.8	-502.4	249.6
(Increase)/decrease of inventories		140.4	263.1	48.4	458.4	-410.0
Increase/(decrease) of liabilities		-252.2	-179.1	298.1	437.9	-139.8
		227.5	**314.2**	**93.7**	**393.9**	**-300.2**
Cash flow from operating activities		**1 923.8**	**1 998.7**	**1 630.4**	**918.8**	**711.6**
Cash flow from investing activities						
Investments in fixed assets		-276.7	-274.9	-311.7	-178.8	-132.9
Divestment of fixed assets		120.7	336.2	726.8	354.7	372.1
Additional purchase price		-367.5	-	-	-	-
Acquisition of businesses	*24*	-135.7	-58.5	-8 222.6	-8 222.6	-
Reduction of purchase price	*24*	81.6	76.3	-	-	-
Divestment of businesses	*24*	-	281.6	39.0	-	39.0
Provisions		29.8	-245.8	-515.5	-515.5	-
Cash flow from investing activities		**-547.8**	**114.9**	**-8 284.0**	**-8 562.2**	**278.2**
Cash flow from financing activities						
Financial net, paid		-973.3	-697.0	-480.7	-396.8	-83.9
New issue of shares		3 136.6	-	0.4	0.4	-
Shareholders' contribution		-	-	1 965.6	1 965.6	-
(Increase)/decrease of other current deposits		-84.2	306.6	-364.5	-334.3	-30.2
Capitalized financing costs, acquisition loans		-39.7	-	-304.3	-304.3	-
Increase/(decrease) of liab. to credit institut.	*27*	-3 359.6	-1 704.6	5 801.4	6 809.5	-1 008.1
Cash flow from financing activities		**-1 320.3**	**-2 095.0**	**6 617.9**	**7 740.1**	**-1 122.2**
Net increase (decrease) in cash and bank		55.7	18.7	-35.7	96.7	-132.4
Cash and bank at the beginning of the year		666.4	634.5	677.0	549.0	677.0
Translation difference in cash and bank		-116.2	13.2	-6.8	-11.2	4.4
Cash and bank at the end of the period	*23*	**605.9**	**666.4**	**634.5**	**634.5**	**549.0**
Cash flow per share (SEK)		0.65	0.50	-0.95	2.58	-10.59
Average number of shares*		85 482 322	37 496 325	37 496 325	37 496 325	12 500 000

* The average number of shares has been changed through split and new issue of shares. See a specification in the statement over "Changes in consolidated equity capital".

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 MSEK 1,376.0 (2,113.7) (-6,653.6) during 2002, out of which divestments generated cash of MSEK 120.7 (617.8) (765.8).

Working capital

Working capital decreased by MSEK 227.5 during 2002, partly as a result of the efforts to further improve capital management and partly due to the business climate. The corresponding figure for 2001 and 2000 was a decrease by MSEK 314.2 and 93.7 respectively.

Investments

Investments in property, plant and equipment amounted to MSEK 276.7 (274.9) (311.7) during 2002. Among the larger investments during 2002 can be mentioned an expansion of the production facility in Richmond, Virginia in the US and capacity investments for manufacturing of brazed heat exchangers. In connection with the Group's restructuring programme a number of factories have been closed and fixed assets have been redistributed, which has resulted in a relatively lower investment level. Depreciation, excluding allocated step-up values, amounted to MSEK 331.3 (400.3) (466.2) during the year.

Additional purchase price

In connection with the IPO an additional purchase price of MEUR 40.0, corresponding to MSEK 367.5, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Credit Finance AB Group. This has entirely been reported as goodwill in the Group and is amortized over 20 years.

Acquisitions and disposals

For a further analysis of the impact on the cash flow by acquisitions and disposals, see Note 24.

Purchase price reimbursement

During the year the Alfa Laval Group has received MSEK 81.6 (76.3) from Tetra Laval BV as a reduction of the purchase price for the acquisition of the Alfa Laval Holding AB Group. The reduction is related to the guarantees issued by the vendor in relation to taxes. The amount has not had an impact on the goodwill for the acquisition but has instead been reported against the increased tax cost that the Group has experienced after the acquisition. The amount received during 2002 constitutes a final settlement with Tetra Laval concerning these guarantees.

New issue of shares and shareholders' contribution

See the statement over "Changes in consolidated equity capital" after the balance sheet for a further description of the capitalization of the company.

Cash earnings per share

Cash earnings per share are SEK 0.65 (0.50) (-0.95). The cash flows from operating activities calculated per share are SEK 22.51 (53.30) (43.48). Cash flows per share have been calculated based on the average number of shares, which has been changed through split and new issue of shares to 85,482,322 (37,496,325). There is no dilution effect since all warrants have been exercised, see Note 4.

Consolidated income statement

Amounts in MSEK	Note	Successor Alfa Laval Oct 1–Dec 31 2002	Successor Alfa Laval Oct 1–Dec 31 2001
Net sales	*1*	4 175.1	4 738.6
Cost of goods sold	*9*	-2 714.1	-3 141.2
Gross profit	*1*	1 461.0	1 597.4
Sales costs	*2, 3, 7*	-446.9	-622.3
Administration costs	*2, 3, 6, 9*	-325.8	-157.6
Research and development costs		-105.9	-113.8
Comparison distortion items	*8*	-0.7	5.3
Other operating income		91.3	160.7
Other operating costs	*9*	-216.8	-450.5
Amortization of goodwill	*9, 10*	-47.8	-45.7
Operating income		**408.4**	**373.4**
Dividends	*11*	0.7	9.6
Interest income	*12*	191.1	41.5
Interest expense	*12*	-254.1	-173.1
Comparison distortion items	*27*	-0.4	-
Result after financial items		**345.7**	**251.4**
Minority share in subsidiaries' income	*13*	-9.1	-14.4
Taxes on this year's result	*14*	-34.2	81.1
Other taxes	*14*	-6.0	-8.7
Net income for the year		**296.4**	**309.4**
Earnings per share (SEK)		2.65	8.25
Average number of shares *		111 671 993	37 496 325

* The average number of shares has been changed through split and new issue of shares. See a specification in the statement over "Changes in consolidated equity capital".
** See Note 34 for an explanation of how the pro forma values have been calculated.

Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* ** Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
14 594.9	15 829.6	15 012.3	5 717.2	9 295.1
-9 262.2	-10 348.0	-10 124.4	-3 951.2	-5 962.6
5 332.7	5 481.6	4 887.9	1 766.0	3 332.5
-2 115.1	-2 442.6	-2 583.7	-835.4	-1 748.3
-1 030.7	-789.2	-861.5	-218.2	-643.3
-355.2	-341.4	-441.3	-161.9	-279.4
-29.2	5.3	129.9	-393.8	523.7
268.7	389.1	525.5	267.8	257.7
-664.0	-893.3	-682.9	-355.7	-327.2
-187.7	-178.0	-163.8	-54.6	-485.0
1 219.5	**1 231.4**	**810.1**	**14.2**	**630.7**
7.8	9.6	4.3	1.3	3.0
351.4	238.0	245.1	109.4	135.7
-901.8	-1 437.2	-1 356.0	-616.7	-263.8
-304.8	-	-	-	-
372.1	**41.8**	**-296.5**	**-491.8**	**505.6**
-33.7	-32.0	-47.6	-11.8	-35.8
-185.7	60.9	-7.6	-38.4	-209.3
-32.6	-34.6	-53.0	-17.7	-35.3
120.2	**36.1**	**-404.7**	**-559.7**	**225.2**
1.41	0.96	-10.79	-14.93	18.02
85 482 322	37 496 325	37 496 325	37 496 325	12 500 000

Comments on the consolidated income statement

For comments on the individual lines in the income statement, reference is made to Notes 1 to 14 and Note 34. 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*

MSEK	Oct 1–Dec 31 2002	Jan 1–Dec 31 2002	Oct 1–Dec 31 2001	Jan 1–Dec 31 2001	*pro forma* Oct 1–Dec 31 2000	*pro forma* Jan 1–Dec 31 2000
Net sales	4 175.1	14 594.9	4 738.6	15 829.6	4 632.3	15 012.3
Adjusted gross profit	1 539.1	5 651.7	1 679.5	5 815.5	1 500.8	5 203.8
- in % of net sales	36.9	38.7	35.4	36.7	32.4	34.7
Expenses	-922.3	-3 565.0	-1 080.2	-3 677.2	-889.7	-3 577.7
- in % of net sales	22.1	24.4	22.8	23.2	19.2	23.8
Adjusted EBITDA	616.8	2 086.7	599.3	2 138.3	611.1	1 626.1
- in % of net sales	14.8	14.3	12.6	13.5	13.2	10.8
Depreciation	-81.8	-331.3	-103.3	-400.3	-133.2	-466.2
Adjusted EBITA	**535.0**	**1 755.4**	**496.0**	**1 738.0**	**477.9**	**1 159.9**
- in % of net sales	**12.8**	**12.0**	**10.5**	**11.0**	**10.3**	**7.7**
Amortization of goodwill **	-125.9	-506.7	-127.9	-511.9	-119.7	-479.7
Comparison distortion items	-0.7	-29.2	5.3	5.3	-386.1	129.9
EBIT	408.4	1 219.5	373.4	1 231.4	-27.9	810.1

* For definitions, see backcover. ** Including amortization of step-up values.

The year generated a gross profit of MSEK 5,332.7 (5,481.6) (4,887.9). Excluding the amortization of MSEK 319.0 (333.9) (315.9) on step-up values, the adjusted gross profit is MSEK 5,651.7 (5,815.5) (5,203.8). This corresponds to 38.7 percent of net sales. The gross margin is 2.0 percentage points higher than last year. This is primarily a result of the restructuring programme. In addition, the proportion of the after-market sales increased, which is a further explanation to the improved gross margin.

Sales and administration expenses amounted to MSEK 3,145.8 (3,231.9) (3,445.2). Excluding exchange rate differences and divested activities, these expenses were at the same level as last year.

Other operating income has decreased during 2001 by MSEK 136.4. The reason is the one-time effect of some provisions being reversed during 2000 due to changed accounting principles in connection with the implementation of the Swedish Financial Accounting Standards Council's recommendation RR 16 Provisions, contingent liabilities and contingent assets. Other operating costs have increased by MSEK 210.4. This is due to costs related to the restructuring programme that the Group has been running since the first half of 2000.

Adjusted EBITDA amounted to MSEK 2,086.7 (2,138.3) (1,626.1) for the year. The adjusted EBITA amounted to MSEK 1,755.4 (1,738.0) (1,159.9).

Compared with 2001 Alfa Laval has been affected negatively during 2002 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 MSEK 130, where of MSEK 80 represent translation differences, for the full year 2002 compared with 2001. The main reason has been the depreciation of the USD compared with SEK. 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.

A change programme called "Beyond Expectations" was introduced during 1999. Alfa Laval estimates that the savings will amount to at least MSEK 850. The time plan means that the indicated level of savings will be achieved at the end of 2003. At the end of 2002, changes have been implemented that involve savings of about MSEK 775. In the income statement for 2002 there are savings corresponding to approximately MSEK 670 (450).

In order to illustrate the quarterly development, the corresponding income statement analysis is shown for the last ten quarters below(right):

The result has been affected by comparison distortion items of MSEK -29.2 (5.3) (129.9), which are specified below.

The sale of the property in Warminster in the United States was completed at the end of March at a price of MUSD 6.4 corresponding to MSEK 62.1. The realized loss was MSEK -43.2.

An agreement was signed on December 19, 2000 concerning the divestment of the Industrial Flow operation. The agreement was made with Crane Co in the US and the divestment was made on April 2, 2001. The sales price was MSEK 330.6. After considering the reversal of Group step-up values and provisions for deferred costs, the divestment has resulted in a gain of MSEK 10.0 in the annual report for 2001. A few activities have remained before the divestment could be considered to be completed. During September 2002 a final settlement has been made with

the buyer, resulting in an increase of the realized gain by MSEK 14.0.

The real estate in Johannesburg in South Africa was divested in May 2001. The sales price was MSEK 13.6. The local realized gain of MSEK 2.4 corresponded to a reversal of Group step-up values relating to the real estate, which resulted in a loss of MSEK -0.3. The sale of the real estate in Glinde in Germany was completed in October 2001 at a price of MSEK 196.4. The local realized gain of MSEK 147.8 corresponded to a reversal of Group step-up values relating to the real estate and provisions for certain future rent commitments, which resulted in a loss of MSEK -8.3. In addition, some smaller properties in Spain and Sweden and one condominium in Sweden were sold with a total realized gain of MSEK 3.9.

RemaControl, operating within sawmill automation, was divested to the management of the operation per January 1, 2001. This divestment resulted in a loss of MSEK 15. The loss was provided in full in the annual closing for 2000.

For 2000, comparison distortion items related to the repayment of surplus funds from SPP and SPP Liv of MSEK 270.7, realized gains on sales of real estate of MSEK 222.2, divestment of the Tetra Pak division in the Indian subsidiary of MSEK 30.8 and reversal of step-up values on inventory of MSEK -340.2 and step-up values on ongoing research and development of MSEK -53.6, see Note 8 and Note 15.

The financial net has amounted to MSEK -593.8 (-959.9) (-995.0), excluding realized and unrealized exchange rate losses and gains. The main elements of costs were interest on debt to the banking syndicate of MSEK -228.3 (-369.4), interest on the bond loan of MSEK -219.4 (-253.3), interest on the loan from Tetra Laval Finance Ltd of MSEK -97.1 (-244.5) and a net of dividends and other interest income and interest costs of MSEK -49.0 (-92.7).

The net of realized and unrealized exchange rate differences amounts to MSEK 51.2 (-229.7) (-111.6).

In connection with the dissolution of the previous capital structure, the income statement has been charged with non-recurring financial costs of MSEK -304.8. These consist of the reversal of capitalized financing costs of totally MSEK -219.6 in connection with the repayment of the loan from Tetra Laval Finance Ltd, the replacement of the previous syndicated loans and the amortization of the bond loan as well as the premium of -85.2 at the repayment of 35 percent of the bond loan of MEUR 220.

The result after financial items was MSEK 372.1 (41.8) (-296.5).

Income taxes were MSEK -185.7 (60.9) (-7.6). The Group's effective tax rate is thereby approximately 33 percent based on taxable result.

Earnings per share

Earnings per share are SEK 1.41 (0.96) (-10.79). Earnings per share have been calculated based on the average number of shares, which has been changed through split and new issue of shares to 85,482,322 (37,496,325). Any dilution does not exist since all warrants have been exercised, see Note 4.

Pro forma

In order to illustrate the effect on the income statement of the new capital structure, the following pro forma calculation is made. It shows the Group's result if the new capital structure had been in place already on January 1, 2002 and without the comparison distortion items fully related to the change in capital structure.

Consolidated

MSEK	2002
EBIT according to the income statement	1 219.5
Interest and other income	359.2
Interest and other costs	-695.0
Comparison distortion items	-
Result after financial items	883.7
Income tax*	-218.2
Minority interests	-33.7
Net income	**631.8**
Earnings per share (SEK)	5.66
Average number of shares	111 671 993

* Since the Group's financial debt is allocated to countries where the Group's subsidiaries have tax losses carried forward, the pro forma calculation does not contain an increased tax cost.

SPP's surplus consolidation funds

Due to the repayment of the PRI debt that took place in May 1999, the Swedish Group companies have been able to receive all surplus consolidation funds of MSEK 270.7 in cash as of February 2001. This means that Alfa Laval has not been affected by the withdrawal of company related funds made by Alecta during 2002. The amount is reported as a comparison distortion item in the income statement for 2000.

Income statement analysis*

	2000		2001				2002			
MSEK	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	3 713.9	4 632.3	3 452.4	3 806.5	3 832.1	4 738.6	3 261.9	3 654.2	3 503.7	4 175.1
Adjusted gross profit	1 269.0	1 500.8	1 335.9	1 433.3	1 366.8	1 679.5	1 291.5	1 426.4	1 394.7	1 539.1
- in % of net sales	34.2	32.4	38.7	37.7	35.7	35.4	39.6	39.0	39.8	36.9
Expenses	-863.7	-889.7	-866.7	-848.8	-881.5	-1 080.2	-841.9	-898.3	-902.5	-922.3
- in % of net sales	23.3	19.2	25.1	22.3	23.0	22.8	25.8	24.6	25.8	22.1
Adjusted EBITDA	405.3	611.1	469.2	584.5	485.3	599.3	449.6	528.1	492.2	616.8
- in % of net sales	10.9	13.2	13.6	15.4	12.7	12.6	13.8	14.5	14.0	14.8
Depreciation	-113.9	-133.2	-103.1	-99.8	-94.1	-103.3	-87.8	-83.1	-78.6	-81.8
Adjusted EBITA	**291.4**	**477.9**	**366.1**	**484.7**	**391.2**	**496.0**	**361.8**	**445.0**	**413.6**	**535.0**
- in % of net sales	**7.8**	**10.3**	**10.6**	**12.7**	**10.2**	**10.5**	**11.1**	**12.2**	**11.8**	**12.8**
Amortization of goodwill**	2.7	-119.7	-119.9	-134.3	-129.8	-127.9	-126.4	-125.7	-128.7	-125.9
Comparison distortion items	27.3	-386.1	0.0	0.0	0.0	5.3	-44.9	0.5	15.9	-0.7
EBIT	321.4	-27.9	246.2	350.4	261.4	373.4	190.5	319.8	300.8	408.4

* For definitions, see backcover. ** Including amortization of step-up values.

Consolidated balance sheet

ASSETS Amounts in MSEK	Note	2002	2001
Fixed assets			
Intangible assets	*15, 16*		
Concessions, patents, licenses, trademarks and similar rights		1 333.6	1 640.0
Renting and similar rights		0.7	0.4
Goodwill		3 369.0	3 372.9
		4 703.3	5 013.3
Property, plant and equipment	*15,17*		
Real estate		1 309.9	1 479.0
Machinery and other technical installations		990.1	1 146.6
Equipment, tools and installations		742.0	915.3
Construction in progress and advances to suppliers concerning property, plant and equipment		40.8	57.9
		3 082.7	3 598.9
Financial long-term assets			
Other long-term securities	*18*	53.1	62.4
Pension assets	*25*	106.8	175.4
Capitalized financing costs, acquisition loans		58.0	240.9
Deferred tax asset		534.1	623.8
		751.9	1 102.4
Total fixed assets		**8 537.9**	**9 714.5**
Current assets			
Inventories	*19*	2 279.0	2 623.9
Current receivables			
Accounts receivable	*20*	2 504.0	3 032.0
Other receivables	*21*	973.9	1 153.5
Prepaid costs and accrued income		100.2	109.4
Capitalized financing costs, acquisition loans		12.2	38.8
		3 590.3	4 333.7
Current deposits			
Other current deposits	*22*	414.3	293.3
Cash and bank	*23*	605.9	666.4
Total current assets		**6 889.4**	**7 917.2**
TOTAL ASSETS		**15 427.3**	**17 631.8**

EQUITY CAPITAL AND LIABILITIES

Amounts in MSEK	*Note*	2002	2001
Equity capital			
Restricted equity capital			
Share capital, 37,496,325 shares (par value SEK 0.01)		-	0.4
Share capital, 111,671,993 shares (par value SEK 10)		1 116.7	-
Restricted reserves		2 884.4	36.9
		4 001.1	37.3
Unrestricted equity capital			
Unrestricted reserves		391.0	1 371.8
Net income for the year		120.2	36.1
		511.2	1 407.8
Total equity		**4 512.3**	**1 445.1**
Minority interest	*13*	**108.2**	**131.8**
Provisions			
Provisions for pensions and similar commitments	*25*	720.6	774.9
Provisions for taxes	*14*	990.3	1 143.6
Other provisions	*26*	989.3	1 063.2
		2 700.2	**2 981.7**
Long-term liabilities	*27*		
Subordinated loan from Tetra Laval Finance Ltd		-	2 085.6
Liabilities to credit institutions		3 105.8	4 190.5
Bond loan		1 127.6	2 045.3
		4 233.4	**8 321.4**
Current liabilities			
Liabilities to credit institutions	*27*	254.4	382.5
Advances from customers		571.3	609.1
Accounts payable		1 027.9	1 302.8
Notes payable		145.3	123.1
Tax liabilities		457.6	627.2
Other liabilities	*28*	632.5	671.0
Accrued costs and prepaid income	*29*	784.3	1 035.9
		3 873.3	**4 751.6**
TOTAL EQUITY CAPITAL AND LIABILITIES		**15 427.3**	**17 631.8**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*30*	78.3	4 173.9
Contingent liabilities	*30*	1 698.0	2 201.4

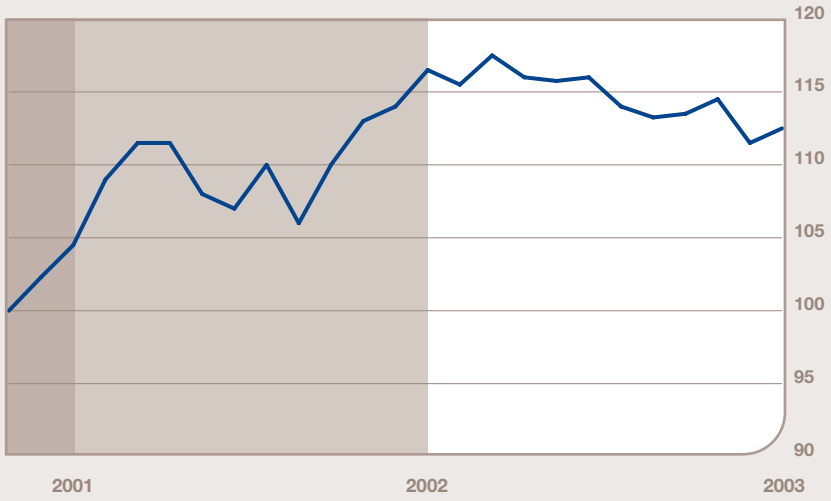
Comments on the consolidated balance sheet

For comments on the individual lines in the balance sheet, reference is made to Notes 13 to 33. For comments on the segments, see Note 1.

Development of market prices for Alfa Laval's bond loan

On November 9, 2000 Alfa Laval issued a bond loan of MEUR 220, see Note 27. The development of the market prices for the bonds has been as follows:

Development of market prices for Alfa Laval's bond loan, %



The development of the market prices for the bonds depends on the development of the market rates and the confidence in Alfa Laval. During the autumn 2001 the market rates fell significantly, which has benefited the price of the bonds. At the same time Alfa Laval has reported a strong improvement in results and significant advance amortizations on the loans, which may also have affected the price favourably.

Capital employed

The capital employed including goodwill and step-up values amounted to MSEK 8,564.5 (9,401.2) at the end of the year.

Return on capital employed

The return on capital employed including goodwill and step-up values amounted to 20.2 (18.5) percent during 2002.

Capital turnover rate

The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.7 (1.7) times for the year.

Return on equity capital

The net income for the year in relation to equity capital was 2.7 (2.5) percent. Due to the new issue of shares in May 2002, the equity capital for 2002 has been calculated as the average equity capital after the new issue of shares.

Solidity

The solidity, that is the equity capital in relation to total assets, was 29.2 (8.2) percent at the end of the year.

Net debt

The net debt was MSEK 3,498.5 (7,777.5) at the end of the year.

Debt ratio

The debt ratio, that is the net debt in relation to equity capital, was 0.78 (5.38) times at the end of December.

Changes in consolidated equity capital

Amounts in MSEK	Share capital	Restricted equity	Unrestricted equity	Total
2000				
At the formation of the company March 27, 2000	0.1	-	-	0.1
New issue of shares	0.3	-	-	0.3
Shareholders' contribution	-	-	1 965.6	1 965.6
Translation difference	-	-	-94.0	-94.0
Net income for 2000	-	-	-559.7	-559.7
As of December 31, 2000	**0.4**	**0.0**	**1 311.9**	**1 312.3**
2001				
Transfer between restricted equity and unrestricted equity in Group companies	-	36.9	-36.9	0.0
Translation difference	-	-	96.7	96.7
Net income for 2001	-	-	36.1	36.1
As of December 31, 2001	**0.4**	**36.9**	**1 407.8**	**1 445.1**
2002				
New issue of shares	366.8	2 769.8		3 136.6
Bonus issue of shares	749.5		-749.5	0.0
Transfer between restricted equity and unrestricted equity in Group companies	-	76.9	-76.9	0.0
Translation difference	-	0.8	-190.4	-189.6
Net income for 2002	-	-	120.2	120.2
As of December 31, 2002	**1 116.7**	**2 884.4**	**511.2**	**4 512.3**

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	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 was depreciated by 16.7 %	164.9

Comments on changes in consolidated equity capital

The share capital of SEK 1,116,719,930 (374,963) is divided among 111,671,993 (37,496,325) shares at par value SEK 10 (0.01).

At an extraordinary shareholders' meeting on April 8, 2002 it was decided to increase the share capital by SEK 374,963 through a transfer of SEK 374,963 from unrestricted equity capital. The bonus issue of shares was implemented so that shareholders received one new share for each old share. The reconciliation day for the bonus issue of shares was May 3, 2002.

The shareholders' meeting decided – in consideration of the planned initial public offering – to change the Articles of Association, such that the company is a public company. It was also decided that the par value of each share should be changed to SEK 10 and that the limits for the company's share capital shall be a minimum of SEK 745,000,000 and a maximum of SEK 2,980,000,000.

The shareholders' meeting also decided that the company's share capital should be increased by SEK 749,176,574, through a transfer of SEK 749,176,574 from unrestricted equity capital. The bonus issue of shares was implemented through an increase of the par value of each share by SEK 9.99 to SEK 10.

At the new issue of shares in connection with the IPO, 32,967,033 new shares were issued, which increased the share capital by SEK 329,670,330. The subscription price was SEK 91. This means that the equity capital increased by SEK 3,000,000,003, which after deduction for transaction costs of SEK 84,181,048 means a net increase by SEK 2,915,818,955. Before the IPO, Alfa Laval management executed all 3,712,310 warrants, which means a corresponding increase of the number of shares and an increase of the share capital by SEK 37,123,100. The subscription price was SEK 59.48, which means an increase of the equity capital by SEK 220,793,851. Totally, the equity capital increased by SEK 3,136,612,806.

The allocation into local currencies of the step-up values and the goodwill that arose in connection with the acquisition on August 24, 2000 has been finalised during 2001. This resulted in an increase of the equity capital with MSEK 162.9 as of December 31, 2000 from MSEK 1,149.4 to MSEK 1,312.3. The following adjustments have been made to the comparison figures for 2000:

Alfa Laval AB (publ) increased its share capital from MSEK 0.1 to MSEK 0.4 through a new issue of shares on August 24, 2000. In connection with the new issue of shares, Alfa Laval AB received shareholders' contributions from Industri Kapital of MSEK 1,936.6 and from Alfa Laval management of MSEK 29.0. This constituted part of the financing of the acquisition on August 24, 2000.

The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of MSEK 22.0 (60.7).

The possibilities to distribute unappropriated profits from foreign subsidiaries are limited in certain countries due to currency regulations and other legislation.

MSEK	Assets	Liabilities	Equity capital
Translation difference charged against equity capital	-	-	174.5
Goodwill	92.2	-	-
Intangible assets	44.2	-	-
Property, plant and equipment	52.8	-	-
Deferred tax liability	-	26.3	-
Amortization	-	-	-0.2
Tax cost	-	-	-11.4
Total	189.2	26.3	162.9

Parent company cash-flow & income statement

PARENT COMPANY CASH-FLOW STATEMENT

Amounts in MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval Mar 27–Dec 31 2000
Cash flow from operating activities			
Operating income	-4.3	-2.5	0.0
Taxes paid	-	-	-
Cash flow from operations before changes in working capital	-4.3	-2.5	0.0
Changes in working capital			
Increase/(decrease) of current receivables	-116.1	0.0	0.0
Increase/(decrease) of liabilities	-94.3	0.8	21.4
	-210.4	0.8	21.4
Cash flow from operating activities	**-214.7**	**-1.7**	**21.4**
Cash flow from investing activities			
Shares in subsidiaries	-819.0	-	-3 641.9
Cash flow from investing activities	**-819.0**	**0.0**	**-3 641.9**
Cash flow from financing activities			
Financial net, paid	-95.3	0.1	-
Received group contribution	53.4	-	-
New issue of shares	3 136.6	-	0.4
Shareholders' contribution	-	-	1 965.6
(Increase)/decrease of other current deposits	-	-	-16.2
Increase/(decrease) of loans	-2 061.1	-	1 672.3
Cash flow from financing activities	**1 033.6**	**0.1**	**3 622.1**
Net increase (decrease) in cash and bank	**-0.1**	**-1.6**	**1.6**
Cash and bank at the beginning of the year	0.0	1.6	0.0
Cash and bank at the end of the period	**0.0**	**0.0**	**1.6**

PARENT COMPANY INCOME STATEMENT

Amounts in MSEK	*Note*	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval Mar 27–Dec 31 2000
Administration costs		-3.9	-2.5	0.0
Other operating costs		-0.4	0.0	0.0
Operating income/loss		-4.3	-2.5	0.0
Interest income and similar result items	*12*	28.7	0.1	0.0
Interest costs and similar result items	*12*	-98.3	-328.9	-176.5
Comparison distortion items		-14.1	-	-
Result after financial items		-87.9	-331.3	-176.5
Tax on received Group contribution		15.0	-	-
Net loss for the year		**-72.9**	**-331.3**	**-176.5**

Parent company balance sheet

Amounts in MSEK	*Note*	2002	2001
ASSETS			
Long-term assets			
Financial long-term assets			
Shares in group companies	*18*	4 460.9	3 641.9
Capitalized financing costs, acquisition loans		-	13.0
Total long-term assets		**4 460.9**	**3 654.9**
Current assets			
Current receivables			
Receivables on group companies		117.0	-
Other receivables		0.7	-
Capitalized financing costs, acquisition loans		-	1.6
		117.7	1.6
Cash and bank		0.0	0.0
Total current assets		**117.7**	**1.6**
TOTAL ASSETS		**4 578.6**	**3 656.5**
EQUITY CAPITAL AND LIABILITIES			
Equity capital			
Restricted equity capital			
Share capital, 37,496,325 shares (par value SEK 0.01)			0.4
Share capital, 111,671,993 shares (par value SEK 10)		1 116.7	
Premium fund		2 769.8	-
Legal reserve		-	-
		3 886.5	0.4
Unrestricted equity capital			
Unrestricted funds		1 254.5	1 965.6
Accumulated losses		-507.9	-176.5
Net income for the year		-72.9	-331.3
		673.7	1 457.8
		4 560.2	**1 458.2**
Long-term liabilities			
Subordinated loan from Tetra Laval Finance Ltd	*27*	-	2 085.6
Current liabilities			
Liabilities to group companies		18.4	19.4
Other liabilities	*28*	0.0	3.6
Accrued costs and prepaid income		0.0	89.7
		18.4	**112.7**
TOTAL EQUITY CAPITAL AND LIABILITIES		**4 578.6**	**3 656.5**
Pledged assets and contingent liabilities			
Pledged assets			
Pledges and similar collaterals for own liabilities and commitments accounted for as provisions		None	None
Contigent liabilities (for subsidiaries)			
Performance guarantees		None	None
Other contingent liabilities		None	None

Parent company's equity capital

Parent company Alfa Laval AB (publ), MSEK	Share capital	Restricted equity	Unrestricted equity	Total
2000				
At the formation of the company March 27, 2000	0.1	-	-	0.1
New issues of shares	0.3	-	-	0.3
Shareholders' contribution	-	-	1 965.6	1 965.6
Net income 27.3 – 31.12 2000	-	-	-176.5	-176.5
As of December 31, 2000	**0.4**	**0.0**	**1 789.1**	**1 789.5**
2001				
Net result 2001	-	-	-331.3	-331.3
As of December 31, 2001	**0.4**	**0.0**	**1 457.8**	**1 458.2**
2002				
New issues of shares	366.8	2 769.8		3 136.6
Bonus issue of shares	749.5		-749.5	0.0
Group contribution			53.4	53.4
Tax on received Group contribution			-15.0	-15.0
Net result 2002	-	-	-72.9	-72.9
As of December 31, 2002	**1 116.7**	**2 769.8**	**673.7**	**4 560.2**

The share capital of SEK 1,116,719,930 (374,963) is divided among 111,671,993 (37,496,325) shares at par value SEK 10 (0.01).

At an extraordinary shareholders' meeting on April 8, 2002 it was decided to increase the share capital by SEK 374,963 through a transfer of SEK 374,963 from unrestricted equity capital. The bonus issue of shares was implemented so that shareholders received one new share for each old share. The reconciliation day for the bonus issue of shares was May 3, 2002.

The shareholders' meeting decided – in consideration of the planned initial public offering – to change the Articles of Association, such that the company is a public company. It was also decided that the par value of each share should be changed to SEK 10 and that the limits for the company's share capital shall be a minimum of SEK 745,000,000 and a maximum of SEK 2,980,000,000.

The shareholders' meeting also decided that the company's share capital should be increased by SEK 749,176,574, through a transfer of SEK 749,176,574 from unrestricted equity capital. The bonus issue of shares was implemented through an increase of the par value of each share by SEK 9.99 to SEK 10.

At the new issue of shares in connection with the IPO, 32,967,033 new shares were issued, which increased the share capital by SEK 329,670,330. The subscription price was SEK 91. This means that the equity capital increased by SEK 3,000,000,003, which after deduction for transaction costs of SEK 84,181,048 means a net increase by SEK 2,915,818,955. Before the IPO, Alfa Laval management executed all 3,712,310 warrants, which means a corresponding increase of the number of shares and an increase of the share capital by SEK 37,123,100. The subscription price was SEK 59.48, which means an increase of the equity capital by SEK 220,793,851. Totally, the equity capital increased by SEK 3,136,612,806.

Alfa Laval AB (publ) increased its share capital from MSEK 0.1 to MSEK 0.4 through a new issue of shares on August 24, 2000. In connection with the new issue of shares, Alfa Laval AB received shareholders' contributions from Industri Kapital of MSEK 1,936.6 and from Alfa Laval management of MSEK 29.0. This constituted part of the financing of the acquisition on August 24, 2000.

Notes to the financial statements

Amounts in MSEK unless otherwise stated.

Applied recommendations/General

Alfa Laval follows Swedish GAAP as expressed in law, recommendations issued by accounting bodies and relevant good accounting practice. This differs in certain respects from US GAAP, see Note 36.

Alfa Laval follows 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 have not yet been issued corresponding to already issued International Accounting Standards, the IAS statement has been applied instead. This is referring to IAS 19 *Employee benefits* for 2000 and 2001 and IAS 14 *Segment reporting* for 2001. A comparison has been made with the draft recommendations issued by the Council, which have only been available in 2001 and 2002 respectively.

Changed/implemented accounting principles

During 2002 RR26 *Events after the balance sheet date* has been implemented. The updated statement by the Industry and Commerce Stock Exchange Committee on information about remunerations to executive officers (approved during 2002) has been implemented during 2002.

During 2001 RR 15 *Intangible assets*, RR21 *Borrowing costs*, RR22 *Financial statements* and RR23 *Related parties disclosures* were implemented. Segment reporting is from the same point in time reported according to IAS 14 in the absence of a Swedish recommendation at the time (currently RR25 *Segment reporting – business and geographical segments)*.

The application of these new accounting standards has not resulted in any change of accounting principles and has therefore not resulted in any effect on income or equity capital for 2002 or 2001.

During 2000, considerable work was devoted to the implementation of new accounting standards. As of the closing for 2000, deferred tax is accounted for according to RR9, impairments according to RR17, revenue recognition on large projects according to RR10 and provisions, contingent liabilities and contingent assets according to RR16. As of the same date, employee benefits are accounted for according to IAS 19 in the absence of a Swedish standard (currently RR29 *Employee benefits*). The effect on equity of the changes in accounting principles for income taxes and pensions amounted to an increase of MSEK 225 for the predecessor the Alfa Laval Holding Group for 1999. Since the effect on the equity because of changed accounting principles changes the opening equity, the net asset value that was acquired by the new group increased correspondingly. Because the acquired equity is fully eliminated, the above adjustment to equity does not appear in the new Alfa Laval Group.

Implementation of the Swedish Financial Accounting Standards Council's recommendations before they become effective

RR22 *Financial statements*, RR25 *Segment reporting – business and geographical segments* and RR26 *Events after the balance sheet date* become effective on January 1, 2003. RR29 *Employee benefits* become effective on January 1, 2004. Earlier application of all these recommendations is encouraged and the Group has also applied them earlier as described above.

The Swedish Financial Accounting Standards Council's recommendations RR 1:00 *Business combinations*, RR15 *Intangible assets*, RR16 *Provisions, contingent liabilities and contingent assets*, RR17 *Impairments*, RR21 *Borrowing costs* and RR23 *Related parties disclosures* became effective on January 1, 2002. Earlier application was encouraged and the Group has applied these recommendations during 2001 or 2000 as described above.

Critical accounting principles

The Financial Accounting Standards Board in the US has issued *Statement of Financial Accounting Standards* No. 142, *Goodwill and Other Intangible Assets*. FAS 142 requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives not be amortized; these assets should be tested for impairment annually. Goodwill and intangible assets with indefinite useful lives will no longer be tested for impairment under FAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The group has adopted the provisions of FAS 142 as of January 1, 2002 in the US GAAP reconciliation. The effect of FAS 142 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 position of the group according to US GAAP.

According to RR17 impairments on assets including goodwill shall be calculated if there is any indication that the value of the asset has decreased. This is different to FAS 142, which requires that the impairment test must be made annually irregardless of whether there is an indication or not. If a FAS 142 calculation shows an impairment, this can however be seen as such an indication that could trigger a write down even in the part of the financial reporting that is regulated by the recommendations from the Financial Accounting Standards Council.

The Group's reporting of provisions according to RR16 means that MSEK 989.3 (1,063.2) is reported as other provisions. This constitutes 6.4 (6.0) 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 estimates of costs and risks. If the account-

ing principles for provision would be changed sometime in the future, this could have a substantial impact on the Group's financial position.

Consolidation principles (incl associates and joint ventures)

The consolidated financial statements have been prepared according to the RR1:00 recommendation issued by the Financial Accounting Standards Council in Sweden.

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. Accordingly, the unrestricted reserves in the subsidiaries at the time of acquisition are not included in the consolidated unrestricted reserves. One joint venture, called Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, is owned 50 percent and is consolidated according to the proportional consolidation method in RR14 *Joint ventures*. The Group has only one company that fulfils the definition of an associate in RR13 *Accounting for investments in Associates*, that is that the ownership is between 20 and 50 percent, namely Dalian Haven Automation Co Ltd. This company is totally dormant. Since its net assets are not material, it is not consolidated.

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.

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.

Inflationary accounting

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. Bolivia, Colombia, Indonesia, Mexico, Russia, Turkey and Venezuela are regarded as highly inflationary countries.

Transactions in foreign currencies

Receivables and liabilities denominated in foreign currencies have been valued at year-end rates of exchange or at the rate fixed by forward contract. Within the parent company there were no unrealized exchange gains on long-term receivables and liabilities that have not been possible to offset against unrealized exchange losses within the same currency. Unrealized 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 unrestricted 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.

Inventories

The Group's inventory has been accounted for after elimination of intercompany 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 utilization in the factory. Finished goods are normally valued at the delivery value 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.

Fixed 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 periods have been used:

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

The Predecessor: Alfa Laval Holding AB

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

The Successor: Alfa Laval AB (publ)

Patents and trademarks	20 years
Step-up values, technology	7.5 years
Goodwill	20 years

The acquisition of the Alfa Laval Holding AB Group is considered to be a strategic acquisition where the intangible assets have a lifetime of more than 20 years.

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.

When there are indications that the value of a fixed asset has decreased, there is a valuation made if it must be written down according to RR17. 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.

Leasing

Leasing is accounted for in accordance with RR6:99 *Leasing agreements*.

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 amortization of the receivable.

When Alfa Laval is the lessee, leased assets that are regarded as financial leases are accounted for as capitalized 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 amortization of the payable. Depreciation according to plan is done in the same manner as purchased assets.

Leased assets regarded as operational leases are not capitalized. The leasing fees are expensed as incurred.

Research and development

Research and development costs are charged to the income statement in the year in which they are incurred. Development costs do normally not meet the requirements for capitalization according to RR15 *Intangible assets*.

Taxes

Current tax is calculated according to the rules that apply in the countries where the profit was generated. Deferred tax is calculated in accordance with RR9 *Income taxes*. This means that the Group has recognised deferred tax assets relating to temporary differences and unused tax losses and tax credits to the extent it is deemed probable (> 50 percent) that they will decrease future tax costs. When the subsidiaries report losses, deferred tax assets are only recognised if it is probable that the unused tax losses and tax credits will be possible to be utilized against future taxable profits.

Revenue recognition

Revenue recognition is made according to RR11 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, see the below heading.

Long-term construction projects

Revenue for projects is recognised using the percentage of completion method in RR10 *Construction projects*. This means that when the outcome of a construction project can be calculated reliably, the revenue and the costs related to the project are recognised in relation of 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.

Other operating income and other operating costs

Other operating income in the income statement relates to commission, royalty and license income. Other operating costs refer mainly to restructuring costs and to royalty costs.

Borrowing costs

Borrowing costs are accounted for according to the main principle in RR21 *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 capitalized and amortized over the maturity of the loan.

Advertising costs

Advertising costs are expensed as incurred.

Financial instruments

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, see Note 27.

Employee benefits

Employee benefits are reported according to RR29. The main difference compared with previous reporting (1999 and earlier) has been the reporting for defined benefit pension plans. The Swedish ITP plan is thereby seen as a "multi-employer plan" that is treated as a defined contribution plan according to item 30 in RR29. The present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries.

Provisions

The Group is applying RR16 for the reporting of provisions, contingent liabilities and contingent assets.

Events after the balance sheet date

Events after the balance sheet date are reported according to RR26 under a separate heading in the Board of Directors' report.

Financial risks

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.

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.

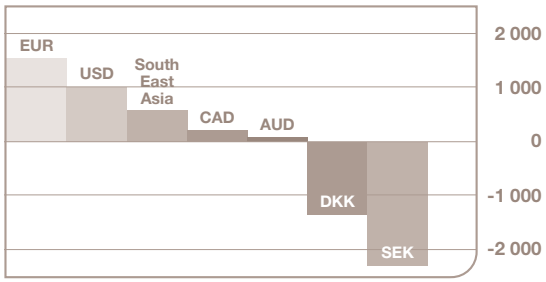
The local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contracted flows must be fully hedged. The Group normally has a natural risk coverage through the sale in local currencies. Projected flows the next twelve 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.

Translation exposure

When the subsidiaries' balance sheets in local currency are translated into SEK a 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 unrestricted equity capital. The translation exposure consists of the risk that the translation difference represents in relation

The Group's net exposure in different currencies during 2002 has amounted to:

Net exposure per currency in MSEK per year



If the currency rates between SEK and the most important foreign currencies are changed by +/- 10 percent it has the following effect on operating income, if no hedging measures are taken:

Exchange rate change against SEK	2002		2001	
MSEK	+ 10%	- 10%	+ 10%	- 10%
Effect on operating income without hedging measure				
USD	101	-101	117	-117
EUR	154	-154	125	-125
DKK	-135	135	-147	147
Other USD related currencies	29	-29	25	-25
Other	58	-58	80	-80
Total	**207**	**-207**	**201**	**-201**

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

	2002 Original currency in millions	MSEK	2001 Original currency in millions	MSEK	2000 Original currency in millions	MSEK
Outflows						
EUR	-188.8	-1 729.4	-104.7	-973.8	-64.0	-567.1
USD	-190.2	-1 672.1	-173.1	-1 827.0	-92.2	-879.7
DKK	-558.0	-688.2	-6.3	-7.8	-371.6	-441.2
HKD	-173.3	-195.3	-51.6	-69.9	-141.0	-172.5
NOK	-133.3	-167.5	-146.0	-170.7	-147.6	-158.3
JPY	-1 713.3	-126.2	-2 094.3	-168.8	-2 988.7	-248.3
CAD	-7.7	-42.9	-18.4	-121.4	-16.0	-102.0
GBP	-0.9	-13.6	-6.4	-98.2	-22.8	-325.2
Other		-84.2		-61.6		-44.7
Total		**-4 719.4**		**-3 499.2**		**-2 939.0**
Inflows						
SEK	4 832.8	4 832.8	3 362.7	3 362.7	2 920.0	2 920.0
SGD	5.4	27.3	22.0	125.5	-	-
Other		10.6		-		-
Total		**4 870.7**		**3 488.2**		**2 920.0**
Net exposure		**151.3**		**-11.0**		**-19.0**

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 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. 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 loan with the new banking syndicate accrues interest at floating rate. The Group has chosen to hedge 64 (69) percent of the loan, with a duration of nine months. The subordinated loan from Tetra Laval Finance Ltd accrued interest at fixed rate, but has now been repaid. The bond loan accrues interest at fixed rate. Combined, 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 point), the interest costs of the Group would increase by about MSEK 16 (18).

Liquidity risk

Liquidity risk is defined as the risk that the Group would incur increased costs due to lack of liquid funds. The loan facility that has been agreed with the new banking syndicate consists of an amortization free part of originally MEUR 423.9, that now voluntarily has been amortized down to MEUR 334.6 and a revolving working capital part of MEUR 150, which was unutilized as of December 31, 2002.

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. The loan facility, with a maturity of five years, that has been agreed with the new banking syndicate consists of an amortization free part of originally MEUR 423.9, that now voluntarily has been amortized down to MEUR 334.6 and a revolving working capital part of MEUR 150, which was unutilized as of December 31 2002. The bond loan matures only in 2010.

Counterparty 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 counterparty not fulfilling its commitments is limited through the selection of financially solid counterparties and by limiting the engagement per counterparty. 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 counterparties to derivative instruments. The Group limits this exposure by diversifying among counterparties 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 counterparty 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 costs for bad debts are MSEK 32.2 (78.6) (125.9).

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 claim costs has amounted to MSEK 204.0 (154.3) (167.0).

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 programme being implemented gives the Group a cost level that is very competitive.

Business climate

In an overall economic downturn the Group tends to be affected with a delay of six to twelve 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 constitute serious risks for the operations. The possibilities to pass on higher input prices to an end customer varies 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.

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 waist 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 MUSD 1,000 each. In Alfa Laval's opinion, adequate guarantees have been re ceived from Tetra Laval, covering possible losses related to these litigations.

Alfa Laval's subsidiary in the US, Alfa Laval Inc., was as of February 15, 2003, named as a co-defendant in a total of 73 asbestos-related lawsuits with a total of approximately 15,000 plaintiffs. Alfa Laval Inc. is only named as one of numerous defendants. The lawsuits do

not identify any Alfa Laval products that the company believes could form the basis for liability. Eleven multiple plaintiff lawsuits, filed in the State of Mississippi, account for 99 percent of all plaintiffs.

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

Developments since November 4, 2002:

- 13 lawsuits have been dismissed, which gives a total of 30 lawsuits that have been dismissed for lack of connection to Alfa Laval Inc. Moreover, one multiple plaintiff lawsuit in Mississippi, with 507 plaintiffs, has been dismissed from state court and transferred to a federal court, which is expected to dismiss all claims from plaintiffs with no manifested illness. This lawsuit, however, is still included in the total count.
- Alfa Laval Inc. has been named as a co-defendant in an additional 19 lawsuits with a total of approximately 7,500 plaintiffs.
- 99.7 percent of the increase of plaintiffs is related to multiple plaintiff lawsuits filed in Mississippi. The State of Mississippi has adopted a new law, which took effect on January 1, 2003, that legal experts expect to limit the filing of multiple plaintiff lawsuits after December 31, 2002. It is believed that this new law is the principal driving force behind the increase of lawsuits during the latter part of 2002.
- Alfa Laval is not aware of any new multiple plaintiff lawsuits filed against Alfa Laval Inc. during 2003.

After thorough investigations Alfa Laval continues to believe that potential claims in connection with the asbestos related lawsuits against Alfa Laval Inc. will be covered by insurance policies. Furthermore, primary insurance policies issued in favour of Alfa Laval Inc. provide for coverage of its defence costs.

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 operations.

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 a 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 minimize 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 customer segments that belong to the Equipment division purchase products whereas the customer segments that belong to Process Technology purchase systems for the processing industry. In addition, the Group has a common function "Operations" for procurement, manufacturing and logistics.

Presentation of divisions

Consolidated, Orders received MSEK	Oct 1–Dec 31 2002	Oct 1–Dec 31 2001	2002	2001	*pro forma* 2000
Equipment	1 877.7	1 937.0	8 092.6	8 557.9	8 159.9
Process Technology	1 607.0	1 748.7	6 488.1	7 026.9	6 188.1
Operations and other	16.7	16.2	94.1	96.1	212.4
Subtotal	3 501.4	3 701.9	14 674.8	15 680.9	14 560.4
Divested	-	4.4	-	213.0	814.0
Total	**3 501.4**	**3 706.3**	**14 674.8**	**15 893.9**	**15 374.4**

Consolidated, Order backlog MSEK	2002	2001	*pro forma* 2000
Equipment	1 564.5	1 648.3	1 473.3
Process Technology	2 752.6	2 654.7	2 311.2
Operations and other	23.0	9.5	140.1
Subtotal	4 340.1	4 312.5	3 924.6
Divested	-	1.0	138.4
Total	**4 340.1**	**4 313.5**	**4 063.0**

Consolidated, Net sales MSEK	Oct 1–Dec 31 2002	Oct 1–Dec 31 2001	2002	2001	*pro forma* 2000
Equipment	2 027.4	2 337.2	8 129.6	8 576.2	7 981.4
Process Technology	2 171.8	2 369.3	6 377.1	6 872.0	5 775.9
Operations and other	-24.1	26.0	88.2	169.4	427.9
Subtotal	4 175.1	4 732.5	14 594.9	15 617.6	14 185.2
Divested	-	6.1	-	212.0	827.1
Total	**4 175.1**	**4 738.6**	**14 594.9**	**15 829.6**	**15 012.3**

Consolidated, Operating income MSEK	Oct 1–Dec 31 2002	Oct 1–Dec 31 2001	2002	2001
Equipment	337.6	373.9	1 078.3	1 083.6
Process Technology	312.6	269.5	521.4	472.7
Operations and other	-241.1	-258.1	-351.0	-321.0
Subtotal	409.1	385.3	1 248.7	1 235.3
Comparison distortion items	-0.7	5.3	-29.2	5.3
Divested	-	-17.2	-	-9.2
Total	**408.4**	**373.4**	**1 219.5**	**1 231.4**

Consolidated	Assets		Liabilities	
MSEK	2002	2001	2002	2001
Equipment	3 425.7	4 988.4	1 085.6	1 534.3
Process Technology	3 604.9	4 386.9	1 142.3	1 349.3
Operations and other	6 260.3	5 682.2	1 983.9	1 756.7
Subtotal	13 290.9	15 057.5	4 211.8	4 640.3
Divested	0.0	54.3	0.0	7.6
Subtotal	13 290.9	15 111.8	4 211.8	4 647.9
Corporate*	2 136.4	2 520.0	6 595.1	11 406.9
Total	**15 427.3**	**17 631.8**	**10 806.9**	**16 054.8**

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

Note 1. Segment reporting (continued)

Consolidated	Investments		*pro forma*	Depreciation	
MSEK	2002	2001	2000	2002	2001
Equipment	24.8	31.5	50.8	250.5	261.9
Process Technology	33.7	38.0	66.2	236.2	248.6
Operations and other	218.2	205.4	184.2	351.3	395.2
Subtotal	276.7	274.9	301.2	838.0	905.8
Divested	-	-	10.5	0.0	6.4
Total	**276.7**	**274.9**	**311.7**	**838.0**	**912.2**

Alfa Laval's secondary segments are geographical markets. Countries with more than 10 percent of net sales, assets or investments are reported separately.

Presentation of geographical markets

Net sales	2002		2001		*pro forma* 2000	
Consolidated	MSEK	%	MSEK	%	MSEK	%
Customers in:						
Sweden	835.1	5.7	770.0	4.9	744.3	5.0
Other EU	4 953.0	33.9	5 448.5	34.4	5 521.3	36.8
Other Europe	1 497.8	10.3	1 426.0	9.0	1 237.1	8.2
USA	2 638.7	18.1	2 815.7	17.8	2 865.2	19.1
Other North America	423.5	2.9	347.3	2.2	371.7	2.5
Latin America	626.7	4.3	728.0	4.6	635.8	4.2
Africa	69.6	0.5	151.7	1.0	150.8	1.0
Asia	3 296.6	22.6	3 835.3	24.2	3 193.5	21.3
Oceania	253.8	1.7	307.2	1.9	292.6	1.9
Total	**14 594.9**	**100.0**	**15 829.6**	**100.0**	**15 012.3**	**100.0**

The split of net sales by geographical market for 2000 is shown only on a pro forma combined basis since no distribution of the predecessor's invoicing up to August 24, 2000 on geographical markets has been available.

Assets	2002		2001	
Consolidated	MSEK	%	MSEK	%
Sweden	2 202.4	14.3	2 303.1	13.1
Denmark	1 627.0	10.5	1 516.4	8.6
Other EU	4 209.9	27.3	4 764.6	27.0
Other Europe	440.3	2.9	478.8	2.7
USA	2 208.7	14.3	2 960.9	16.8
Other North America	247.2	1.6	280.4	1.6
Latin America	237.4	1.5	374.0	2.1
Africa	25.8	0.2	14.5	0.1
Asia	1 924.9	12.5	2 235.1	12.7
Oceania	167.3	1.1	184.0	1.0
Subtotal	13 290.9	86.2	15 111.8	85.7
Corporate	2 136.4	13.8	2 520.0	14.3
Total	**15 427.3**	**100.0**	**17 631.8**	**100.0**

Investments	2002		2001		*pro forma* 2000	
Consolidated	MSEK	%	MSEK	%	MSEK	%
Sweden	62.8	22.7	76.5	27.8	114.0	36.6
Denmark	34.0	12.3	35.6	13.0	46.3	14.9
Other EU	52.0	18.8	58.6	21.3	80.1	25.7
Other Europe	11.5	4.2	22.7	8.3	11.1	3.6
USA	84.8	30.6	37.5	13.6	28.5	9.1
Other North America	1.9	0.7	2.4	0.9	2.5	0.8
Latin America	2.2	0.8	3.8	1.4	4.0	1.3
Africa	0.6	0.2	0.6	0.2	1.0	0.3
Asia	26.0	9.4	35.7	13.0	22.9	7.3
Oceania	0.9	0.3	1.5	0.5	1.3	0.4
Total	**276.7**	**100.0**	**274.9**	**100.0**	**311.7**	**100.0**

The split of investments by geographical market for 2000 is shown only on a pro forma combined basis since no distribution of the predecessors investments up to August 24, 2000 on geographical markets has been available.

Note 2. Average number of employees – total

	Number of female employees			Total number of employees		
			pro forma			*pro forma*
Consolidated	2002	2001	2000	2002	2001	2000
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (8)	347	306	399	1 891	1 793	1 894
Total in Sweden (8)	347	306	399	1 891	1 793	1 894
Total abroad (76)	1 444	1 544	1 697	7 401	7 900	9 107
Total for the group (84)	**1 791**	**1 850**	**2 096**	**9 292**	**9 693**	**11 001**

The average number of employees during 2000 is shown only on a pro forma combined basis since no distribution can be made for the period prior to and after August 24, 2000. The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2002.

Note 2.
Average number of employees – In Sweden by municipality (continued)

Employees in Sweden	2002	2001	pro forma 2000
Botkyrka	483	476	528
Eskilstuna	175	181	182
Göteborg	2	2	3
Lund	951	873	847
Malmö	3	3	4
Ronneby	240	215	199
Stockholm	3	10	10
Västerås	-	-	52
Other municipality with <10 employees	34	33	69
Total	**1 891**	**1 793**	**1 894**

In the line "Other municipality < 10 employees", employees at branch offices abroad are included.

Average number of employees – by country

	Number of female employees			Total number of employees		
Employees per country	2002	2001	pro forma 2000	2002	2001	pro forma 2000
Argentina	6	20	15	31	37	50
Australia	21	22	25	72	84	100
Austria	6	4	13	21	23	38
Belgium	23	30	29	134	140	154
Brazil	23	27	29	111	122	157
Bulgaria	4	6	5	14	15	14
Canada	28	27	42	111	121	210
Chile	4	4	4	21	19	23
China	75	90	71	378	353	326
Colombia	2	2	2	10	10	10
Czech Republic	13	14	13	58	54	45
Denmark	253	227	217	1 054	978	962
Estonia	2	2	0	4	5	4
Finland	28	32	38	111	117	126
France	120	121	120	610	620	623
Germany	56	64	102	256	347	496
Greece	12	13	13	34	37	36
Hong Kong	15	14	29	44	61	78
Hungary	5	5	4	26	28	31
India	29	29	32	1 042	1 101	1 267
Indonesia	13	15	15	73	73	70
Iran	2	1	1	9	7	8
Italy	63	69	64	488	506	509
Japan	41	47	47	165	184	192
Korea	15	16	16	77	68	70
Latvia	4	4	0	7	7	6
Lithuania	4	3	0	4	4	5
Malaysia	24	19	22	68	72	81
Mexico	9	13	13	50	62	66
Netherlands	32	19	17	108	110	119
New Zeeland	6	7	7	32	34	39
Norway	16	17	21	60	74	97
Peru	6	6	6	26	30	33
Philippines	3	4	4	21	21	22
Poland	25	29	26	123	122	88
Portugal	3	3	3	14	14	14
Romania	5	7	7	16	19	22
Russia	112	100	102	244	244	252
Singapore	21	21	21	46	49	65
Slovakia	1	1	4	11	9	11
South Africa	9	9	11	38	39	55
Spain	33	32	41	210	218	320
Sweden	347	306	399	1 891	1 793	1 894
Switzerland	2	2	3	15	15	17
Taiwan	12	12	12	32	32	32
Thailand	13	13	13	37	36	37
Turkey	7	8	7	28	29	31
UK *	55	80	121	344	519	817
US	172	222	275	849	966	1 210
United Arab Emirates	7	8	12	49	48	48
Venezuela	4	4	3	15	17	21
Total for the group	**1 791**	**1 850**	**2 096**	**9 292**	**9 693**	**11 001**
* of which employed by the joint venture Rolls Laval				1	21	25

Note 3. Salaries and remunerations – total

Consolidated, MSEK	2002	2001	pro forma 2000
Board of Directors, presidents and vice presidents	133.8	141.0	137.8
of which, bonus	18.3	23.8	15.9
Other	2 815.9	3 062.7	3 176.8
Total salaries and remunerations	2 949.7	3 203.7	3 314.6
Social security costs	548.5	550.9	693.6
Pension costs, defined benefit plans	161.9	85.9	67.0
Pension costs, defined premium plans	222.8	267.7	211.7
Total costs of personnel	**3 883.0**	**4 108.2**	**4 286.9**

Salaries and remunerations for 2000 are shown only on a pro forma combined basis since no distribution has been available for the period prior to and after August 24, 2000.

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to 46.8 (31.2) (18.7) and 346.9 (376.4) (381.5) respectively, of which 223.0 (246.1) (260.4) is covered by the Alfa Laval Pension Fund.

Chief Executive Officer/Managing Director
The Chief Executive Officer and Managing Director Sigge Haraldsson receives a remuneration of SEK 5,098,854 (5,352,173) (6,085,332), of which bonus was - (200,000) (1,404,000).The bonus refers to bonus paid during the year.

Sigge Haraldsson has an agreement on early retirement that gives him the option to enter into early retirement at his request from the age of 60 or to enter into early retirement at the request of the company from the age of 55. The agreement provides a pension level of 50 percent of the salary at the time of retirement if he enters into early retirement between the age of 55 and 58 and 70 percent of the salary if he enters into early 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.

For the part of the salary that is above the ITP plan's 30 price base amounts (one price base amount equals SEK 37,900), the old age pension after 65 is paid with 52.5 percent of the salary up to 80 price base amounts and above that with 32.5 percent and family pension with 16.25 percent of the salary. He has 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 pension premiums of MSEK 7.2 (7.3) (7.5), of which 3.4 (3.4) (3.3) relates to premiums for early retirement that are paid during a short period of time. There is no separate agreement on severance pay.

Board of Directors
The Chairman of the Board Thomas Oldér receives a remuneration of SEK 500,000 per year. He does not have any agreement on future retirement or severance pay with Alfa Laval.

For 2002, the Board of Directors receive a total fee of 2,250,000 (2,250,000) (-), which is distributed among the members elected at the Annual General Meeting.

Other executive officers
Other executive officers are the nine members of Group Management in addition to the Chief Executive Officer. Their remunerations amount to MSEK 21.3 (22.1) (20.3), of which bonuses were 4.1 (2.7) (1.4). The bonus refers to bonus paid during the year.

For these executive officers, early retirement can be offered from the age of 60. The agreement normally gives a pension level of 75 percent of the salary at the time of retirement up to 30 price 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 price 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 in the remunerations' 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 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. Salaries and remunerations – by country (continued)

	Board of directors, Presidents and vice Presidents			Other employees		
			pro forma			*pro forma*
Consolidated, MSEK	2002	2001	2000	2002	2001	2000
Argentina	0.5	1.1	1.6	3.6	10.1	12.7
Australia	2.6	2.4	2.3	19.9	21.6	25.3
Austria	1.7	1.7	1.4	8.2	9.2	11.7
Belgium	3.3	3.7	3.7	48.8	46.4	49.3
Brazil	1.1	1.4	1.3	16.4	22.2	28.1
Bulgaria	0.2	0.2	0.2	1.1	1.1	0.9
Canada	3.3	4.0	4.6	41.5	43.8	64.8
Chile	0.0	0.0	0.0	3.2	5.5	6.4
China	0.0	0.0	0.0	21.6	19.9	16.1
Colombia	0.4	0.5	1.0	0.9	1.0	1.0
Czech Republic	0.8	0.7	0.2	7.0	5.9	4.8
Denmark	9.1	8.3	10.4	409.0	431.9	376.2
Estonia	0.0	0.0	0.3	0.5	0.7	0.4
Finland	2.6	2.2	2.2	38.8	40.0	38.9
France	3.4	4.2	3.6	178.0	173.9	158.2
Germany	13.9	11.8	10.0	133.7	168.5	211.9
Greece	0.0	0.0	0.0	10.6	10.6	8.9
Hong Kong	3.4	3.5	3.4	22.7	25.5	29.0
Hungary	0.7	0.5	0.5	3.4	3.2	2.9
India	1.2	1.2	1.0	39.7	39.7	39.6
Indonesia	0.5	0.5	0.4	4.6	4.5	2.9
Iran	0.0	0.0	0.9	4.1	3.6	0.8
Italy	4.5	4.1	3.1	125.2	134.3	122.8
Japan	8.8	8.4	8.2	84.9	115.2	113.8
Korea	1.0	0.8	0.8	19.9	18.9	18.5
Latvia	0.4	0.4	0.3	1.0	0.9	0.5
Lithuania	0.0	0.0	0.2	0.7	0.7	0.6
Malaysia	1.5	1.4	1.0	10.5	11.9	9.9
Mexico	1.7	5.4	3.5	11.1	13.0	6.2
Netherlands	2.3	2.1	3.0	46.4	46.0	41.0
New Zeeland	0.4	0.0	0.0	7.7	8.4	8.0
Norway	1.3	1.3	1.0	36.4	37.3	38.7
Peru	1.1	1.1	1.2	3.7	6.1	4.8
Philippines	0.4	0.3	0.3	1.8	1.8	2.0
Poland	4.0	3.7	0.9	14.1	15.0	10.3
Portugal	1.8	1.8	1.7	3.2	3.0	2.6
Romania	0.0	0.0	0.0	2.3	2.5	2.2
Russia	1.4	1.3	0.0	25.8	27.6	20.5
Singapore	1.4	1.8	2.7	11.8	11.2	16.8
Slovakia	0.1	0.0	0.0	1.2	1.4	1.0
South Africa	0.6	0.6	0.5	6.0	6.7	9.4
Spain	1.8	1.1	1.8	64.0	69.5	78.9
Sweden	21.6	27.6	33.9	676.4	629.6	628.4
Switzerland	1.9	1.7	1.2	10.5	9.9	10.0
Taiwan	0.9	0.9	0.8	7.9	8.9	8.4
Thailand	1.3	1.1	1.1	4.4	4.5	4.6
Turkey	1.1	0.9	1.2	5.1	4.7	6.0
UK	4.8	6.0	5.8	124.7	176.8	266.7
USA	17.0	17.5	13.1	475.6	591.8	641.8
United Arab Emirates	1.7	1.4	1.2	14.5	13.6	7.7
Venezuela	0.0	0.0	0.3	2.0	2.3	3.9
Total for the group	**133.8**	**141.0**	**137.8**	**2 815.9**	**3 062.7**	**3 176.8**

Note 4. Equity compensation benefits

The shares held by management at the end of 2001 were linked to warrants to subscribe for new ordinary shares. The warrants had been acquired at market value, based on the transaction on August 24, 2000. The warrants could be exercized in the event of a trade sale, flotation or the tenth anniversary of August 24, 2000. The warrants were issued in nine tranches, each of which was exercisable at a predefined rate of return on Industri Kapital's investment in Alfa Laval. The higher this rate of return, the more warrants could be exercized. The warrant meant that a new share could be acquired at a price fixed in advance based on the value on August 24, 2000, increased by 11 percent per year. The total number of shares that could be subscribed for at a maximum outcome was 1,859,748, which corresponded to an increase of the number of shares by 4.96 percent. Of this, Group Management held 1,129,896 warrants and members of the Board that were not part of Group Management held 158,250 warrants. The remainder was held by employees.

At the IPO on May 17, 2002 all warrants could be exercized. No warrants are outstanding at the end of 2002. In connection with the subscription, Group Management and almost 50 other senior executives have been committed to hold the originally acquired as well as the newly subscribed shares for a period of 270 days after the IPO on May 17, 2002 and at least until the press release for the full-year 2002 was published, which occurred on February 24, 2003. The number of shares that it was necessary to sell in order to acquire the new shares as well as pay the tax on the corresponding realized gain were, however, allowed to be sold. This is the reason why the sum of number of shares and warrants at December 31, 2001 despite the selling restriction can be higher than the holding at the end of December 2002.

Alfa Laval reported the payments of MSEK 3.6 received for the warrants as a deposit from the shareholders at the end of 2001. When the warrants were exercized, the corresponding credit has been transferred to the equity capital. If the return on the investment had not reached the stipulated levels, the warrants that could not be exercized would be recognized as income, but that situation never arose.

Note 5. Information about the members of the Board and the work procedures of the Board

The members of the Board of Directors

The Board presently has 12 members including the Chairman. Seven of these were elected at the Annual General Meeting on June 1, 2001 and one at the Annual General Meeting on April 8, 2002. The Board also has four members, with deputies, elected by the trade unions.

	Member since	Born	Function
Thomas Oldér*	Aug. 2000	1947	Chairman
Björn Savén	Aug. 2000	1950	Deputy Chairman
Per Olov Jakobsson	Dec. 2000	1942	Member
Arne Kastö	Dec. 2000	1948	Member
Linda Karlsson	Dec. 2001	1975	Member
Jan Nilsson	Dec. 2000	1952	Member
Lena Olving	May 2002	1956	Member
Finn Rausing	Aug. 2000	1955	Member
Jörn Rausing	Aug. 2000	1960	Member
Christian Salamon	Aug. 2000	1961	Member
Waldemar Schmidt	Aug. 2000	1940	Member
Sigge Haraldsson	Aug. 2000	1944	Member, Managing Director
Hans-Christian Bödker Jensen	Aug. 2000	1972	Deputy member
Åke Klintin	Dec. 2000	1941	Deputy member
Gunnar Karlsson	Dec. 2000	1941	Deputy member
Kalevi Houtari	Dec. 2000	1951	Deputy member
Salvador Pay Ortiz	May 2002	1940	Deputy member

* Resigned from the Board on March 9, 2003.

For a presentation of the members of the Board, see pages 90–91.

Work procedures of the Board

The Board has held thirteen (eight) meetings during 2002. The Board has issued rules of procedures for the Board of Directors during 2001 and an instruction regarding the allocation of work between the Board of Directors and the Managing Director. The rules of procedure establish, among other things, how often the Board of Directors shall meet and how the work shall be organized. During 2000, the financial reporting to be made to the Board was established.

During 2001 the Board appointed a remuneration committee, consisting of Thomas Oldér, Björn Savén and Jörn Rausing, with Sigge Haraldsson as presenting. The committee shall handle remuneration matters for the members of Group Management.

Matters that the Board has been handling during the year include matters of the IPO, larger capacity investments and development projects, acquisition of businesses, divestment of real estate and the strategic positioning of the Group.

Since the Group has a bond loan that is registered with the Securities and Exchange Commission (SEC) in the US, the question of appointing an audit committee according to the "Sarbanes-Oxley Act" has been discussed. The Board has chosen not to appoint an audit committee since the judgement is that the financial reporting and control within the Group, the Group's policies concerning internal control, the external and internal audit and the reporting to the Board in these matters are such that a special audit committee within the Board would not increase the Board's insight and control over the operations. At two Board meetings during 2002, the Board has received reports from the external auditors of the Group.

Note 6. Information on auditors' fee

During 2000 quotations were taken in from four of the large international audit firms. After a selection process, Ernst & Young were given the assignment to be the Group's auditors as of year 2000 and four years ahead. Ernst & Young were already the Group's main auditors and audited the consolidated group and most of the subsidiaries. To the extent it was not possible to exchange other auditors with Ernst & Young during 2000, this happened during the first part of 2001.

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.

Fees and expense compensation, MSEK	2002	2001	*pro forma* 2000
Audit			
Ernst & Young	12.7	10.2	9.1
Other audit firms	1.1	2.7	1.9
Total	**13.8**	**12.9**	**11.0**

Fees and expense compensation, MSEK	2002	2001	*pro forma* 2000
Other projects			
Ernst & Young	2.8	7.2	1.9
Other audit firms	6.6	5.3	4.0
Total	**9.4**	**12.5**	**5.9**

Note 7. Advertising costs

Advertising costs have amounted to MSEK 40.0 (53.9) (62.0). These refer to costs for advertisements in newspapers and technical press, participation in trade fairs, brochures and for year 2001 the building of the Alfa Laval trademark and the new logotype.

Note 8. Comparison distortion items

Consolidated, MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
Surplus funds from SPP	-	-	270.7	-	270.7
Sale of Tetra Pak division in Indian subsidiary	-	-	30.8	-	30.8
Reversal of step-up value on inventory	-	-	-340.2	-340.2	-
Reversal of step-up value on research and development	-	-	-53.6	-53.6	-
Sale of real estate	-43.2	-4.7	222.2	-	222.2
Sale of Industrial Flow	14.0	10.0	-	-	-
Total	**-29.2**	**5.3**	**129.9**	**-393.8**	**523.7**

The sale of the property in Warminster in the United States was completed at the end of March at a price of MUSD 6.4 corresponding to MSEK 62.1. The realized loss was MSEK -43.2.

An agreement was signed on December 19, 2000 concerning the divestment of the Industrial Flow operation. The agreement was made with Crane Co in the US and the divestment was made on April 2, 2001. The sales price was MSEK 330.6. After considering the reversal of Group step-up values and provisions for deferred costs, the divestment has resulted in a gain of MSEK 10.0 in the annual report for 2001. A few activities have remained before the divestment could be considered to be completed. During September 2002 a final settlement has been made with the buyer, resulting in an increase of the realized gain by MSEK 14.0.

The real estate in Johannesburg in South Africa was divested in May 2001. The sales price was MSEK 13.6. The local realized gain of MSEK 2.4 corresponded to a reversal of Group step-up values relating to the real estate, which resulted in a loss of MSEK -0.3. The sale of the real estate in Glinde in Germany was completed in October 2001 at a price of MSEK 196.4. The local realized gain of MSEK 147.8 corresponded to a reversal of Group step-up values relating to the real estate and provisions for certain future rent commitments, which resulted in a loss of MSEK -8.3. In addition, some smaller properties in Spain and Sweden and one condominium in Sweden were sold with a total capital gain of MSEK 3.9.

Due to the repayment of the PRI debt that took place in May 1999, the Swedish Group companies have been able to receive all surplus consolidation funds of MSEK 270.7 from SPP in cash as of February 2001.

The Tetra Pak division of the Indian subsidiary was divested in May 2000 for MSEK 38.6, which resulted in a realized gain of MSEK 30.8. During 1999, this division had net sales of MSEK 47.3 and 58 employees.

The step-up values for inventory and research and development appeared in connection with the acquisition on August 24, 2000 and were reversed the same year, see Note 15.

Note 9. Depreciation by function

Consolidated, MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1– Aug 23 2000
Cost of goods sold	-478.0	-499.8	-520.1	-173.3	-136.2
Sales	-60.1	-68.7	-132.7	-44.2	-88.5
Administration	-97.9	-145.3	-89.0	-29.7	-59.3
Research and development	-7.5	-8.6	-13.9	-4.6	-9.3
Other income and costs	-6.8	-11.8	-26.4	-8.8	-17.6
Goodwill	-187.7	-178.0	-163.8	-54.6	-485.0
Total	**-838.0**	**-912.2**	**-945.9**	**-315.2**	**-795.9**

Note 10. Depreciation by type of assets

Consolidated, MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
Goodwill	-187.7	-178.0	-163.8	-54.6	-485.0
Patents, trademarks, etc.	-208.3	-214.6	-199.4	-66.4	-3.6
Machinery and equipment	-351.4	-403.6	-447.2	-149.1	-240.5
Financial leasing machinery and equipment	-7.8	-10.9	-20.4	-6.8	-13.6
Buildings and ground installations	-82.8	-105.1	-115.1	-38.3	-53.2
Total	**-838.0**	**-912.2**	**-945.9**	**-315.2**	**-795.9**

Note 11. Result from other securities and receivables accounted for as fixed assets

Consolidated, MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
Dividends from other	7.8	9.6	4.3	1.3	3.0
Total	**7.8**	**9.6**	**4.3**	**1.3**	**3.0**

Note 12. Interest income/costs and similar result items

Consolidated, MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval *pro forma* Jan 1–Dec 31 2000	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
Interest income					
Financial leasing					
External companies	0.2	0.0	0.7	0.7	-
Other interest					
External companies	143.4	108.0	114.8	49.5	65.3
Exchange gains					
Unrealized	46.6	76.9	93.5	40.6	52.9
Realized	161.3	53.0	36.1	18.6	17.5
Total	**351.4**	**238.0**	**245.1**	**109.4**	**135.7**
Interest costs					
Financial leasing					
External companies	-2.7	-1.7	-2.4	-2.4	-
Other interest					
External companies	-742.5	-1 075.9	-1 112.4	-469.9	-167.0
Exchange loss					
Unrealized	-26.0	-329.2	-215.4	-129.4	-86.0
Realized	-130.6	-30.4	-25.8	-15.0	-10.8
Total	**-901.8**	**-1 437.2**	**-1 356.0**	**-616.7**	**-263.8**

In the Group, reported net exchange differences of MSEK 164.9 (-105.5) (-312.5) relating to debts in foreign currencies have been charged to unrestricted equity. These debts finance the acquisition of shares in foreign subsidiaries and act as a hedge to the acquired net assets. In the parent company, the exchange differences are taken to the income statement.

Net commercial exchange differences have amounted to 284.8 (137.7) (-52.5). These arise in connection with delivery of goods and other operational activities and have thereby affected the operating result.

Parent company, MSEK	Jan 1–Dec 31 2002	Jan 1–Dec 31 2001	Mar 27–Dec 31 2000
Interest income			
Other interest			
External companies	0.0	0.1	-
Subsidiaries	4.0	0.0	-
Exchange gains			
Unrealized	0.3	-	0.0
Realized	24.5	0.0	-
Total	**28.7**	**0.1**	**-**
Interest costs			
Other interest			
External companies	-98.2	-244.5	-76.8
Exchange loss			
Unrealized	0.0	-84.5	-99.7
Total	**-98.3**	**-328.9**	**-176.5**

Note 13. Minority interest

The minority share in subsidiaries' result and minority interests in the balance sheet relate to five subsidiaries in India, Russia and Switzerland where minority owners exist.

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

Consolidated, MSEK	Successor Alfa Laval 2002	Successor Alfa Laval 2001	Successor Alfa Laval *pro forma* 2000
The major components of the Group's tax costs			
Current tax cost	-336.0	-396.9	-300.4
Adjustment for current taxes on prior periods	72.1	84.8	-95.3
Deferred tax costs/income on changes in temporary differences	95.0	374.6	420.0
Deferred tax costs/income on changes in tax rates or new taxes	3.4	12.0	-13.8
Tax income from previously unrecognized tax losses or tax credits on temporary differences of prior periods	6.0	1.3	-1.8
Deferred tax income from previously unrecognized tax losses or tax credits on temporary differences of prior periods	0.3	0.7	2.4
Deferred tax cost from the write-down or reversal of a previous write down of a deferred tax asset	-26.5	-15.6	-18.6
Other taxes	-32.5	-34.6	-53.0
Total tax cost	**-218.2**	**26.3**	**-60.6**
The difference between the tax costs of the group and the tax cost based upon applicable tax rates, can be explained as follows:			
Result before minority interests and tax	372.1	41.8	-296.5
Tax according to applicable tax rates	-133.6	-14.6	103.8
Tax effect of:			
Non-deductible costs including group adjustments	-268.0	-257.4	-164.3
Non-taxable income	164.2	149.3	11.2
Differences between reported official depreciation and depreciation according to tax rules	-7.2	-7.4	-17.7
Differences between reported other official depreciation and other depreciation according to tax rules	-40.7	12.1	-31.7
Tax losses and tax credits	2.9	42.5	124.3
Other	-7.9	17.0	9.2
Adjustment for current tax on prior periods	72.1	84.8	-95.3
Total tax costs	**-218.2**	**26.3**	**-60.6**

The Group's effective tax rate is approximately 33 percent based on taxable result, and it is calculated as a weighted average based on each subsidiaries' part of the result before tax.

During year 2002, 2001 and 2000 the nominal tax rates have been changed in the following countries:

	Tax rates in percentage				Tax rates in percentage		
	2002	2001	2000		2002	2001	2000
Peru	25	25	30	Portugal	34	34	30
India	37	36	39	Australia	30	30	36
Iran	40	12	50	Chile	16	15	15
Pakistan	43	43	40	China	11	3	3
Singapore	22	25	26	Korea	29	28	28
Bulgaria	20	20	25	United Arab Emirates	7	4	4
France	35	34	35	Switzerland	24	28	28
Germany	37	37	51	Turkey	28	33	33
Greece	35	38	40	Russia	24	35	35
Italy	38	40	39	Latvia	22	25	25
Poland	28	28	30	Lithuania	15	24	24

In the Group there are temporary differences and unused tax losses and tax credits of MSEK 2,197.1 (2,567.0) that have not resulted in corresponding deferred tax assets, since these are not likely to be used.

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:

	2002		2001		2000	
Consolidated, MSEK	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	71.5	410.0	96.9	518.0	104.6	590.7
Tangible assets	10.0	471.1	8.3	587.6	24.1	770.4
Inventory	44.4	27.7	90.4	21.6	61.5	24.1
Other current assets	11.3	2.5	2.5	5.9	0.9	3.8
Financial assets	4.5	-	4.6	4.6	0.7	-
Short term liabilities	361.6	40.8	364.1	0.2	304.4	9.5
Equity capital/minority	-	-	12.5	2.1	15.9	14.6
Tax losses and tax credits *	19.3	-	59.0	12.7	89.1	-
Other	11.5	0.4	-14.5	-9.1	2.8	-
Total	**534.0**	**952.5**	**623.8**	**1 143.6**	**604.0**	**1 413.1**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of MSEK 61.4 (181.0). These unused tax losses and tax grants are essentially not restricted in time.

Note 15. Goodwill and step-up values related to the acquisition on August 24, 2000

The acquisition

The acquisition on August 24, 2000 was made in several steps. The first step was that Alfa Laval Holding AB's subsidiary Alfa Laval NV sold Alfa Laval Bostadsförvaltning AB to Tetra Laval BV in the Netherlands. Alfa Laval Bostadsförvaltning AB was in connection with this renamed to Alfa Laval Credit Finance AB. Tetra Laval BV in its turn sold Alfa Laval Holding AB with subsidiaries to Alfa Laval Credit Finance AB. All of these transactions took place on August 24, 2000.

Prior to the acquisition, Industri Kapital had created a new company, Alfa Laval AB. In connection with a new issue of shares, Industri Kapital subscribed for 51.9 percent, Alfa Laval management for 0.3 percent and Tetra Laval BV for 47.8 percent of the total number of shares in the company. Alfa Laval AB had before the acquisition created a new company, Alfa Laval Special Finance AB, which acquired Alfa Laval Credit Finance AB with subsidiaries on August 24, 2000.

The same day Industri Kapital acquired an additional 11.0 percent of the shares in Alfa Laval AB from Tetra Laval BV. Later during the autumn 2000, Industri Kapital sold shares corresponding to 0.4 percent of the share capital to Alfa Laval management. During 2001 Industri Kapital sold shares corresponding to a further 0.4 percent of the share capital to a third group of management within Alfa Laval.

The acquisition value for the shares of Alfa Laval Holding AB was MSEK 8,213.8 at the transaction on August 24, 2000. Below is shown a summary of the goodwill and the group step-up or step-down values that the acquisition resulted in and the amortisation cost per type of asset. The goodwill is amortized over 20 years. The corresponding presentation by asset type is found in Notes 16 and 17.

Alfa Laval August 24, 2000 – December 31, 2000 Consolidated, MSEK	Allocated value Aug 24, 2000	Realized 2000	Planned amortisation	Translation difference	Residual value Dec 31, 2000
Buildings	1 058.5	-178.8	-11.8	22.8	890.7
Land and land improvements	-228.4	-	-	4.1	-224.3
Machinery	548.3	-	-18.3	15.0	545.0
Equipment	452.1	-	-10.5	10.5	452.1
Construction in progress	15.9	-	-	0.4	16.3
Inventory	340.2	-340.2	-	-	0.0
Patent and trademarks	461.3	-	-7.7	13.0	466.6
Technology	1 279.8	-	-57.0	31.3	1 254.1
Research and development	53.6	-53.6	-	-	0.0
Capital gain (Industrial Flow)	41.8	-	-	-	41.8
Subtotal	4 023.1	-572.6	-105.3	97.1	3 442.3
Goodwill	3 276.6	-	-54.6	92.2	3 314.2
Total	**7 299.7**	**-572.6**	**-159.9**	**189.3**	**6 756.5**

The amortisation for the full-year 2000 (pro forma) was MSEK 163.8 for goodwill and MSEK 315.9 for other group step-up values.

The costs for the reversal of the step-up values for inventory and research and development have been accounted for as comparison distortion items. For assets sold, net gains or losses are recognized on the costs basis including any related step-up value.

Construction in process was transferred to machinery in 2001.

Alfa Laval 2002 Consolidated, MSEK	Opening balance Dec 31, 2001	Realized 2002	Planned amortisation	Translation difference	Residual value Dec 31, 2002
Buildings	682.7	-16.5	-27.5	-33.9	604.8
Land and land improvements	-180.3	25.0	-	25.4	-129.9
Machinery	527.2		-59.0	-24.5	443.7
Equipment	419.7		-31.2	-27.3	361.2
Patent and trademarks	469.3		-24.1	-36.9	408.3
Technology	1 128.2		-177.2	-59.1	891.9
Subtotal for other step-up values	3 046.8	8.5	-319.0	-156.3	2 580.0
Goodwill	3 372.9		-172.9	-268.9	2 931.2
2002					
Goodwill related to the acquisition of					
Alfa Laval Credit Finance AB (additional purchase price)		367.5	-11.4	-16.7	339.4
Danish Separation Systems A/S	-	102.4	-3.4	-0.6	98.4
Subtotal goodwill	3 372.9	469.9	-187.7	-286.2	3 369.0
Total	**6 419.7**	**478.4**	**-506.7**	**-442.5**	**5 949.0**

In connection with the IPO an additional purchase price of MEUR 40.0, corresponding to MSEK 367.5, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Credit Finance AB Group. This has been reported entirely as goodwill in the Group and is amortized over 20 years.

At the acquisition of Danish Separation Systems A/S in 2002, no other group surplus values than goodwill have been identified.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is MSEK 826.7 (978.7).

Note 16. Intangible fixed assets

Consolidated, MSEK	2002	2001
Concessions, patents, licenses, trademarks and similar rights		
Opening balance, accumulated acquisition values	1 993.8	1 953.9
Purchases	0.6	3.6
Sales/disposals	-2.4	-60.2
Reclassifications	-13.5	6.8
Translation difference for the year	154.3	89.8
Closing balance, accumulated acquisition values	**2 132.8**	**1 993.8**
Opening balance, accumulated depreciation	-353.8	-148.8
Sales/disposals	2.4	17.9
Reclassifications	10.8	-5.1
Depreciation of step-up value, patent & trademarks	-24.1	-25.0
Depreciation of step-up value, technology	-177.2	-182.0
Depreciation for the year	-6.9	-7.6
Translation difference for the year	-250.4	-3.2
Closing balance, accumulated depreciation	**-799.2**	**-353.8**
Closing balance, net book value	**1 333.6**	**1 640.0**
Goodwill		
Opening balance, accumulated acquisition values	3 611.7	3 370.4
Acquisition of 13,1% of Alfa Laval (India) Ltd	-	39.2
Goodwill in connection with acquisition of Alfa Laval Nakskov A/S	102.4	-
Additional purchase price	367.5	-
Translation difference for the year	-313.0	202.1
Closing balance, accumulated acquisition values	**3 768.6**	**3 611.7**
Opening balance, accumulated depreciation	-238.8	-56.2
Depreciation for the year	-187.7	-178.0
Translation difference for the year	26.8	-4.6
Closing balance, accumulated depreciation	**-399.6**	**-238.8**
Closing balance, net book value	**3 369.0**	**3 372.9**
Renting rights and similar rights		
Opening balance, accumulated acquisition values	0.6	0.4
Purchases	0.1	0.2
Reclassifications	0.4	-
Closing balance, accumulated acquisition values	**1.1**	**0.6**
Opening balance, accumulated depreciation	-0.2	-0.2
Reclassifications	-0.2	-
Depreciation for the year	-0.1	0.0
Translation difference for the year	0.1	-
Closing balance, accumulated depreciation	**-0.4**	**-0.2**
Closing balance, net book value	**0.7**	**0.4**

Note 17. Property, plant and equipment

Consolidated, MSEK	2002	2001
Real estate		
Opening balance, accumulated acquisition values	2 305.0	2 604.4
Purchases	12.0	5.6
Acquisition of businesses	17.9	-
Sales/disposal	-158.5	-243.3
Reclassifications	29.1	-24.3
Realization of step-up values due to sale	8.5	-164.0
Translation difference for the year	-242.8	126.6
Closing balance, accumulated acquisition values	**1 971.2**	**2 305.0**
Opening balance, accumulated depreciation	-916.0	-964.7
Sales/disposals	75.6	187.4
Acquisition of businesses	-1.3	-
Reclassifications	47.7	-2.1
Depreciation of step-up value	-27.5	-33.4
Depreciation for the year	-54.6	-71.0
Translation difference for the year	125.4	-32.2
Closing balance, accumulated depreciation	**-750.7**	**-916.0**
Opening balance, accumulated revaluations, net	90.0	90.6
Revaluation for the year	0.1	0.0
Depreciation for the year on revaluations	-0.7	-0.6
Closing balance, accumulated revaluations, net	**89.4**	**90.0**
Closing balance, net book value	**1 309.9**	**1 479.0**
Machinery and other technical installations		
Opening balance, accumulated acquisition values	2 828.1	2 834.9
Purchases	97.6	119.0
Acquisition of businesses	6.6	-
Sales/disposal	-157.0	-250.6
Reclassifications	56.9	1.6
Realization of step-up values due to sale	-	-1.3
Translation difference for the year	-220.6	124.5
Closing balance, accumulated acquisition values	**2 611.6**	**2 828.1**
Opening balance, accumulated depreciation	-1 690.3	-1 619.8
Sales/disposals	132.2	170.2
Acquisition of businesses	-2.5	-
Reclassifications	-27.6	-2.4
Depreciation of step-up value	-59.0	-60.2
Depreciation for the year	-130.2	-111.9
Translation difference for the year	148.8	-66.2
Closing balance, accumulated depreciation	**-1 628.6**	**-1 690.3**
Closing balance, net book value	**983.0**	**1 137.8**

Consolidated, MSEK	2002	2001
Equipment, tools and equipment		
Opening balance, accumulated acquisition values	2 288.1	2 537.9
Purchases	71.6	125.4
Acquisition of businesses	3.9	-
Sales/disposal	-150.3	-480.8
Reclassifications	-59.6	36.7
Realization of step-up values due to sale	-	-0.1
Translation difference for the year	-129.1	69.0
Closing balance, accumulated acquisition values	**2 024.6**	**2 288.1**
Opening balance, accumulated depreciation	-1 411.4	-1 518.7
Sales/disposals	127.4	394.1
Acquisition of businesses	-2.1	-
Reclassifications	47.6	3.6
Depreciation of step-up value	-31.3	-33.3
Depreciation for the year	-130.5	-198.5
Translation difference for the year	83.0	-58.7
Closing balance, accumulated depreciation	**-1 317.3**	**-1 411.4**
Opening balance, accumulated revaluations, net	16.9	7.7
Sales/disposals	-0.2	9.5
Reclassifications	-0.5	0.0
Revaluation for the year	0.1	0.1
Depreciation for the year on revaluations	-0.4	-0.4
Closing balance, accumulated revaluations, net	**15.9**	**16.9**
Closing balance, net book value	**723.2**	**893.6**

Consolidated, MSEK	2002	2001
Construction in progress and advances to suppliers concerning property, plant and equipment		
Opening balance, accumulated acquisition values	57.9	71.9
Purchases	93.7	38.6
Sales/disposal	-1.2	-4.9
Reclassifications	-103.9	-50.9
Translation difference for the year	-5.7	3.2
Closing balance, accumulated acquisition values	**40.8**	**57.9**
Closing balance, net book value	**40.8**	**57.9**

Consolidated, MSEK	2002	2001
Leased machinery		
Opening balance, accumulated acquisition values	13.2	27.4
Purchases	0.2	0.0
Acquisition of businesses	7.2	-
Sales/disposal	-6.2	-13.4
Reclassifications	-	-2.2
Translation difference for the year	-0.3	1.4
Closing balance, accumulated acquisition values	**14.1**	**13.2**
Opening balance, accumulated depreciation	-4.4	-6.2
Sales/disposals	3.3	3.1
Acquisition of businesses	-3.1	-
Reclassifications	-	2.2
Depreciation for the year	-3.0	-3.2
Translation difference for the year	0.1	-0.3
Closing balance, accumulated depreciation	**-7.1**	**-4.4**
Closing balance, net book value	**7.0**	**8.8**

Leased equipment, tools and installations		
Opening balance, accumulated acquisition values	58.8	94.9
Purchases	0.9	5.7
Sales/disposal	-11.2	-33.4
Reclassifications	0.2	-13.3
Translation difference for the year	-4.0	4.9
Closing balance, accumulated acquisition values	**44.7**	**58.8**
Opening balance, accumulated depreciation	-37.1	-48.4
Sales/disposals	8.8	15.8
Reclassifications	4.4	6.0
Depreciation for the year	-4.8	-7.8
Translation difference for the year	2.8	-2.7
Closing balance, accumulated depreciation	**-25.9**	**-37.1**
Closing balance, net book value	**18.8**	**21.7**

Leased machinery, equipment and real estate relate to fixed assets which are leased and where the leasing agreement has been considered to be a financial lease. These financial leases are capitalized in the balance sheet.

The tax assessment value of the Swedish real estate at December 31, 2002 amounted to 122.6 (121.8), out of which 47.2 (47.0) referred to land and land improvements and 75.4 (74.8) buildings. The book values of the Swedish real estate amounted to 57.2 (62.5), out of which land and land improvements were 9.1 (9.9) and buildings were 48.1 (52.6).

Note 18. Financial long-term assets

Book value, MSEK	Consolidated 2002	Consolidated 2001	Parent company 2002	Parent company 2001
Shares in subsidiaries	-	-	4 460.9	3 641.9
Shares in other companies	53.1	62.4	-	-
Total	**53.1**	**62.4**	**4 460.9**	**3 641.9**

Specification of shares in subsidiaries

Company name	Reg.no	Domicile	No. of shares	Share of capital, %	Book value, MSEK
Alfa Laval AB	556587-8054	Lund			
Alfa Laval Special Finance AB	556587-8062	Lund		100	4 460.9
Alfa Laval Credit Finance AB	556025-2792	Lund		100	0.0
Alfa Laval Holding AB	556019-2949	Lund		100	0.0
Alfa Laval Holding AB	556019-2949	Lund	12 500 000	100	0.0
Alfa Laval NV		Maarssen	227 754	100	0.0
Alfa Laval Inc		Newmarket	1 000 000	68	0.0
Alfa Laval S.A. DE C.V.		Tlalnepantla	45 057 057	100	0.0
Alfa Laval S.A.		San Isidro	699	100	0.0
Alfa Laval Bolivia S.R.L.		Santa Cruz	69	100	0.0
Alfa Laval S/A		Sao Paulo		100	0.0
Roston do Brasil Ltda		Sao Paulo	5 249	100	0.0
Alfa Laval S.A.C.I.		Santiago	2 735	100	0.0
Alfa Laval S.A.		Bogota	12 195	100	0.0
Alfa Laval S.A.		Lima	4 346 832	100	0.0
Alfa Laval Venezolana S.A.		Caracas	10 000	100	0.0
Alfa Laval Oilfield C.A.		Caracas	203	81	0.0
Alfa Laval Phe Co Ltd		Jiang Yin		100	0.0
Alfa Laval Flow Equipment (Kunshan) Co Ltd		Jiangsu		100	0.0
Alfa Laval (Shanghai) Technologies Co Ltd		Shanghai		100	0.0
Alfa Laval Taiwan Ltd		Taipei	1 499 994	100	0.0
Alfa Laval (Hong Kong) Ltd		Hong Kong	79 999	100	0.0
Alfa Laval (China) Ltd		Hong Kong	9 999	100	0.0
PT Alfa Laval Separatama		Jakarta	1 000	80	0.0
Alfa Laval Iran P.J.S. Co		Teheran	2 199	100	0.0
Alfa Laval KK		Tokyo	1 200 000	100	0.0
Alfa Laval Industry (PVT) Ltd		Lahore	119 110	100	0.0
Alfa Laval Philippines Inc		Makati	72 000	100	0.0
Alfa Laval Singapore Pte Ltd		Singapore	5 000 000	100	0.0
Alfa Laval (Thailand) Ltd		Bangkok	792 000	100	0.0
Alfa Laval Middle East Ltd		Nicosia	40 000	100	0.0
Alfa Laval NV SA		Brussels	33 811	100	0.0
Alfa Laval Slovakia S.R.O.		Bratislava		1	0.0
Cetetherm SR spol S.R.O.		Liptovsky Mikulas		15	0.0
Alfa Laval Spol S.R.O.		Hradec Kralove		20	0.0
Cetetherm S.R.O.		Prague		5	0.0
Alfa Laval Denmark Holding A/S		Kolding		100	0.0
Alfa Laval LKM A/S		Kolding	100 000	100	0.0
Alfa Laval Nordic A/S		Rödovre	1	100	0.0
Alfa Laval Copenhagen A/S		Söborg	1	100	0.0
Alfa Laval Nakskov A/S		Nakskov	1	100	0.0
Alfa Laval Ltd		Sofia	100	100	0.0
Alfa Laval Nordic OY		Espoo	20 000	100	0.0
Cetetherm OY		Tuusula	5 000	100	0.0
Alfa Laval Nederland B.V.		Maarssen	10 000	100	0.0
Alfa Laval B.V.		Maarssen	1 475	100	0.0
Alfa Laval Merco B.V.		Hoofddorp	1 475	100	0.0
Alfa Laval Holding A/S		Oslo	520 000	100	0.0
Alfa Laval Nordic A/S		Oslo	10 000	100	0.0
CTC Ronneby AB	556092-3194	Ronneby	138 000	100	0.0
Alfa Laval ExCell AB	556306-2404	Skogstorp	2 500	100	0.0
Alfa Laval Nordic AB	556243-2061	Tumba	1 000	100	0.0
Cetetherm AB	556058-3162	Ronneby	20 000	100	0.0
Alfa Laval Corporate AB	556007-7785	Lund	13 920 000	100	0.0
Alfa Laval Real Estate AB	556008-3650	Lund	680 000	100	0.0
Alfa Laval (India) Ltd		Poona	9 261 889	64.1	0.0
Skansen Engineering & Consultancy Co Ltd		Poona	50 000	64.1	0.0
Alfa Laval Korea Ltd		Seoul	3 640 000	100	0.0
Alfa Laval (Malaysia) Sdn Bhd		Shah Alam	10 000	100	0.0
Mosgormash Alfa Laval Moloko		Moscow		55	0.0
Alfa Laval Oilfield C.A.		Caracas	47	19	0.0
Alfa Laval Treasury International AB	556432-2484	Lund	50 000	100	0.0
Alfa Laval Europe AB	556128-7847	Tumba	500	100	0.0
Alfa Laval Lund AB	556016-8642	Lund	100	100	0.0
Alfa Laval International Engineering AB	556039-8934	Tumba	4 500	100	0.0

Note 18. Financial long-term assets (continued)

Specification of shares in subsidiaries

Company name	Reg.no	Domicile	No. of shares	Share of capital, %	Book value, MSEK
Alfa Laval Tumba AB	556021-3893	Lund	1 000	100	0.0
Bitec Enterprise AG		Volketswil	86 935	88.8	0.0
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	27 001 755	99	0.0
OÜ Cetetherm		Tallinn	100	100	0.0
Alfa Laval SIA		Tallinn	125	100	0.0
SIA Cetetherm		Riga	200	100	0.0
Alfa Laval UAB Ltd		Vilnius	2 009	100	0.0
UAB Cetetherm		Vilnius	100	100	0.0
Alfa Laval Australia Pty Ltd		Homebush	2 088 076	100	0.0
Alfa Laval Pty Ltd		Homebush	3 500 000	100	0.0
Alfa Laval Hamilton Pty Ltd		Homebush	10 000	100	0.0
Heat Transfer Pty Ltd		Homebush	15 000	100	0.0
Alfa Laval Flow Pty Ltd		Mentone	3 500 000	100	0.0
Alfa Laval New Zealand Ltd		Hamilton	1 000	100	0.0
Alfa Laval Holding BV		Maarssen	70 000 000	100	0.0
Alfa Laval (Pty) Ltd		Isando	2 000	100	0.0
Alfa Laval Slovakia S.R.O.		Bratislava		99	0.0
Cetetherm SR spol S.R.O.		Liptovsky Mikulas		85	0.0
Alfa Laval Spol S.R.O.		Hradec Kralove		80	0.0
Cetetherm S.R.O.		Prague		95	0.0
Alfa Laval France SAS		Les Clayes	920 000	100	0.0
Alfa Laval SAS		Les Clayes	560 000	100	0.0
Alfa Laval Moatti SNC		Les Clayes	24 000	100	0.0
Alfa Laval Spiral SNC		Nevers	79 999	100	0.0
MCD SAS		Guny	71 300	100	0.0
Alfa Laval Vicarb SAS		Grenoble	200 000	100	0.0
Canada Inc		Newmarket	480 000	100	0.0
Alfa Laval Inc		Newmarket	481 600	32	0.0
SCI du Companil		Grenoble	32 165	100	0.0
Cetetherm SA		Lyon	150 000	100	0.0
Cetetherm Wärmetauschersysteme GmbH		Glinde		6	0.0
Alfa Laval Holding GmbH		Glinde		100	0.0
Alfa Laval GmbH		Wiener Neudorf		100	0.0
Alfa Laval GmbH		Glinde	1	100	0.0
Cetetherm Wärmetauschersysteme GmbH		Glinde	3	94	0.0
Cetetherm Wärmetauschersysteme Glinde GmbH		Glinde	1	100	0.0
Alfa Laval AG		Dietlikon	647	100	0.0
Alfa Laval AEBE		Holargos	10 000	100	0.0
Alfa Laval Kft		Budapest	1	100	0.0
Cetetherm - Vicarb Hungary Kft		Budapest		100	0.0
Alfa Laval SpA		Monza	1 930 500	100	0.0
Alfa Laval Polska Sp.z.o.o.		Warsaw	6 862	100	0.0
Cetetherm Polska Sp.z.o.o.		Warzaw		100	0.0
Wytwornia Separator Krakow Sp.z.o.o.		Krakow		100	0.0
Alfa Laval (Portugal) Ltd		Linda-A-Velha		1	0.0
Alfa Laval SRL		Bucharest	61 435	100	0.0
Alfa Laval Iberia SA		Madrid		100	0.0
Alfa Laval (Portugal) Ltd		Linda-A-Velha	1	99	0.0
Alfa Laval Dis Ticaret Ltd Sti		Istanbul	1	99	0.0
Alfa Laval Holdings Ltd		Camberley	28 107 000	100	0.0
Alfa Laval 2000		Camberley	28 106	100	0.0
Alfa Laval Ltd		Camberley	12 710 000	100	0.0
Alfa Laval Finance Co Ltd		Camberley	856 000	100	0.0
Alfa Laval Oilfield Ltd		Aberdeen	500 000	100	0.0
Alfa Laval Flow Ltd		Sutton Coldfield	100	100	0.0
Alfa Laval Pumps Ltd		Eastbourne	100	100	0.0
Alfa Laval Thermal Ltd		Camberley	1 000	100	0.0
Alfa Laval Separation Ltd		Camberley	375 000	100	0.0
Rolls Laval Heat Exchangers Ltd		Wolverhampton	5 000	50	0.0
Alfa Laval USA inc		Kenosha		100	0.0
Alfa Laval US Holding Inc		Kenosha	180	100	0.0
Alfa Laval Inc		Kenosha	44 000	100	0.0
Tri-Lad Inc		Brantford	4 000	100	0.0
Alfa Laval US Treasury Inc		Kenosha	1 000	100	0.0
AO Alfa Laval Potok		Koroljov	31 057 529	100	0.0
OÜ Alfa Laval		Tallinn	1	100	0.0
Total					**4 460.9**

Note 18. Financial long-term assets (continued)

Specification of shares in other companies

Company name	Domicile	No. of shares	Share of capital, %	Book value, KSEK
Alfa Laval (India) Ltd				
National Saving Certificate	India	201		91.9
Mutual funds Investment	India	22 861 122		46 750.3
Unit Trust of India	India	300 000		332.8
Alfa Laval KK				
Namura Zosen	Japan	5 000		51.6
Cyugairo	Japan	5 250		36.9
Orugano	Japan	769		7.4
Sasebo Heavy Ind.	Japan	10 000		51.6
Asahi Denka	Japan	8 618		390.4
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Phillipines	820		13.6
Alfa Laval Copenhagen A/S				
Green City Denmark A/S	Denmark	1		20.0
Alfa Laval France SAS				
SEMACLA	France	10		9.2
Alfa Laval Vicarb SAS				
SAEM SMD	France	17	0.85	27.5
Cetetherm SA				
Credit Mutuel	France	2		9.2
Thermothec	France	9 130		1 273.1
Point Piscine	France	210		27.5
Alfa Laval NV				
DeSmet Engineering & Contractors S.A.	Netherlands	9 999	10	3 077.4
Dalian Haven Automation Co Ltd	Hong Kong	102	42.5	815.1
Cetetherm AB				
Stiftelsen VTC Syd	Sweden	-		10.0
VVS-Fabrikanternas Råd	Sweden	-		1.5
AO Alfa Laval Potok				
Unicombank	Russia	800	1.6	17.6
MAX	Russia	100	0.25	8.8
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) N.V.	Curacao	36 129		
Multiprogress	Hungaria	100	3.18	
Kurose Chemical Equipment Ltd	Japan	180 000	11.25	
Poljopriveda	Jugoslavia			
Tecnica Argo-Industrial S.A.	Mexico	490	49.00	
Adela Investment Co S.A. (preferens)	Luxembourg	1 911	0.30	
Adela Investment Co S.A.	Luxembourg	1 911	0.30	
Mas Dairies Ltd	Pakistan	125 000	5.00	
Total				**53 023.4**

Note 19. Inventories

Consolidated, MSEK	2002	2001
Raw materials and consumables	694.4	776.7
Work in progress	655.2	596.2
Finished goods & goods for resale, new sales	570.2	770.4
Finished goods & goods for resale, spare parts	330.7	439.8
Advance payments to suppliers	28.4	40.8
Total	**2 278.9**	**2 623.9**

The provision for obsolescence amounts to and has changed as follows:

Obsolescence / Consolidated							
Year	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2001	673.2	40.8	161.1	-223.8	-80.7	-0.1	570.4
2002	570.4	-56.8	112.0	-103.7	-22.9	0.0	499.0

The Group's inventories have been accounted for after deduction for intercompany gains in inventory due to internal sales within the Group. The intercompany profit reserve at the end of 2002 amounts to MSEK 136.7 (170.3).

Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of MSEK 127.7 (173.9) 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							
Year	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2001	350.4	12.0	112.7	-139.3	-34.1	0.0	301.6
2002	301.6	-17.3	71.8	-73.5	-39.6	-0.7	242.3

Note 21. Other short-term receivables

Consolidated, MSEK	2002	2001
Notes receivable	283.2	314.6
Tax receivable	334.9	417.4
Financial leasing receivables	0.0	3.1
Other receivables	355.8	418.4
Total	**973.9**	**1 153.5**

Of which, receivables not due within one year:		
Notes receivable	7.1	4.2
Other receivables	13.6	29.5
Total	**20.7**	**33.7**

Note 22. Other current deposits

Consolidated, MSEK	2002	2001
Loan receivables	253.4	195.3
Bonds and other securities	88.6	84.2
Other deposits	72.3	13.8
	414.3	**293.3**

Of which, deposits not due within one year:		
Loans receivable	8.4	19.9
Other deposits	5.3	5.2

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 MSEK 55.2 (66.0). The company is not a wholly owned subsidiary of the Alfa Laval Group, but is only owned to 64.1 percent.

Note 24. Impact on cash flow due to acquisition and sale of business

Additional purchase price

In connection with the IPO an additional purchase price of MEUR 40.0, corresponding to MSEK 367.5, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Credit Finance AB Group. This has entirely been reported as goodwill in the Group and is amortized over 20 years.

Acquisitions

On September 4, 2002, Alfa Laval acquired the company Danish Separation Systems A/S, specialists within membrane filtration in the biotechnology, pharmaceutical and food industries. The difference between the purchase price paid and the net assets acquired was MSEK 102.4. This has entirely been allocated to goodwill. This goodwill is amortized over 20 years. The company has annual sales of about MSEK 90 and 65 employees within R&D, manufacturing and sales.

A public offering for an additional 25 percent of the share capital in Alfa Laval (India) Ltd was made on July 14, 2001. The offering to the minority shareholders was a requirement according to law as a consequence of the change of majority owner of Alfa Laval. The offering expired on August 14 and resulted in Alfa Laval acquiring an additional 2.4 million shares corresponding to 13.1 percent of the total number of shares. After the acquisition, Alfa Laval's shareholding is 64.1 percent. This has resulted in a cash payment of MSEK 87.3. The difference between the purchase price paid and the net assets acquired was MSEK 39.2. This has in whole been allocated to goodwill.

On August 24, 2000, the Alfa Laval Holding AB Group was acquired, see description in Note 15.

On September 4, 2000, the separator division of the Polish company Wytwornia Sprzetu Komunikacyjnego "Krakow" SA was acquired for MSEK 10.4. Otherwise no other acquisitions have been made during the year.

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.

MSEK	2002	2001	2000 excluding the acquisition of Alfa Laval Holding AB	2000 the acquisition of Alfa Laval Holding AB	2000 Total
Property, plant and equipment	22.6	10.1	0.0	2 844.5	
Inventory	21.6	21.0	4.5	3 338.9	
Accounts receivable	11.9	19.5	2.5	3 200.8	
Other receivables	30.2	3.8	2.9	1 382.3	
Liquid assets	7.4	28.8	1.6	764.0	
Long-term liabilities	-8.5	-2.6	0.0	-457.0	
Accounts payable	-6.2	-10.7	-1.1	-1 352.5	
Other liabilities	-38.3	-22.3	0.0	-7 560.3	
Goodwill	102.4	39.7	0.0	3 276.6	
Other surplus values				4 023.1	
Deferred tax				-1 246.6	
Purchase price	-143.1	-87.3	-10.4	-8 213.8	
Liquid assets in the acquired business	7.4	28.8	1.6	N/A	
Effect on the Group's liquid assets	**-135.7**	**-58.5**	**-8.8**	**-8 213.8**	**-8 222.6**

The reason why liquid assets are not deducted in the calculation of the cash flow impact of the acquisition of the Alfa Laval Holding AB Group is that these liquid assets were already part of the opening cash and bank in the cash flow statement of MSEK 677.0 and that the change from MSEK 677.0 to MSEK 764.0 at the time of the acquisition is explained as a part of the rest of the cash flow analysis.

Purchase price reimbursement

During the year the Alfa Laval Group has received MSEK 81.6 (76.3) from Tetra Laval BV as a reduction of the purchase price for the acquisition of the Alfa Laval Holding AB Group. The reduction is related to the guarantees issued by the seller in relation to taxes. The amount has not had an impact on the goodwill for the acquisition but has instead been reported against the increased tax cost that the Group has experienced after the acquisition. The amount received during 2002 constitutes a final settlement with Tetra Laval concerning these guarantees.

Divestments

RemaControl, operating within sawmill automation, was divested to the management of the operation per January 1, 2001.

Industrial Flow was divested on April 2, 2001 to Crane Co in the US. The sales price amounted to MSEK 330.6 and was paid on the same date. The divestment included three existing subsidiaries in the UK, Germany and India and two, for this purpose, newly created subsidiaries in Italy and Belgium. In addition, fixed assets and personnel have been transferred from a few Alfa Laval companies in other countries. A few activities have remained before the divestment could be considered to be completed. During September 2002 a final settlement has been made with the buyer, resulting in an increase of the realized gain by MSEK 14.0. This result item has however no cash flow impact during 2002.

The Tetra Pak division of the Indian subsidiary was divested in May 2000 for MSEK 38.6.

On January 1, 2000 the subsidiary Ållekulla AB was sold for MSEK 4.8.

One of the Spanish subsidiaries, Aircoil SL, which manufactures heat exchangers for cooling equipment, was sold on December 1, 2000 for MSEK 0.0.

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.

MSEK	2002	2001	2000
Property, plant and equipment	-	101.4	35.3
Inventory	-	219.8	14.0
Accounts receivable	-	134.9	16.8
Other receivables	-	35.9	3.6
Liquid assets	-	49.1	4.4
Long-term liabilities	-	-28.1	-14.2
Accounts payable	-	-32.8	-33.2
Other liabilities	-	-144.5	-13.8
Realized result	-	-5.0	30.5
Purchase price	-	330.7	43.4
Liquid assets in the sold business	-	-49.1	-4.4
Effect on the Group's liquid assets	**-**	**281.6**	**39.0**

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.

MSEK	2002	2001	*pro forma* 2000
(-) liability/(+) asset			
Present value of the defined benefit obligation, unfunded	-833.2	-721.2	-652.8
Present value of the defined benefit obligation, funded	-2 196.1	-2 462.3	-2 089.8
Present value of the defined benefit obligation at year end	-3 029.3	-3 183.5	-2 742.7
Unrecognized actuarial gains	567.6	204.3	12.9
Unrecognized past service cost	0.9	47.9	74.6
Fair value of plan assets	1 853.1	2 338.2	2 168.7
Defined benefit liability	-607.7	-593.1	-486.5
Less amount disallowed	-6.1	-6.4	-7.3
Net defined benefit liability	**-613.8**	**-599.5**	**-493.7**
(-) cost/(+) income			
Current service cost	-49.0	-59.6	-46.0
Interest cost	-171.0	-178.3	-154.9
Expected return on plan assets	90.3	146.4	141.1
Recognized actuarial losses	-82.4	-109.3	2.7
Recognized past service cost	-8.2	-	-6.9
Effect of any curtailments or settlements	67.7	42.1	0.1
Net plan cost	**-152.7**	**-158.7**	**-64.0**
(-) liability/(+) asset			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1. 2002	-3 183.5	-2 742.7	-2 725.4
Translation difference	226.4	-290.6	-
Current service cost	-49.1	-59.6	-46.0
Interest cost	-171.0	-178.3	-154.9
Employee contributions	-5.9	-9.0	-9.0
Recognized actuarial losses	-82.4	-109.3	74.2
Recognized past service cost	-8.2	-	-6.9
Effect of any curtailments or settlements	67.7	42.1	0.1
Benefit payments	176.7	163.9	125.2
Present value of defined benefit liability at December 31, 2002	**-3 029.3**	**-3 183.5**	**-2 742.7**
(-) liability/(+) asset			
Change in plan assets:			
Fair value of plan assets at January 1, 2002	2 338.2	2 168.7	2 045.8
Translation difference	-222.5	259.8	-
Employer contributions	71.4	44.7	39.1
Employee contributions	5.9	9.0	9.0
Actual return on plan assets	-163.1	19.9	200.0
Benefit payments	-176.7	-163.9	-125.2
Fair value at December 31, 2002	**1 853.1**	**2 338.2**	**2 168.7**
(-) liability/(+) asset			
Change in defined benefit liability/asset:			
Defined benefit liability/asset at January 1, 2002	-599.4	-493.7	-449.7
Translation difference	71.9	-37.3	-
Net plan cost	-152.7	-158.7	-64.0
Employer contributions	71.4	44.7	39.1
Change in unrecognized actuarial gains/losses	-7.3	46.2	15.3
Change in unrecognized past service cost	0.6	0.6	-9.2
Change in disallowed asset amount	1.7	-1.2	-25.3
Defined benefit liability/asset at December 31, 2002	**-613.8**	**-599.4**	**-493.7**

Note 25. Defined benefit obligations (continued)

MSEK	2002	2001	*pro forma* 2000
(-) liability/(+) asset			
Assets			
Fair value of plan assets	1 853.1	2 338.2	2 168.7
Less amount disallowed	-6.1	-6.4	-7.3
	1 847.0	2 331.8	2 161.4
Netting	-1 740.2	-2 156.4	-1 996.9
Assets in balance sheet	106.8	175.4	164.6
Liabilities			
Present value of the defined benefit obligation at year end	-3 029.3	-3 183.5	-2 742.7
Unrecognized actuarial gains (less losses)	567.6	204.3	12.9
Unrecognized past service costs	0.9	47.9	74.6
	-2 460.8	-2 931.3	-2 655.2
Netting	1 740.2	2 156.4	1 996.9
Provision in balance sheet	**-720.6**	**-774.9**	**-658.3**

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

	2002	2001	*pro forma* 2000
Discount rate	7	7	8
Expected return on investment	8	8	8
Expected wage increase	4	4	4
Change in health care costs	9	9	12
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 2002:

	2002		2001	
Effect on, MSEK	1% increase	1% decrease	1% increase	1% decrease
Current service costs and interest costs	-1.4	1.2	-1.0	1.2
Present value of the defined benefit obligation at year end	-14.9	12.4	-8.5	10.2

Note 26. Other provisions

Consolidated, MSEK	January 1	Translation difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2001							
Claims & warranty	343.0	17.3	208.6	-128.3	-54.3	-2.0	384.3
Deferred costs	124.4	4.5	52.4	-15.0	-24.8	0.0	141.5
Restructuring	519.4	8.6	138.6	-354.2	-18.6	0.0	293.8
Onerous contracts	26.3	0.9	20.2	-23.5	0.0	0.0	23.9
Environmental	22.1	2.3	0.0	-15.9	0.0	-1.1	7.3
Litigations	62.3	1.1	53.4	-0.3	-2.6	-4.0	109.8
Other	81.6	8.7	113.0	-83.0	-17.0	-0.6	102.7
	1 179.1	**43.4**	**586.1**	**-620.2**	**-117.3**	**-7.7**	**1 063.2**
2002							
Claims & warranty	384.3	-24.4	239.9	-144.5	-35.9	-5.7	413.7
Deferred costs	141.5	-2.0	28.3	-41.4	-22.4	0.0	104.0
Restructuring	293.8	-13.7	56.6	-117.3	-12.3	0.0	207.1
Onerous contracts	23.9	-0.4	0.0	-11.2	-2.8	0.0	9.5
Environmental	7.3	-1.2	0.0	-2.9	0.0	0.0	3.2
Litigations	109.8	-0.4	36.5	-27.9	-2.0	0.0	116.0
Other	102.7	-6.2	84.3	-34.9	-10.0	0.0	135.9
	1 063.2	**-48.3**	**445.6**	**-380.1**	**-85.4**	**-5.7**	**989.3**

Unused amounts reversed refer to, among other items, sold companies, changed classifications and reversals of provisions made on an estimated basis.

In connection with the acquisition on August 24, 2000, a restructuring provision of MSEK 407.9 was established. This pertains to such restructuring measures that are triggered by the change of ownership and that Alfa Laval management has committed to implement. The costs are mainly referring to redundancies in connection with the closure of manufacturing sites, rationalization of the logistics function and introduction of a customer segment based organisation with changed order processes. As of the end of 2002, MSEK 50.9 (107.8) remains of this acquisition provision. The remaining amount relates to projects or parts of projects that have not yet been fully implemented.

Due to the financial unrest in Argentina, a provision was made in 2001 under "Other" for estimated losses. Since Alfa Laval has a limited operation in Argentina, the provision could be limited to MSEK 23.7. At the end of 2002, the remaining provision is MSEK 7.0.

Not 27. Loans

Consolidated, MSEK	2002	2001
Subordinated loan from Tetra Laval Finance Ltd	-	2 085.6
Credit institutions	3 360.2	4 573.1
Bond loan	1 127.6	2 045.3
Capitalized financial leases	24.7	26.9
Interest-bearing pension liabilities	6.1	6.4
Total debt	**4 518.7**	**8 737.2**
Cash and bank and current deposits	1 020.2	959.7
Net debt	3 498.5	7 777.5

As a consequence of the IPO of Alfa Laval, the structure of the financial debt has been changed considerably. The costs for the change of the structure are of a non-recurring nature.

In connection with the repayment of the loan from Tetra Laval Finance Ltd, the replacement of the previous syndicated loans and the amortisation of the bond loan, capitalized financing costs of totally MSEK 219.6 have been reversed. This cost is reported as a comparison distortion financial cost.

Total bank borrowings amounted to MSEK 3,360.2 (4,573.1) at the end of the year. The total financial indebtedness including leasing and interest bearing pension liabilities amounted to MSEK 4,518.7 (8,737.2).

Net financial debt amounted to MSEK 3,498.5 (7,777.5) at the end of the year.

Subordinated loan from Tetra Laval Finance Ltd

On May 23 the loan from Tetra Laval Finance Ltd was repaid.

Tetra Laval BV granted a subordinated loan on August 24, 2000 of MSEK - (1,859.4) (MEUR 200.0). The loan was later transferred to Tetra Laval Finance Ltd. It accrued interest at 12 percent annually and fell due 2010 or at an earlier date when Alfa Laval AB experienced a fundamental change in its ownership. The latter happened on May 17, 2002 in connection with the IPO. The interest fell due at the same time as the loan and has meanwhile been capitalized every year on August 24 together with the principal amount. On May 23, 2002 the capitalized interest was MSEK 226.2 and the accrued interest was MSEK 186.9. Transaction costs of totally MSEK - (16.7) have been capitalized and amortized over the maturity of the loan. The current year's cost for the fee amortisation is MSEK -0.4 (-1.6) (-0.6). An additional cost of MSEK -14.1 is reported as comparison distorting as a part of the MSEK -219.6.

Loan from credit institutions

On May 28 the loans from the previous banking syndicate led by SEB were replaced by loans from a new banking syndicate, arranged by SEB and SHB, at terms that better reflect the financial position of Alfa Laval after the new issue of shares. During the period January 1 and May 28, the old loans were amortized by MSEK 323.4. After May 28 the new loans have been amortized by MSEK 551.3.

The loan facility that has been agreed with the new banking syndicate consists of an amortisation free part of originally MEUR 423.9, that now voluntarily has been amortized down to MEUR 334.6 and a revolving working capital part of MEUR 150, which was unutilized as of December 31 2002. As of the end of December 2001, MSEK 508.6 was utilized of the loan facility for operating capital of MSEK 1,246.0 (MEUR 134) that was in the loan agreement with the old banking syndicate.

The syndicated loans amounted to MSEK 3,064.7 (4,064.7). The maturity of the new loan is five years and the interest is based on applicable IBOR plus a mark up based on the relation between net debt and EBITDA. The mark up is 95 points if the quota is larger than 2.75 and 80 points if the quota is less than or equal to 2.75, but higher than 1.75 and 65 points if the quota is less than or equal to 1.75. The mark up is currently 80 interest points. At the end of 2002 the loans are accruing interest in the range of 0.86 percent - 4.82 percent. The average interest rate at the end of 2002 was 5.58 percent. The maturity of the old loan was eight years and the interest was based on EURIBOR or LIBOR plus a mark up of 150 interest points. As of the end of 2001, the loan was accruing interest in the range of 1.59 percent - 7.92 percent. The average interest rate at year end 2001 was 6.49 percent.

When raising the syndicated loans in August 2000, Alfa Laval was obliged to hedge at least 66 percent of the loans to a fixed interest rate. Vis-à-vis the new syndicate these is no such obligation. As per the end of December 2002, 64 percent is, however, hedged.

Transaction costs totalling MSEK 35.1 (194.4) have been capitalized and are being amortized over the maturity of the loan. The current year's cost for the fee amortisation is -16.8 (-29.2) (-10.0). An additional cost of MSEK -182.2 is reported as comparison distorting as a part of the MSEK -219.6.

The 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 May 2002.

Bond loan

On June 24, 35 percent of the bond loan of MEUR 220 was amortized, which corresponded to MEUR 77.0 or MSEK 703.6. This was made at a premium of 12.125 percent corresponding to one year's interest, which amounted to MSEK 85.2. This cost has been reported as a comparison distortion financial cost.

At the beginning of October 2002 Alfa Laval has re-purchased bonds at the prevailing market rate for a face value of MSEK 31.4. Additional re-purchases have been made at the beginning of November for a face value of MSEK 150.1. The difference between the higher market value and the face value was MSEK 23.3, which has been reported as an interest expense. The bond loan accrues interest at 12.125 percent, which is considerably more than the Group's current cost for other external financing.

On August 24, 2000, Alfa Laval Special Finance AB borrowed MEUR 220 from Donaldsson, Lufkin & Jenrette and UBS Warburg. On November 9, 2000, this loan was replaced by a bond loan placed with institutional investors of MEUR 220. It was registered with the Stock Exchange in Luxembourg in December 2000. In July 2001, the loan was registered with the SEC (Securities and Exchange Commission) in the US. The loan accrues interest at 12.125 percent and falls due 2010. Transaction costs totalling MSEK 35.1 (70.7) have been capitalized and are being amortized over the maturity of the loan. The current year's cost for the fee amortisation is MSEK -12.3 (-8.0) (-1.0). An additional cost of MSEK -23.3 is reported as comparison distorting as a part of the MSEK -219.6.

The loans are distributed among currencies as follows:

Consolidated	Short-term		Long-term	
Currency	2002	2001	2002	2001
BRL	-	6.2	-	-
CAD	12.4	0.3	-	-
CHF	-	-	-	6.3
DKK	69.3	18.4	398.7	701.8
EUR	78.7	119.1	1 472.0	4 240.2
GBP	14.3	29.2	164.9	266.7
GRD	-	8.3	-	-
JPY	14.8	2.8	173.1	116.9
NOK	-	-	-	62.3
PLN	30.5	46.6	-	-
SEK	6.0	51.5	175.1	679.8
USD	27.8	99.6	1 838.0	2 233.8
Other	0.6	0.5	11.6	13.6
Total	**254.4**	**382.5**	**4 233.4**	**8 321.4**
Of which, not due within five years:			1 127.7	7 285.3

Parent company	Short-term		Long-term	
Currency	2002	2001	2002	2001
EUR	-	-	0.0	2 085.6
Total	**-**	**-**	**0.0**	**2 085.6**

Note 28. Other liabilities

	Consolidated		Parent company	
MSEK	2002	2001	2002	2001
Financial lessee payable	24.7	26.9	0.0	0.0
Other non-interest bearing liabilities	607.8	644.2	0.0	3.6
Total	**632.6**	**671.0**	**0.0**	**3.6**

Note 29. Accrued costs and prepaid income

Consolidated, MSEK	2002	2001
Accruals for social security	130.4	147.1
Reserve for severance pay	208.9	229.5
Accrued interest expenses	22.2	130.3
Other accrued expenses and prepaid income	422.9	528.9
Total	**784.3**	**1 035.8**
Of which, accrued costs and prepaid income not due within one year		
Accruals for social security	18.0	15.1
Reserve for severance pay	119.1	113.5
Other accrued expenses and prepaid income	6.1	8.6
Total	**143.2**	**137.1**

Note 30. Pledged assets and contingent liabilities

Consolidated, MSEK	2002	2001
Pledged assets		
Real estate mortgages	-	114.3
Chattel mortgages, etc.	-	1 023.2
Net assets in subsidiaries	-	2 934.0
Other pledges and similar commitments	78.3	102.4
Total	**78.3**	**4 173.9**
Contingent Liabilities		
Discounted bills	164.5	194.7
Performance guarantees	798.0	1 162.0
Other contingent liabilities	735.5	844.7
Total	**1 698.0**	**2 201.4**

Alfa Laval Credit Finance AB and a number of local holding companies have borrowed MSEK - (4,064.7) from a bank syndicate under the lead of SEB. As security for this loan, the Alfa Laval Special Finance Group has made pledges in the form of chattel mortgages of MSEK - (1,023.2) and real estate mortgages of MSEK - (107.5). Furthermore, shares and assets of - (2,934.0) have been pledged in a number of countries. In addition, the Group has to follow customary restrictions on investments, divestments and structural changes. In the new syndicate loan there are no such pledges or restrictions.

During the autumn 2000 and the spring 2001, the Group has been partially restructured in order to better match the pledges that the banks have required as a condition for the financing.

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 5.7 (4.9) (4.8) 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 was prolonged by two years from December 31, 2001. 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.

Ever since Tetra Laval acquired Alfa Laval in 1991, the Group has purchased services from the Tetra Laval Group Transport & Travel to optimize forwarding, freight and delivery terms and purchase forwarding, freight and person transportation. Alfa Laval has continued to purchase these services even after August 24, 2000 for MSEK 2.2 (1.6) (1.6). In addition, Alfa Laval purchases facilities management services relating to the real estate in Lund in Sweden from Tetra Pak Business Support AB for MSEK 3.3 (3.0) (3.5). Alfa Laval rents premises to Tetra Pak and DeLaval in Russia and, as of this year, in Germany for MSEK 13.8 (4.8) (1.6).

The Board of Directors for Alfa Laval AB has two representatives from Tetra Laval – Jörn Rausing and Finn Rausing.

At year-end, Alfa Laval AB has the following balance items against companies within the Tetra Laval group (Tetra Pak and DeLaval).

MSEK	2002	2001
Assets:		
Accounts receivable	48.8	56.1
Other receivables	79.1	96.5
Liabilities:		
Subordinated loan from Tetra Laval Finance Ltd	-	2 085.6
Accounts payable	3.8	9.8
Accrued interest costs	-	89.7
Other liabilities	0.4	-

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

MSEK	2002	2001	*pro forma* 2000
Income statement:			
Net sales	830.0	777.9	727.0
Other operating income	13.8	4.8	1.6
Other operating costs	-5.5	-4.6	-5.1
Interest costs	-97.1	-242.9	-267.4
Comparison distortion items			
Sale of the Tetra Pak division in the Indian subsidiary	-	-	30.8
Additional purchase price, increasing goodwill	367.5	-	-
Purchase price reimbursement leading to reduced tax costs/increased tax liabilities	81.6	76.3	-

Note 32. Work in progress

Consolidated, MSEK	2002	2001	*pro forma* 2000
Gross amount of project sales revenue recognized in the period	357.4	635.8	459.2
Aggregated amount of costs incurred and recognized profits (including deduction for reported losses)	390.5	692.0	512.7
Advances received	179.4	145.2	62.1
Retentions	11.4	10.4	3.8
Gross amount due from customers for plant projects	80.8	77.7	57.4
Gross amount due to customers for plant projects	0.7	0.0	20.9

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 were MSEK 232.9 (258.8) (238.0). During the year, the Group has entered into finance leases with a capitalized value of MSEK 1.1 (5.7). See Note 17 for information on the capitalized value of finance leases.

The future minimum leasing fees concerning non-cancellable operating leases, distributed on maturity dates, amount to:

Consolidated/Operating leases Year MSEK	2002	2001	*pro forma* 2000
2001	N/A	N/A	55.0
2002	N/A	82.5	44.0
2003	96.0	62.1	34.0
2004	75.5	41.5	24.0
2005	58.4	29.7	22.0
2006	31.1	16.7	
2007	18.7		
Later	48.5	46.7	67.0
Total	**328.2**	**279.2**	**246.0**

Note 33. Leasing (continued)

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

MSEK	Financial leases			Present value of financial leases		
			pro forma			*pro forma*
Year	2002	2001	2000	2002	2001	2000
2001	N/A	N/A	17.0	N/A	N/A	15.0
2002	N/A	17.4	17.0	N/A	16.5	16.0
2003	11.3	6.2	8.0	10.6	5.2	7.0
2004	6.0	2.9	4.0	5.5	2.1	4.0
2005	4.0	0.3	-	3.5	0.2	-
2006	2.5	0.0	-	2.1	-	-
2007	0.9	-	-	0.8	-	-
Later	0.0	0.0	-	-	-	-
Total	**24.7**	**26.8**	**46.0**	**22.5**	**24.0**	**42.0**

Note 34. Pro forma 2000 for Successor Alfa Laval AB

The Alfa Laval AB Group was created in connection with the change of ownership on August 24, 2000. Due to this, comparison figures for 2000 are presented on a combined pro forma basis for the predecessor the Alfa Laval Holding AB Group for the period January 1, 2000 to August 23, 2000 and for the successor the Alfa Laval AB Group for the period from August 24, 2000 to December 31, 2000. In the pro forma calculation, amortisation of goodwill and other step-up values and the financing costs that appeared in connection with the acquisition on August 24 and the consequential tax adjustments, have been accounted for as if the acquisition occurred on January 1, 2000 in order to be comparable with 2001.

The pro forma figures for the income statement for the Alfa Laval Group have been calculated in the following way:

Column A is the sum of column B to E:	A	B	C	D	E
	Successor Alfa Laval *pro forma* Jan 1 – Dec 31	Adjustment of Financial costs	Adjustment of depreciation of step-up values and goodwill	Successor Alfa Laval Aug 24 – Dec 31	Predecessor Alfa Laval Holding Jan 1 – Aug 23
Amounts in MSEK	2000	2000	2000	2000	2000
Net sales	15 012.3			5 717.2	9 295.1
Cost of goods sold	-10 124.4		-210.6	-3 951.2	-5 962.6
Gross profit	4 887.9	0.0	-210.6	1 766.0	3 332.5
Sales costs	-2 583.7			-835.4	-1 748.3
Administration costs	-861.5			-218.2	-643.3
Research and development costs	-441.3			-161.9	-279.4
Comparison distortion items	129.9			-393.8	523.7
Other operating income	525.5			267.8	257.7
Other operating costs	-682.9			-355.7	-327.2
Amortisation of goodwill	-163.8		375.8	-54.6	-485.0
Operating income	810.1	0.0	165.2	14.2	630.7
Dividends	4.3			1.3	3.0
Interest income	245.1			109.4	135.7
Interest costs	-1 356.0	-475.5		-616.7	-263.8
Result after financial items	-296.5	-475.5	165.2	-491.8	505.6
Minority share in subsidiaries' income	-47.6			-11.8	-35.8
Taxes on this year's result	-7.6	166.4	73.7	-38.4	-209.3
Other taxes	-53.0			-17.7	-35.3
Net income for the year	**-404.7**	**-309.1**	**238.9**	**-559.7**	**225.2**

Not 35. Fair value of financial instruments

For certain instruments, including cash and bank, other current deposits, accounts receivable, trade accounts payable and short-term debt, the carrying values approximate fair values as the majority of these instruments have short maturity periods. Obligations under capital leases are carried at amounts approximating their fair values since the discount rate applicable to lease contracts in deriving the net present value of lease payments approximates market rates.

The fair values of the Group's long-term debt are estimated using discounted cash-flow analyses, based on the Group's current incremental borrowing rates for similar types of borrowing arrangements.

The estimated fair values of the Group's long-term debt as of December 31 are shown below:

	2002		2001	
MSEK	Carrying value	Fair value	Carrying value	Fair value
Syndicated bank loans	3 064.7	3 064.7	4 064.7	4 064.7
Bond loan	1 127.6	1 268.6	2 045.3	2 331.6
Subordinated loan from Tetra Laval Finance Ltd	-	-	2 085.6	2 377.6

Not 35. Fair value of financial instruments (continued)

The fair values of the Group's foreign currency contracts and interest-rate swaps 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 values of the Group's derivative financial instruments as of December 31, 2001, is shown below:

MSEK	2002 Nominal amount	2002 Fair value	2001 Nominal amount	2001 Fair value
Forward exchange contracts	9 033.7	151.3	6 916.2	-6.3
Currency options	-	-	79.0	-4.7
Interest-rate swaps	1 951.8	-61.1	2 910.8	-111.1

Note 36. Reconciliation to US GAAP

MSEK	Note*	Successor Alfa Laval Jan 1 – Dec 31 2002	Successor Alfa Laval Jan 1 – Dec 31 2001	Successor Alfa Laval Aug 24 – Dec 31 2000	Predecessor Alfa Laval Holding Jan 1 – Aug 23 2000
Net income/(loss) under Swedish GAAP		120.2	36.1	-559.7	225.0
US GAAP adjustments:					
Goodwill arising from exchanges between entities under common control	*a*	-	-	-	460.0
Goodwill and other intangibles arising from push-down accounting	*a*	-	-	-	-139.0
Goodwill and other intangibles with indefinite useful lives	*a*	187.7			
Leveraged buy-out accounting	*b*	2.1	15.0	-71.8	-
Pensions and other postemployment benefits	*c*	-	-	-	79.0
Derivative instruments and hedge accounting	*d*	271.2	-49.5	0.7	-10.0
Revenue recognition	*e*	-	-	-	59.0
Tooling costs	*f*	11.0	15.3	-0.7	-1.0
Capitalized software	*g*	-20.2	-6.4	-5.2	-11.0
Restructuring and other provisions	*h*	-	-0.1	-0.3	-247.0
Long-term contract accounting	*i*	-	-	-	-21.0
Other	*j*	-0.3	-0.3	-0.1	-
Deferred taxes					
Tax effect of US GAAP adjustments	*k*	-26.7	14.3	17.5	53.0
Sum of adjustments		424.8	-11.7	-59.9	222.0
Net income under US GAAP before change in accounting principles		**545.0**	**24.4**	**-619.6**	**447.0**
Presented as:					
Net income from continuing operations before change in accounting principles		545.0	24.4	-619.6	447.0
Net income under US GAAP before change in accounting principles		545.0	24.4	-619.6	447.0
Effect of change in accounting principles, net of tax	*d*	-	-61.9	-	-
Net income under US GAAP		545.0	-37.5	-619.6	447.0
Earnings per share (SEK)		6.38	-1.00	-16.52	35.76
Average number of shares		85 482 322	37 496 325	37 496 325	12 500 000

	Note*	2002	2001
Equity capital under Swedish GAAP		4 512.3	1 445.1
US GAAP adjustments:			
Goodwill and other intangibles with indefinite useful lives	*a*	187.7	-
Leveraged buy-out accounting	*b*	444.2	439.8
Derivative instruments and hedge accounting	*d*	26.3	-80.0
Tooling costs	*f*	95.7	84.7
Capitalized software	*g*	22.5	42.8
Restructuring and other provisions	*h*	-	-6.4
Other	*j*	5.1	5.4
Deferred taxes			
Tax effect of US GAAP adjustments	*k*	-26.7	-16.3
Sum of adjustments		754.8	470.0
Shareholder's equity under US GAAP		**5 267.1**	**1 915.1**

* See pages 81–85.

Change in consolidated equity capital according to US GAAP

Alfa Laval Group	Total
2000	
At the formation of the company March 27, 2000	0.1
New issue of shares	0.3
Shareholder's contribution	1 965.6
Impact from leveraged buy-out accounting	593.0
Translation difference	-255.1
Net income for 2000 according to US GAAP	-619.6
As per balance sheet on December 31, 2000	**1 684.3**
2001	
Translation difference	268.3
Net income for 2001 according to US GAAP	-37.5
As per balance sheet on December 31, 2001	**1 915.1**
2002	
New issue of shares	3 136.6
Translation difference	-329.6
Net income for 2002 according to US GAAP	545.0
As per balance sheet on December 31, 2002	**5 267.1**

Comments on the US GAAP reconciliation

a) Goodwill arising prior to the August 2000 change in control

Goodwill arising from exchanges between entities under common control

During a reorganization of Tetra Laval in late 1996 through early 1997, the ownership interests in certain legal entities within Tetra Laval were transferred to Alfa Laval Holding AB and its subsidiaries. Under Swedish GAAP, the excess of the purchase consideration over the net historical book value of the assets acquired was recorded as goodwill. For Swedish GAAP, such goodwill was being amortized over a period of five years. Under US GAAP, exchanges of assets or shares between entities under common control are reflected on a historical cost basis. Goodwill and the effects of its amortization have been reversed from net income for the period ended August 23, 2000.

Goodwill and other intangibles arising from push-down accounting

In connection with Tetra Laval's acquisition of the Alfa Laval Group in July 1991, goodwill arising from the purchase was written off by Tetra Laval against equity on acquisition under Swedish GAAP. Under US GAAP, purchase accounting requires that the net assets acquired be recorded at fair values, and the excess of the purchase consideration over the fair value of net assets acquired, representing goodwill, be capitalized and amortized. Such goodwill must be pushed down to the subsidiary that was acquired in the subsidiary's stand alone financial statements. For US GAAP purposes, the portion of goodwill associated with the businesses transferred into the Alfa Laval Group (MSEK 4,161), after adjusting for pension liabilities described in item *c)*, was recognized as an asset with effect from the 1991 acquisition and was being amortized over an estimated useful life of 20 years.

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 amortized; these assets should be tested for impairment annually. Goodwill and intangible assets with indefinite useful lives will no longer be 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 MSEK 3,217.4 (calculated in accordance with US GAAP as of December 31, 2001) has ceased to be amortized, but is instead tested for impairment. In addition, intangible assets totalling approximately MSEK 594 relating to in-place workforce calculated for US GAAP purposes, as well as approximately MSEK 208 of related deferred tax liabilities, have been reclassified as goodwill. The Group estimates that it does no longer record approximately MSEK 192 of annual amortization expense (calculated in accordance with US GAAP) relating to its goodwill, as adjusted for the reclassifications discussed above. There has not appeared any need to write down the value of the goodwill in connection with the change in accounting principle.

Business combinations

Upon the change in control in August 2000 discussed in *b)*, the goodwill associated with the reorganization, push-down accounting and business combinations occurring prior to the change in control was eliminated.

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's basis in the net assets of Alfa Laval Holding consists of 83.6 percent fair value and 16.4 percent predecessor basis calculated as shown below.

For US GAAP purposes, the individual 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 acquisi-

Alfa Laval:s basis in the net assets of Alfa Laval Holding

MSEK	
Fair value of Alfa Laval Holding on August 23, 2000	10 087
Predecessor basis of Alfa Laval Holding on August 23, 2000	5 592
63.2% interest in fair value of Alfa Laval Holding of new investors in Alfa Laval AB	6 374
36.8% interest in predecessor basis of Alfa Laval Holding of old investors in Alfa Laval AB	2 058
	8 432
Percentage	83.6

tion of Alfa Laval Holding as a purchase for cash consideration of MSEK 8,214 plus other consideration and transaction costs for an aggregate purchase price of MSEK 8,286 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 carryover 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 MSEK 1,800 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 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 inventory acquired in the transaction was all sold prior to December 31, 2000. Accordingly, the fair value adjustments applied to inventory (MSEK 340 for Swedish GAAP and MSEK 284 for US GAAP) have been expensed through operations during the period from August 24, 2000 to December 31, 2000. Such costs are reflected as non-recurring items in the local GAAP financial statements, but would be included in cost of goods sold for US GAAP purposes.

In addition, a minor portion of the purchase price was allocated to in-process research and development by determining the fair value of in-process technology using the income approach, thus MSEK 54 was expensed immediately and is included with non-recurring items in the accompanying statement of operations. These costs relate to on-going research and development being performed by the Group to improve existing products and develop new products. For US GAAP purposes, the amount allocated to in-process research and development would be reflected as research and development expenses.

The combined effect of the MSEK 1,800 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.

During 2001 the Group completed the exercize of pushing down the fair value step-up adjustments related to the transaction into the local currencies of the entities to which the step-up adjustments relate. For presentation under Swedish GAAP the recalculated balances, adjusted for the step-up values of the related assets and equity, have been recorded as a restatement of the balances previously reported at December 31, 2000.

For US GAAP purposes the adjustment related to pushing down the step-up values into local currencies would not be presented by restating the prior year financial statements. Instead, the foreign currency change would be included in 2001 as a component of other comprehensive income. The 2000 US GAAP reconciliation of income and equity include adjustments to reverse the impact of the restatement recorded for Swedish GAAP purposes. The 2001 US GAAP reconciliation of equity includes an adjustment for the foreign currency translation impact recorded in 2000 for Swedish GAAP purposes.

c) Pensions and other post-employment benefits

Pensions

The Group adopted IAS 19 as of January 1, 2000. Prior to the adoption of this guidance, pension costs under former Swedish GAAP represented the expected cost of providing pension benefits and were required to be charged to the income statement so as to spread the cost over the expected average remaining service lives of the employees. Under IAS 19 and under US GAAP, the annual pension cost comprises the estimated cost of benefits accruing in the period, adjusted to reflect the cost of benefit improvements and amortization of surpluses/deficits which emerge as a result of the actuarial assumptions made not being borne out in practice. Only surpluses/deficits falling outside ten percent of the greater of projected benefit obligations or the market values of assets are to be amortized.

Upon the transaction discussed in *b)*, the pension obligations of the Group were adjusted to fair value, which is the same under IAS 19 and under US GAAP. This adjustment was recorded as a change in accounting principle and recorded as a credit directly to equity in the Swedish GAAP financial statements. For US GAAP purposes, there was no such change in accounting principle. The statement of operations reconciliation adjustment relates to the difference between pension cost under US GAAP through the date of the transaction. Because the pension assets/obligations were marked to market upon the transaction, there is no difference in the pension assets/obligations as of the transaction date.

Other post-employment benefits

Until IAS 19 was adopted by the Group in 2000, other post-employment benefits representing the expected cost of providing post-retirement healthcare benefits were generally charged to the income statement as and when payments were made in accordance with Swedish GAAP. In 2000, the obligation for other post-employment healthcare benefits was recorded in full as change in accounting principle in accordance with IAS 19 which is virtually the same as the required accounting under US GAAP. For US GAAP purposes, there was no such change in accounting principle. Under IAS 19 and under US GAAP, the annual cost of post-retirement benefits comprises the estimated cost of benefits accruing in the period, adjusted to reflect the cost of benefit improvements and amortization of surpluses/deficits which emerge as a result of the actuarial assumptions made not being borne out in practice.

Only surpluses/deficits falling outside ten percent of the greater of projected benefit obligations or the market values of assets are to be amortized.

Upon the transaction discussed in *b)*, the other post-employment healthcare obligation of the Group was adjusted to fair value, which is the same under IAS 19 and under US GAAP. Accordingly, there is no difference in the obligation as of December 31, 2000.

When the Group adopted IAS 19, a new actuarial valuation was performed using revised updated assumptions to calculate the beginning and ending balances of the provision. Because of the change in assumptions, the calculated beginning balance is different from the ending balance calculated for US GAAP purposes in the prior year. The change in assumptions is recorded as a decrease to the 2000 benefit cost and this amount is included in the US GAAP net income reconciliation for the period ended August 23, 2000.

d) Derivative instruments and hedge accounting

Under Swedish GAAP, unrealized gains and losses on forward exchange and other derivative contracts undertaken to hedge current and anticipated transactions are generally deferred and reported when they mature along with the underlying transactions or anticipated future cash flows to which they relate.

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 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of previous standards. Upon initial application, all derivatives are required to be recognized 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.

Prior to the effective date of FAS 133, US GAAP accounting for foreign exchange contracts was governed by Financial Accounting Standards No. 52, "Foreign Currency Translation" (FAS 52), which allows for foreign exchange contracts to be reported as hedges only to the extent that they are specifically matched to underlying firm commitments. Otherwise, such contracts are marked to market and recorded on the balance sheet, with unrealized gains and losses included in the reported results of each year. 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 recognizes 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. Upon initial adoption of FAS 133 the Group recognized a cumulative effect of accounting change of MSEK 61.9 (net of tax benefit of MSEK 33.0) in the income statement related to the fair value of interest-rate swap contracts in existence as of January 1, 2001. Gains and losses recognized on derivative financial instruments subsequent to initial adoption of FAS 133 are recognized in financial income or expense for purposes of presentation under US GAAP.

For periods prior to adoption of FAS 133, the Group was not able under FAS 52 to account for any of its derivative foreign exchange contracts as hedges as these contracts did not relate to underlying firm commitments and therefore the adoption of FAS 133 did not result in a translation adjustment related to these instruments.

The Group has issued long-term debt in various currencies that for Swedish GAAP 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. During 2000 and earlier, this treatment was consistent with US GAAP under FAS 52. 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 have not been met, the change in value of the long-term debt because of currency fluctuations is reported in earnings for US GAAP purposes.

e) Revenue recognition

Under Swedish GAAP, revenue related to sales that are not long-term construction contracts is generally recognized upon delivery. This may include sales for which the Group must provide installation or other services before formal customer acceptance is received, and also may include sales for which legal title does not pass until payment is received.

Under US GAAP, revenue related to sales that are not long-term construction contracts is generally recognized upon delivery, however, with the issuance of Staff Accounting Bulletin No. 101 (SAB 101), the United States Securities and Exchange Commission (SEC) clarified certain aspects of revenue recognition. SAB 101 provides specific criteria to be met before reve-

The US GAAP reconciliation items can be summarized as follows.

MSEK	Successor Alfa Laval Jan 1 – Dec 31 2002	Successor Alfa Laval Jan 1 – Dec 31 2001
Hedges of net investments in foreign subsidiaries under Swedish GAAP not qualifying for hedge treatment under FAS 133	164.9	-105.5
Change in fair market value of interest-rate swaps not recognized under Swedish GAAP	50.0	-15.8
Change in fair market value of foreign exchange derivatives not recognized under Swedish GAAP	56.3	71.8
Total	271.2	-49.5

nue is recognized. The criteria requires considering the formal sales agreement, delivery terms, pricing and collectibility. The Group revised its accounting policy for revenue recognition as of January 1, 2000 such that any sales that are not accounted for under the percentage of completion method must be recognized in accordance with the provisions of SAB 101.

f) Tooling costs

Under Swedish GAAP, the Group generally expenses the cost of replacement tools acquired. Under US GAAP, significant tooling costs are capitalized as incurred and amortized on the straight-line basis over their estimated economic lives of three years.

g) Capitalized 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 capitalized direct costs of developing software for internal use. Amortization of these assets is calculated on the straight-line method over their estimated economic lives of three years.

h) Restructuring and other provisions

As of January 1, 2000 the Group adopted IAS 37 to account for provisions and contingent liabilities. Prior to this adoption, provisions and accruals were recorded using the principle of conservatism and the guidelines for recording of provisions and accruals were not as proscriptive as those under IAS 37 or under US GAAP. During the years prior to 2000, the Group recorded certain accruals and reserves for items such as inventory losses, restructurings and contingencies that would not be recorded under US GAAP.

Before the Group's adoption of IAS 37, provisions for restructuring costs were made when a plan existed and decisions were made by appropriate levels of authority within the Group. General provisions were also established for loss contingencies. Under US GAAP, requirements for recording provisions are more stringent than those under Swedish GAAP. Provisions for loss contingencies are recognized when they meet FAS 5 "Accounting for Contingencies" criteria of probable occurrence of loss.

Restructuring provisions are recorded when they meet specific requirements including those documented in EITF 94-3 covering severance costs related to the exiting of an activity. Such requirements include all of the following occurring before the date of the financial statements:

1) commitment by the appropriate level of management to the restructuring plan,

2) terminations and related benefits are communicated to affected employees,

3) the plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions, and their locations, and

4) the period of time to complete the plan of termination indicates that significant changes to the plan of termination are not likely. Restructuring provisions recorded in connection with a business combination are accounted for as provided by EITF 95-3 which includes specific requirements similar to those described in EITF 94-3.

Upon adoption of IAS 37, the Group reversed the provisions that were not accruable under IAS 37 or US GAAP into income in the Swedish GAAP financial statements during the period ended August 23, 2000. Because these provisions never met the criteria for accrual under US GAAP, the effect of the reversal of these provisions has been adjusted for US GAAP purposes. As of December 31, 2000 and 2001, the US GAAP differences for other provisions relate primarily to different methods used to calculate reserves for inventory, receivables and compensated absences.

i) Long-term contract accounting

As of January 1, 2000 the Group revised its revenue recognition policy such that all long-term contracts are accounted for using the percentage of completion method. Prior to 2000, the Group recorded most revenues from long-term contracts upon completion of the contract and full customer acceptance. Under US GAAP, revenue and profits are recorded for such contracts using the percentage of completion method.

j) 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 capitalized. US GAAP requires that interest incurred during long-term construction projects must be capitalized and included as part of the cost of the asset.

Under Swedish GAAP, 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 Swedish GAAP, 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, 2002 the Group had sold receivables with recourse totalling MSEK 164.5 (194.7). These are disclosed as discounted bills in the footnote describing contingent liabilities. 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 an 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 would be 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. 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 one property in the United States, one in Canada and one in Brazil. Accounting under FAS 144 does not mean any difference compared to Swedish GAAP. US GAAP is however requiring a reporting of assets for sale according to the below:

Assets for sale 2002, MSEK

Real estate for sale	Carrying value	Market value
USA, Canada, Brazil	78.1	125.5

) Deferred taxes

As of January 1, 2000 the Group adopted IAS 12 to account for income taxes. Prior to this adoption, Swedish GAAP did not require the provision for deferred taxation, except for the accounting of certain specific timing differences between book and tax charges, which related principally to fixed assets and reserves created for tax purposes. US GAAP requires full recognition of deferred tax liabilities and assets. These balances are determined on the basis of the difference between the income tax basis of assets and liabilities and their respective financial reporting amounts at tax rates in effect for the periods in which the differences are expected to reverse. Where a deferred tax asset is recognized, an on-going assessment is carried out on the likelihood of it being realized, and a valuation allowance is established in respect of such asset where it is considered more likely than not that some portion will not be realized. Additionally, for US GAAP purposes deferred taxes are provided in respect of US GAAP adjustments to the book basis of assets and liabilities.

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. Upon adoption of IAS 12, the Group recorded the impact resulting from deferred tax assets and liabilities built up in prior years as a change in accounting principle and recorded the impact directly to equity. For US GAAP purposes, there was no such change in accounting principle.

MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
The components of income (loss) before taxes under US GAAP are as follows:				
Swedish	228.8	161.5	-615.5	555.0
Foreign	564.6	-291.9	147.0	84.0
Total	**793.4**	**-130.4**	**-468.5**	**639.0**
The tax cost under US GAAP is composed of the following:				
Current:				
Swedish	-4.2	-24.4	4.0	1.0
Foreign	-282.3	-319.6	357.0	98.0
Deferred:				
Swedish	-20.4	77.4	-71.0	36.0
Foreign	58.6	359.4	-139.0	57.0
Total	**-248.3**	**92.8**	**151.0**	**192.0**

Cash Flow Information

The definitions of "cash flows" differ between Swedish GAAP and US GAAP. Cash flow under Swedish GAAP 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 Swedish GAAP and US GAAP. Both Swedish GAAP and US GAAP segregate cash flows between operating activities, investing activities and financing activities, however, certain items are included in different categories for Swedish GAAP 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 provisions and 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 item included in other comprehensive income and loss that is excluded from net income is currency translation adjustment. There are no tax effects relating to this item. Comprehensive income is not a required disclosure under Swedish GAAP.

MSEK	Successor Alfa Laval Jan 1–Dec 31 2002	Successor Alfa Laval Jan 1–Dec 31 2001	Successor Alfa Laval Aug 24–Dec 31 2000	Predecessor Alfa Laval Holding Jan 1–Aug 23 2000
Comprehensive income under US GAAP is presented as follows:				
Net income in accordance with US GAAP	545.0	-37.5	-619.6	447.0
Foreign currency translation	-329.6	268.3	-255.1	123.0
Comprehensive income in accordance with US GAAP	**215.4**	**230.8**	**-874.7**	**570.0**
Accumulated comprehensive income under US GAAP is presented as follows:				
Accumulated net income in accordance with US GAAP	-112.1	-657.1	-619.6	2 666.0
Foreign currency translation	-316.4	13.2	-255.1	150.0
Accum. comprehensive income in acc. with US GAAP	**-428.5**	**-643.9**	**-874.7**	**2 816.0**

Recently issued accounting pronouncements

FAS 145

In April 2002 the US Financial Accounting Standards Board issued FAS 145, effective for years beginning after May 15, 2002. The standard eliminates the prior requirement that all gains and losses from the early extinguishment of debt were to be classified as an extraordinary item. The adoption of FAS 145 means that gains and losses from the early extinguishment of debt now are classified as an extraordinary item only if they meet the "unusual and infrequent" criteria contained in Accounting Principles Board Opinion (APBO) 30. All gains and losses from early extinguishment of debt that have previously been classified as an extraordinary item are to be reassessed to determine if they would have met the "unusual and infrequent" criteria of APBO 30. Any such gain or loss that would not have met the APBO 30 criteria are retroactively reclassified and reported as a component of income before extraordinary items.

FAS 145 means that US GAAP in this respect becomes more in line with the accounting under IAS. The adoption of FAS 145 in 2002 has not resulted in any changes of accounting principles for Alfa Laval. Alfa Laval has reported the costs associated with the early extinguishment of debt as a comparison distortion item and not as an extraordinary item.

FAS 146

In June 2002 the US Financial Accounting Standards Board issued FAS 146 "Accounting for Costs Associated with Exit or Disposal Activities". It nullifies Emerging Issues Task Force (EITF) Issue 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity". The principal difference between FAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. FAS 146 requires a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3 a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. FAS 146 also establishes that fair value is the objective for initial measurement of the liability. FAS 146 is effective for exit or disposal activities initiated after December 31, 2002. At this time, management is assessing the impact of adopting the standard in 2003.

Proposed disposition of earnings

Income available for disposition by the shareholders at the Annual General Meeting:	SEK
Unrestricted equity capital	708 196 378
Received Group contribution, net after tax	38 347 805
Net income for 2002	-72 852 166
	673 692 017

The Board of Directors propose a dividend of SEK 2.00 per share corresponding to SEK 223,343,986 and that the remaining income available for distribution of SEK 450,348,031 (1,457,747,915) be carried forward.

Lund, March 26, 2003

Björn Savén
Deputy Chairman

Per-Olov Jacobsson | Linda Karlsson | Arne Kastö

Jan Nilsson | Lena Olving | Finn Rausing

Jörn Rausing | Christian Salamon | Waldemar Schmidt

Sigge Haraldsson
Managing Director

Auditors' Report

To the Annual General Meeting of Alfa Laval AB (publ). Corporate registration number 55 65 87-8054

We have audited the annual accounts and the consolidated accounts, the accounting records and the administration of the Board of Directors and the Managing Director of Alfa Laval AB (publ) for the year 2002. These accounts and the administration of the company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conduct 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 Managing Director, 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 Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Swedish 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 and the consolidated accounts have been prepared in accordance with the Annual Accounts Act, and, thereby, give a true and fair view of the Company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the Annual General Meeting of shareholders that the income statements and the 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 Report of the Directors and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Malmö, March 26, 2003

Anders Scherman
Authorized Public Accountant

Ingvar Ganestam
Authorized Public Accountant

Lubrication for your heart

The olive. The natural symbol of a long and healthy life. Its oil reduces your level of dangerous cholesterol. This in turn lowers the risk of blocked arteries. The secret? Olive oil is the only oil obtained simply by pressing the fruit. No additives. Just pure oil. No wonder it has become the basis for a healthier new lifestyle. And at Alfa Laval – thanks to our high-quality separators and decanters – we are helping to advance this movement. Our equipment and systems produce more than three million litres of extra-virgin olive oil every year.

Board of Directors and Group Management

Board of Directors

Thomas Oldér
Chairman since 2000.
Born: 1947. Resigned from the Board on March 9, 2003. Number of shares in Alfa Laval AB: 105,259*.

Björn Savén
Deputy chairman since 2000.
Born: 1950. Chief Executive Officer of Industri Kapital. Chairman of Dynea Oy, Gardena AG and KCI International Oy. Deputy chairman of Sydsvenska Kemi AB, AB Perstorp, and the German-Swedish Chamber of Commerce. Board member of Orkla ASA and the Finnish-Swedish Chamber of Commerce.

Lena Olving
Board member since 2002.
Born: 1956. Senior Vice President of Volvo Car Corporation, responsible for Quality.

Finn Rausing
Board member since 2000.
Born: 1955. Board member of the Tetra Laval Group and De Laval Holding AB. Chairman of R.R. Institute of Applied Economics AB. Board member of Swedeship Marine AB.

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

Christian Salamon
Board member since 2000.
Born: 1961. Director of Industri Kapital. Board member of Oriflame Cosmetics AS, Arca Systems International AB, Intrum Justitia AB and Telefos AB.

Waldemar Schmidt
Board member since 2000.
Born: 1940. Former president and chief executive officer of ISS Group. Chairman of Superfos Industries A/S, J.C. Hempel's A/S, Energi E2 A/S, Thrane & Thrane A/S and Tholstrup Cheese Holding. Board Member of Group 4 Falck A/S, Ove Arkil Holding A/S and F Group A/S, Enodis plc and Viterra Energy Services AG. Number of shares in Alfa Laval: 16,749*.

Sigge Haraldsson
Board member since 2000.
President and Chief Executive Officer of Alfa Laval AB.
Born: 1944. Employed by Alfa Laval since 1970 and CEO since 1997. Served as member of the Tetra Pak Group Management from 1993 until October 1997, responsible for the Fibre Packaging Division. Prior to this held various positions within the Alfa Laval Group. Board member of Hans Stahle's Minnesfond. Number of shares in Alfa Laval AB: 178,874*.

Per-Olov Jacobsson
Union representative since 2000.
Born: 1942. Employed by Alfa Laval since 1959. Union representative of the Association of Management and Professional Staff (Ledarna).

Linda Karlsson
Union representative since 2001.
Born: 1975. Alfa Laval employee since 1998. Union representative of the Swedish Association of Graduate Engineers (CF).

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 members

Hans-Christian Bødker Jensen
Deputy member since 2000.
Born: 1972. Deputy Board member of Arca Systems International AB.

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

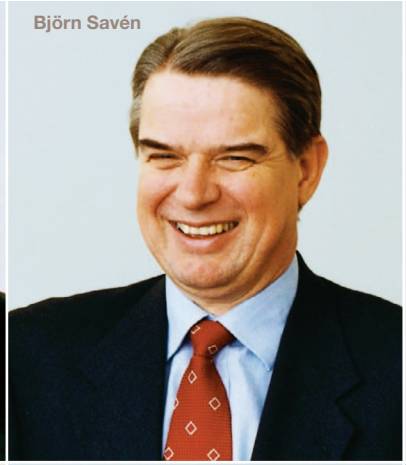
Gunnar Karlsson
Deputy union representative since 2000.
Born: 1941. Employed by Alfa Laval subsidiary Cetetherm AB since 1962. Deputy union representative of the Association of Management and Professional Staff (Ledarna).

Åke Klintin
Deputy union representative since 2000.
Born: 1941. Employed by Alfa Laval subsidiary Cetetherm AB since 1970. Deputy union representative of the Swedish Union of Clerical and Technical Employees in Industry (Sif).

Salvador Pay-Ortiz.
Deputy union representative since 2002.
Born: 1940. Employed at Alfa Laval since 1965. Deputy union representative of the Swedish Association of Graduate Engineers (CF).

* As of December 31, 2002


Thomas Oldér


Björn Savén


Lena Olving

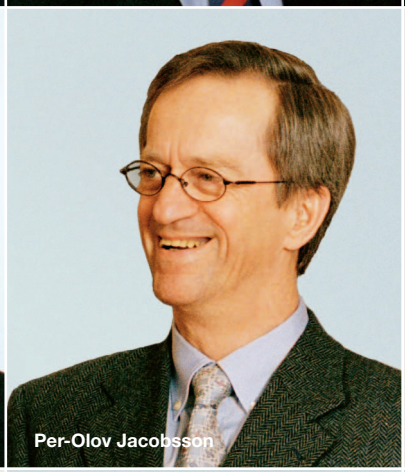

Finn Rausing


Jörn Rausing


Christian Salamon


Waldemar Schmidt


Sigge Haraldsson


Per-Olov Jacobsson

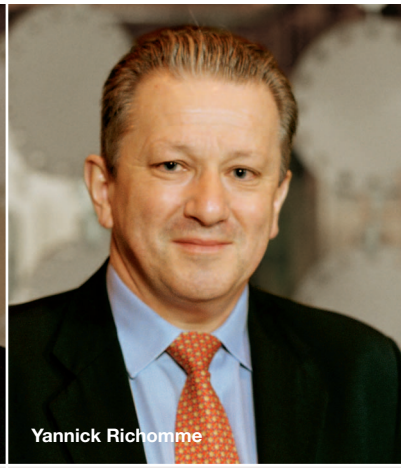

Linda Karlsson

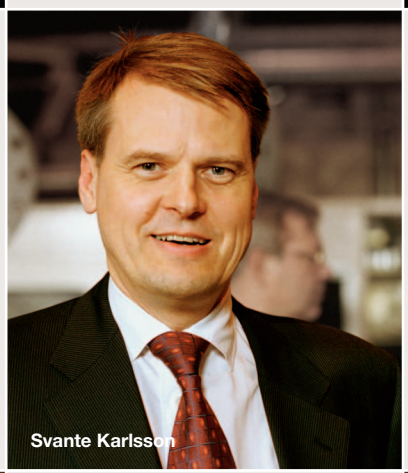

Arne Kastö


Jan Nilsson


Sigge Haraldsson

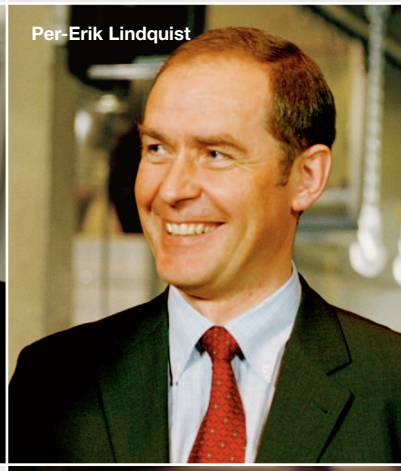

Thomas Thuresson


Yannick Richomme


Svante Karlsson


Ulf Granstrand


Peter Leifland


Per-Erik Lindquist


David Ford


Peter Torstensson


Nils Olof Björk

Group Management

Sigge Haraldsson
President and Chief Executive Officer
Born: 1944. Employed by Alfa Laval since 1970 and CEO since 1997. Served as member of the Tetra Pak Group Management from 1993 until October 1997, responsible for the Fibre Packaging Division. Prior to this held various positions within the Alfa Laval Group. Board member of Hans Stahle's Minnesfond. Number of shares in Alfa Laval AB: 178,874*.

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 Alfa Laval Group. Number of shares in Alfa Laval AB: 58,094*.

Yannick Richomme
President, Process Technology Division.
Born: 1952. Employed by Alfa Laval since 1986. Yannick Richomme has been president of the Process Technology Division since 2001. Previously executive vice president in charge of the business area Separation. Before that managing director of Alfa Laval Separation Inc. and managing director of Alfa Laval SnC France. Number of shares in Alfa Laval AB: 141,422*.

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 executive vice president in charge of business area Thermal. Before that managing director of business segment Marine & Power. Number of shares in Alfa Laval AB: 55,786*.

Ulf Granstrand
President, Operations Divisions.
Born: 1947. Employed by Alfa Laval since 1975. President of Operations Division since 2001. Previously headed parts of the regional sales and before that head of business area Thermal. Number of Alfa Laval shares: 111,572*.

Peter Leifland
Executive Vice President, Asia and South America Regional Manager.
Born: 1954. Employed by Alfa Laval since 1985. Peter Leifland has been in charge of the Asia and South America regions since 1999. Former president of Alfa Laval Engineering AB. Number of shares in Alfa Laval AB: 114,716*.

Per-Erik Lindquist
Executive Vice President, Europe Regional Manager.
Born: 1960. Employed by Alfa Laval since 2001. Per-Erik Lindquist has been in charge of the Europe region since 2001. Previously employed by Scania as managing director of Scania in Belgium. Number of shares in Alfa Laval AB: 53,261*.

David Ford
Senior Vice President, Human Resources.
Born: 1954. Employed by Alfa Laval since 1993. David Ford has served in his current position since joining Alfa Laval in 1993. Former personnel manager of Tetra Pak UK. Number of shares in Alfa Laval AB: 83,711*.

Peter Torstensson
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. Former managing director of Borstahusen Informationsdesign. Number of shares in Alfa Laval AB: 56,555*.

Nils Olof Björk
Senior Vice President, Corporate Development.
Born: 1946. 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 Asia Pacific in Hong Kong and managing director of Alfa Laval Japan. Number of shares in Alfa Laval AB: 18,944*.

* As of December 31, 2002

Financial information for 2003

Alfa Laval will publish financial reports during 2003 on the following events:

First-quarter report 2003	29 April
Annual General Meeting in Lund	8 May
Second-quarter report 2003	14 August
Capital Market Day	During September
Third-quarter report 2003	October 28

Analysts tracking Alfa Laval

ABG Sundal Collier	Anders Jegers
Alfred Berg Fondkommission	Gustaf Lindskog
Carnegie Fondkommission	Oscar Stjerngren
	Gustaf Heyman
Credit Suisse First Boston	Patrick Marshall
Deutsche Bank	Kenneth Toll
	Mark Cusack
Enskilda Securities	Anders Eriksson
	Julian Beer
Handelsbanken Capital Markets	Jonas Eixman
Lehman Brothers	Brian Hall
	Peter Lawrence
Nordea Securities	Patrik Sjöblom
Swedbank	Mats Liss
Öhmans Fondkommission	Anders Roslund

Shareholder information

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Tel: +46 (0)46-36 74 82
Mobile: +46 (0)709-78 74 82
e-mail: mikael.sjoblom@alfalaval.com

Notice of the Annual General Meeting

The Annual General Meeting of shareholders of Alfa Laval AB (publ) will be held on Thursday May 8, 2003 at 4.00 p.m. at Scandic Hotel Star, Glimmervägen 5, Lund. Enrolment to the General Meeting will commence at 3.00 p.m.

Right to participate

Shareholders who wish to participate at the General Meeting must

- be registered in the share register maintained by VPC AB (the Swedish Securities Register Center) on Monday April 28, 2003,
- notify their participation to Alfa Laval AB no later than Friday May 2, 2003 at 12.00 noon.

Shareholders whose shares are registered in the name of a nominee, must also temporarily re-register their shares in such shareholder's own name with VPC AB to be entitled to participate in the General Meeting. Such temporary ownership re-registration must have been carried out no later than on Monday April 28, 2003. This means that shareholders must inform the nominee well before that date.

Notification

Notice of participation at the general meeting may be given

- by mail to: Alfa Laval AB, Legal, P.O. Box 73, SE-221 00 Lund, Sweden,
- by e-mail to: bolagsstamma.lund@alfalaval.com,
- by fax: +46 (0)46-36 71 87,
- on the website: www.alfalaval.com, or
- by telephone: +46 (0)46-36 72 22, +46 (0)46-36 72 41 or +46 (0)46-36 70 00

The notification shall state name, identification- or corporate identity number, address and telephone number, together with possible assistants (however maximum of two). Proxies for shareholders shall attach written and dated power of attorney, which at the time of the General Meeting cannot be older than one year. Proxies or representatives for legal persons shall, in addition, attach a registration certificate. Power of attorney and registration certificate, if any, shall be sent to Alfa Laval AB in connection with the notification. As confirmation of the notification Alfa Laval AB will send an entrance card, which shall be displayed at the enrolment.

Dividend

The Board of Directors proposes that dividend for 2002 shall be SEK 2.00 per share. Tuesday, May 13 2003 is proposed record date to receive the dividend. If the Annual General Meeting decides according to this proposal, payment of the dividend is expected to occur through the agency of VPC AB on Friday May 16 2003.

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