Annual Report 2003

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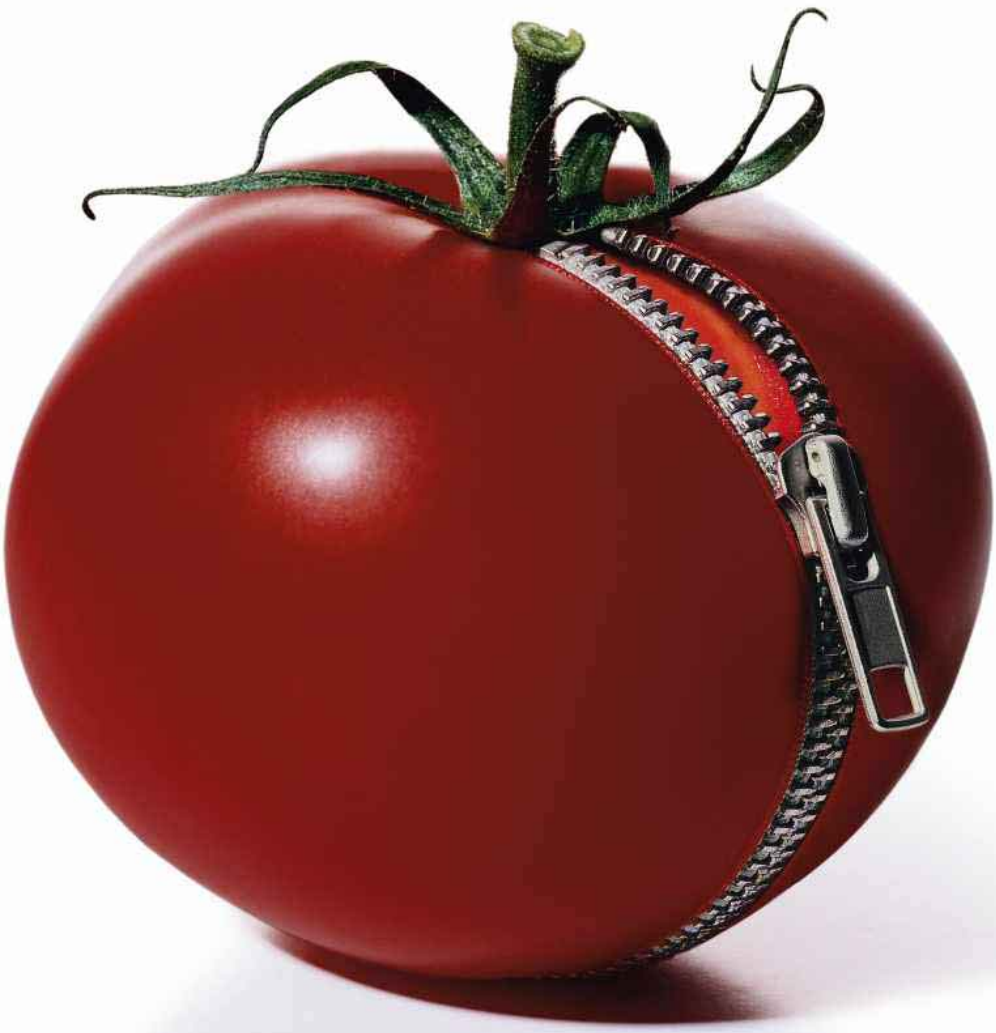
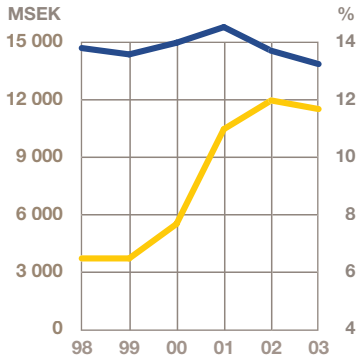


Alfa Laval

Contents

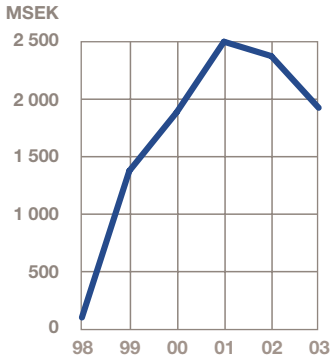
Cover:

Unzip the taste! The tomato – beloved in kitchens round the world for its color, shape and taste. It is also a key raw material of the food processing industry, since tomatoes form the basis of sauces, soups and – obviously – the ubiquitous ketchup. Alfa Laval's separators, heat exchangers and equipment for fluid handling play a key role in transforming ripe, delicious tomatoes into high-quality products, just as in many other sensitive and complex food-related processes. Alfa Laval cooperates closely with the food processing industry to bring out the inner characteristics of their products. Alfa Laval unzips taste, for consumers to enjoy!



Sales of SEK 13.9 billion and an operating margin of 11.7 percent (adjusted EBITA)

In 2003, Alfa Laval generated sales of SEK 13.9 (14.6) billion. In five years, Alfa Laval's operating margin grew from 6.5 percent (1999) to 11.7 percent (2003). The target is a margin of 12–15 percent.



SEK 1,654 million in operating cash flow

During 2003, Alfa Laval generated an unrestricted cash flow of SEK 1,654 million, a level that Alfa Laval expects to maintain with its current operations and financing.

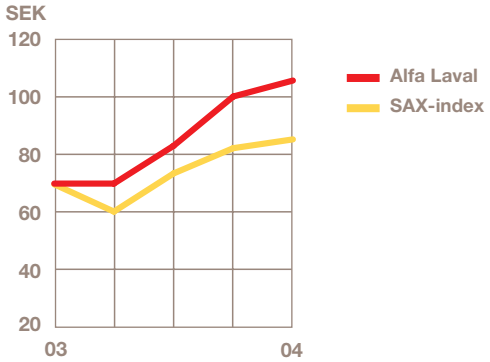
120 years young

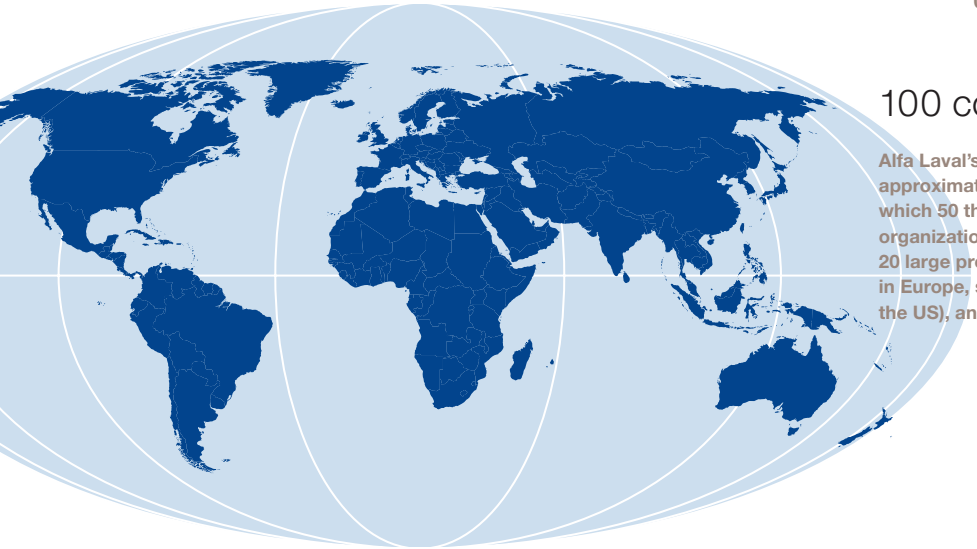
Gustaf de Laval was a great technical genius whose inventions include the centrifugal separator and the first functional steam turbine. During his lifetime, he registered 92 patents and started 37 companies. In 1883, he and his partner, Oscar Lamm Jr., established the company AB Separator, the forerunner of today's Alfa Laval.

Alfa Laval in

Share price rises 57 percent

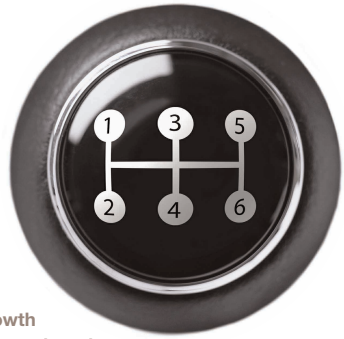
Alfa Laval shares rose 57 percent during the year, closing at SEK 109 (69.50). Alfa Laval outperformed both the SAX index (+30 percent) and the SX Industrials 20 (+26 percent). The number of shareholders increased during the year to 7,254 (5,746).





100 countries

Alfa Laval's products are sold in approximately 100 countries, of which 50 through its own sales organizations. The company has 20 large production units (twelve in Europe, six in Asia and two in the US), and 70 service centers.



Six gears for growth

Alfa Laval bases its growth strategy on growing faster than the competition. The company intends to grow while – at least – maintaining its profitability. The aim is to achieve an annual average growth rate of five percent over a business cycle.

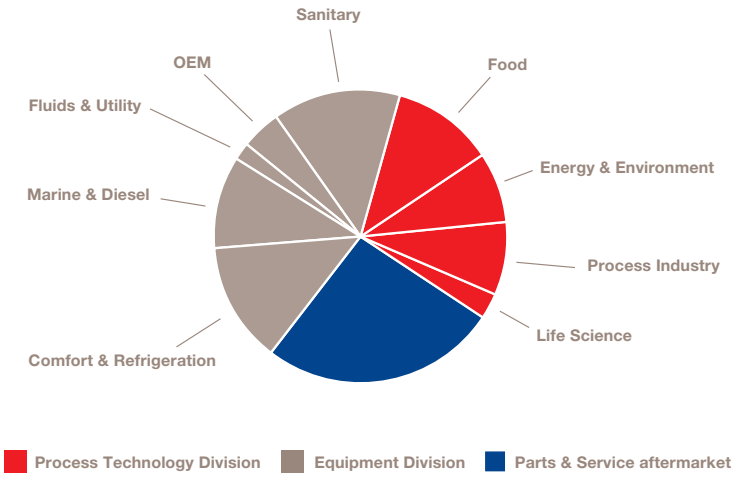
9,350 employees

Alfa Laval currently has about 9,350 (9,125) employees worldwide. Most of these employees are in Sweden (1,941), Denmark (1,098), India (1,031), the US (742) and France (599).

two minutes

Engineering leadership under constant development

Alfa Laval's operations are based on leading global positions in the three key technologies of heat transfer, separation and fluid handling. Continuous product development is essential to strengthen competitiveness. About 2.5 percent of total sales is invested annually in R&D, resulting in 25–30 new product launches a year.



Ten customer segments

The company's market orientation has been strengthened over the past years by the establishment of ten customer segments. To promote a clear customer focus, the segments are divided in two divisions – Process Technology and Equipment – which market and sell the products and special offerings to specific customer groups.

Key events in 2003

- Alfa Laval acquired bioKinetics, a division of the North American Kinetics Group, Inc. The company is prominent in high-tech integrated process solutions for the biotechnology and pharmaceutical industries. In 2002, the company had sales of about SEK 550 million and about 400 employees.
- Alfa Laval acquired the Denmark-based Toftejorg Group, the market leader in advanced equipment for tank cleaning with a focus on the marine and food processing industries. In 2002, Toftejorg had sales of about SEK 210 million, and approximately 100 employees.
- It was decided to invest approximately SEK 100 million in the production of plate heat exchangers in Lund.
- The company launched AlfaNova™, a wholly new type of compact heat exchanger that tolerates both high temperatures and major stresses – a characteristic that broadens the range of potential applications and, consequently, the market.
- Anders Narvinger was elected Chairman at the Annual General Meeting.
- The Board proposes a dividend of SEK 4.00 (2.00) per share for 2003.
- The principal owner, Industri Kapital, reduced its holding from 26.9 percent to 17.9 percent.

Amounts in SEK M unless otherwise stated	2003	2002	2001
Order intake	14,145	14,675	15,894
Net sales	13,909	14,595	15,830
Adjusted EBITDA[1]	1,920	2,087	2,138
Adjusted EBITA[2]	1,627	1,755	1,738
Operating margin (adjusted EBITA[2]), %	11.7	12.0	11.0
Profit/loss after financial items	817	372	42
Return on capital employed, %	21.3	20.2	18.5
Return on shareholders' equity, %	13.2	2.7	2.5
Earnings per share, SEK	5.78	1.41	0.96
Equity per share, SEK	43.8	40.4	38.5
Cash flow per share	0.26	0.65	0.50
Equity ratio, %	33.3	29.2	8.2
Debt/equity ratio, multiple	0.49	0.78	5.38
Average number of employees (unit)[3]	9,358	9,125	9,259

1) Adjusted EBITA – Earnings before interest, taxes, depreciation, amortization of goodwill and consolidated surplus values, and items affecting comparability.
2) Adjusted EBITA – Earnings before interest, taxes, amortization of goodwill and consolidated surplus values, and items affecting comparability.
3) Average number of employees at the end of the period. Compared with 2002 companies with 457 employees were acquired.

A stable and positive trend

In 1999, Alfa Laval launched its restructuring program, Beyond Expectations. The ultimate goal was to boost the operating margin from 6 percent to 12 percent, by creating a more efficient organization and a heightened awareness of costs.

After a short time, we perceived a greater potential and decided to raise our operating margin target to between 12 and 15 percent.

In 2003, Alfa Laval had an operating margin of 11.7 percent. In 2003, currency effects on the operating profit amounted to SEK 273 million, a result, particularly, of the sharp weakening of the US dollar during the fourth quarter. Excluding currency effects, the operating margin was 12.7 percent, compared with 12 percent in 2002.

Beyond Expectations complete

At the end of the third quarter of 2003, the savings goal of a minimum of SEK 850 million was achieved and the Beyond Expectations program was concluded. We now have an efficient and market-oriented organization and have reduced the number of employees from 12,200 to 9,358. Corporate acquisitions excluded, that amounts to a reduction of more than 20 percent.

The restructuring program had a ripple effect: employees are now keenly aware of costs. This, combined with the full implementation of our growth program, is a precondition of any further improvement in our operating margin.

Brighter business conditions ahead

Starting mid-year 2003, a number of signs of improved business conditions for industry appeared. For example, we noted a sharp increase in customer inquiries in the marine industry, which resulted in a substantial increase in order bookings in that segment. This increase then continued throughout the second half of the year.

Order intake for Alfa Laval rose during the year by 4.9 percent, excluding effects of currency fluctuations. The increase was particularly noticeable during the second half of the year, when it was a full 10.7 percent. Geographically, the increase in order intake occurred mainly in Asia and Eastern Europe, whereas North America and Western Europe were somewhat weaker than in 2002. Toward year-end, however, signs of a recovery were noted in these regions as well.

Order intake up in the second half

Alfa Laval conducts sales from two divisions, the Equipment division and the Process Technology division. The customers of the Equipment division have well-defined recurring needs of particular products and product packages, whereas the Process Technology division offers both complete process lines and products.

During the year, the order intake rose 7.1 percent in the Equipment division and 2.3 percent in the Process Technology division. The tendency for the recovery to appear in the Equipment division first has also been observed in previous swings of the economic pendulum. The major capacity investments undertaken by the industry appear later in the business cycle. In the fourth quarter, order bookings in Process Technology rose 12.7 percent, which may indicate that industry is beginning to undertake major investments.

Nine of our customer segments reported increased order intake in 2003. Only the Process Industry segment, most of the customers of which are in the chemical industry, reported a decline, which is in line with the above – that is, that major industrial investments are not yet occurring on a large scale.

The profitable aftermarket remained strong in 2003, accounting for 26.1 percent of the Group's sales. Order intake in this segment were up for the fourth consecutive year.

To meet an increase in demand in 2003, several production units took measures to increase their production capacity. For example, it was decided to build an extension to the Group's facility in Lund, an undertaking that will cost approximately SEK 100 million. Other major capacity investments were undertaken in China and India.

> "Assuming that the recovery will not be affected by unforeseen events in the world, we believe in a strong increase in orders received during 2004."

Share price up 57 percent

The past year was Alfa Laval's first full year as a listed company since its

return to the stock market in May 2002. During the year, Alfa Laval shares appreciated 57 percent, while the exchange as a whole appreciated approximately 30 percent and Alfa Laval's industrial benchmark index appreciated 26 percent.

During the year, Alfa Laval published the company's "Business Principles." For several years, these principles have been a natural and integrated aspect of Alfa Laval corporate culture. In 2003, they were assembled in a document. The carrying out of business transactions is based on trust, and this is where the Business Principles come in. Combined with the Alfa Laval core values, these principles define the manner in which the company should behave.

Asbestos lawsuits in the US

On December 31, 2003, Alfa Laval's US subsidiary, Alfa Laval Inc., was one of a number of defendants in a class-action suit involving a total of 19,900 plaintiffs and comprising 123 asbestos-related charges. During the fourth quarter in 2003, the total number of charges rose by two, and the number of plaintiffs dropped by 400. About 99 percent of all plaintiffs are from cases launched in Mississippi.

Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the company's financial condition or results of operation.

Constant product development to maintain and enhance competitiveness

To maintain and enhance the Group's competitiveness, existing products must be constantly updated. Alfa Laval invests approximately 2.5 percent of its sales annually in research and development. The R&D operations are intensively market and customer-oriented – in 2003, Alfa Laval continued to develop new and more efficient products in all of its key segments.

The annual pace was about 25–30 new products. One of the most impressive was the new technology platform for a new category of plate heat exchangers called AlfaNova™. The product can withstand the combination of high temperatures and high pressure much better than other welded plate heat exchangers – characteristics that broaden its market considerably.

Another was the Solid C, a completely new standard pump for hygiene applications. Based on an advanced hygienic design, this product is used for gentle fluid handling.

For the biotechnology sector, the Group offers Culturefuge 100, a small, powerful separator that separates delicate cells in a gentle but effective manner.

Growth strategy

To create growth, Alfa Laval employs a structured strategy based on six gears, each of which is designed to increase growth (read more about this strategy on page 8 and 9). The aim is to achieve annual growth rate of 5 percent over a complete business cycle.

In 2003, Alfa Laval carried out two acquisitions: the Danish Toftejorg, a specialist company in tank cleaning and an attractive supplemental acquisition; and the American company, bioKinetics, operating in the growing Life Science segment.

Acquisitions are a key part of the company's growth strategy. Alfa Laval continuously evaluates attractive prospective acquisitions, particularly in the Life Science and Water Management, but also within a broader spectrum in which acquisitions involve supplemental products.

Outlook for 2004

Markets recovered during the second half of 2003 within most of the customer segments in which Alfa Laval is active. It is our opinion that the recovery will continue during 2004. Assuming that the recovery will not be affected by unforeseen events in the world, we believe in a strong increase in orders received during 2004.

We assess that the EBITA-margin, excluding currency effects, will be improved.

Lund, Sweden, March 2004

Sigge Haraldsson
President and Chief Executive Officer

The Alfa Laval share

up 57 percent in 2003

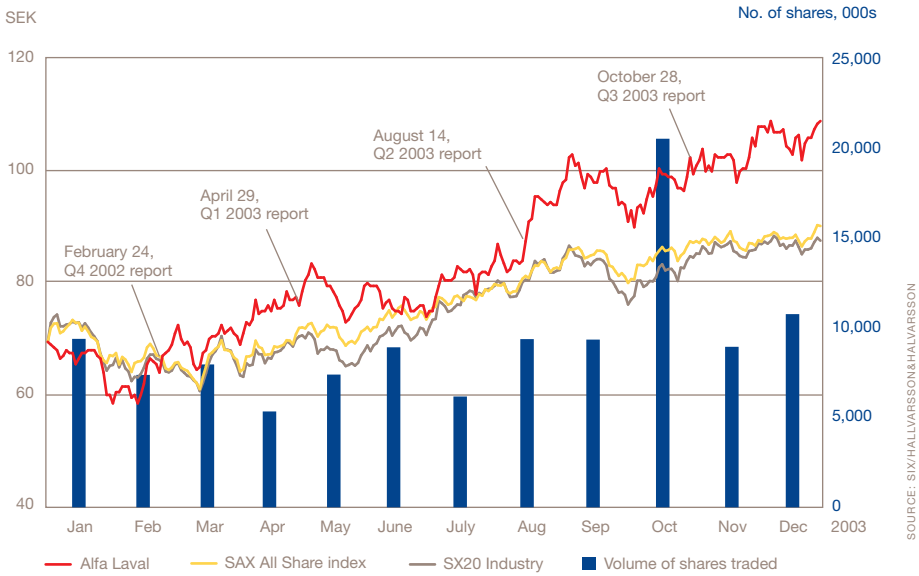
Alfa Laval was listed for the first time on Stockholmsbörsen (Stockholm Exchange) in 1901. In 1991, Alfa Laval was acquired by the Tetra Pak Group and in 2000, Industri Kapital became the majority shareholder of the Alfa Laval Group. After being privately owned for more than 10 years, Alfa Laval was re-listed on the stock market on May 17, 2002.

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

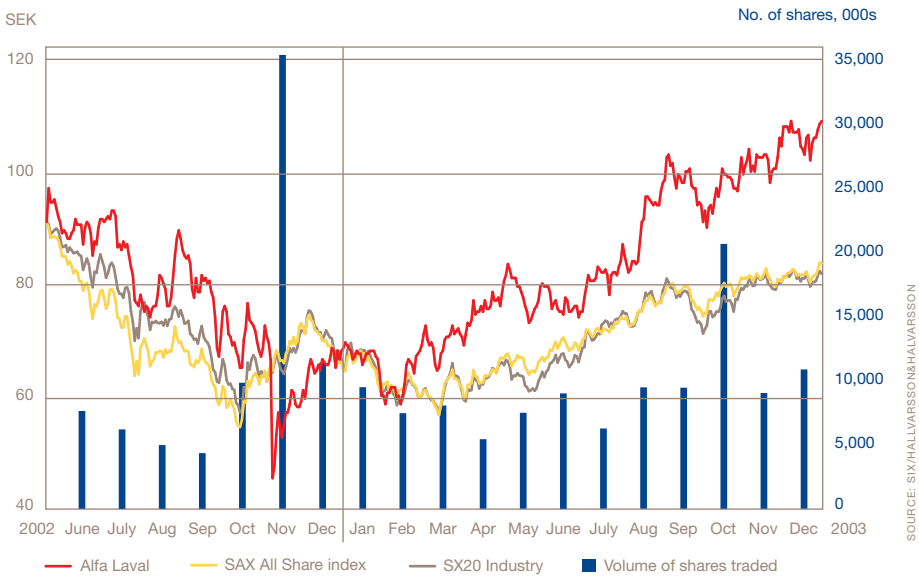
Share capital

Alfa Laval has a total of 111.7 million shares with a par value of SEK 10 per share, creating a total par value of SEK 1,117 million. All shares carry equal voting rights and rights to the company's assets. Alfa Laval has no outstand-

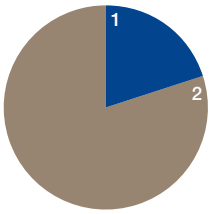
Price trend, January 17 – December 31, 2003



Price trend, May 17, 2002 – December 31, 2003

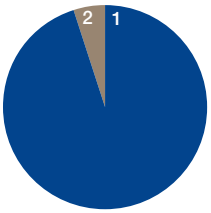


Owner categories



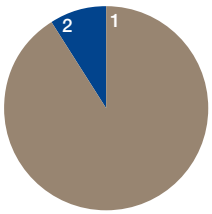
Legal entities
Percentage of total number of owners:

1	Legal entities	20	(1,436)
2	Individuals	80	(5,818)



Individuals
Percentage of holding:

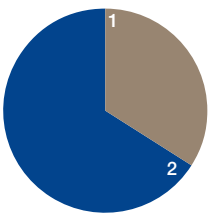
1	Legal entities	95
2	Individuals	5



Swedish/Foreign

Percentage of total number of owners.

1	Swedish owners	91	(6,625)
2	Foreign owners	9	(629)



Swedish/Foreign

Percentage of holding:

3	Swedish owners	34
4	Foreign owners	66

ing options or other equity-related instruments, so there is no potential dilution effect.

Share performance

In 2003, Alfa Laval shares appreciated by 57 percent. This can be compared with the stock market as a whole, the SAX All Share Index, which rose 30 percent, and the industry index, SX20 Industry, which rose 26 percent. The highest quotation of the year for Alfa Laval, SEK 110, was reached in December. The lowest, SEK 58, was reached in February.

A total of 108 million shares changed owners, corresponding to a value of SEK 9.2 billion. This corresponds to a turnover rate* of approximately 96 percent. In comparison, turnover rates for the stock market as a whole in 2003 amounted to 124 percent and to 78 percent on the O-list.

The average size of transactions was around 2,190 (5,300) shares and a total of slightly less than 200 (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 and estimated capital needs.

For 2003, the Board has proposed to the Annual General Meeting a dividend of SEK 4.00 (2.00).

Alfa Laval shareholders

At year-end, the company had a total of 7,254 (5,746) shareholders. On December 31, 2003, Industri Kapital and Tetra Laval BV were the two largest owners. On October 29, Industri Kapital reduced its holding to 17.9 percent. Combined, the ten largest shareholders own approximately 60 percent of the total number of shares.

Shareholder information update

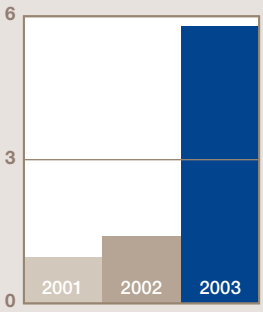
We provide regular updates on the company on our website, www.alfalaval.com. Here you can also find the latest information regarding Alfa Laval's performance on the stock market.

Ownership distribution by size at December 31, 2003

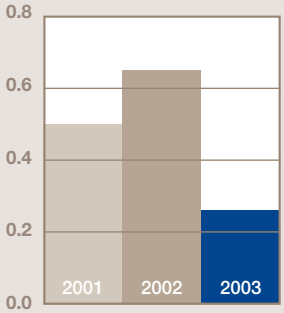
Holdings	Number of shareholders	Number of shares	Holdings, %
1 – 500	5,030	937,901	0.84
501 – 1,000	846	743,656	0.67
1,001 – 5,000	812	2,059,588	1.84
5,001 – 10,000	185	1,415,434	1.27
10,001 – 15,000	69	886,813	0.79
15,001 – 20,000	50	884,389	0.79
20,001 –	262	104,744,212	93.80
Total	**7,254**	**111,671,993**	**100.00**

The 10 major owners/asset managers at December 31, 2003

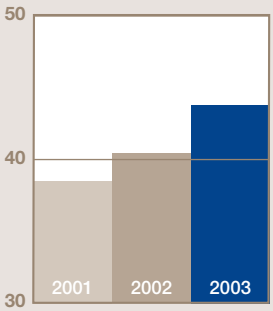
	Number of shares	Capital %
Industri Kapital 2000 Fund	20,015,628	17.92
Tetra Laval BV	19,744,014	17.68
Third AP Fund	5,072,407	4.54
State Street Bank and Trust (US)	4,577,164	4.09
Fourth AP Fund	4,291,700	3.84
Robur Funds	3,849,529	3.44
Fidelity Funds (Luxembourg)	2,819,800	2.52
Lannebo Funds	2,523,995	2.26
MSF Mutual Funds (US)	2,228,400	1.99
First AP Fund	1,914,800	1.71
Others	44,634,556	40.01
Total	**111,671,993**	**100.00**



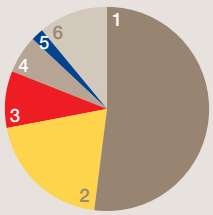
Earnings per share, SEK
2001: 0.96
2002: 1.41
2003: 5.78



Cash flow per share, SEK
2001: 0.50
2002: 0.65
2003: 0.26



Equity per share, SEK
2001: 38.5
2002: 40.4
2003: 43.8



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

1	Sweden	52
2	US	20
3	UK	9
4	Luxembourg	6
5	Norway	2
6	Others	11

* Turnover rate is calculated as the total number of shares traded in one year, relative to the total number of shares outstanding.

Business principles

built on trust

Alfa Laval's daily work is inspired by constant effort to increase added value for customers. Satisfied customers create a company with competitive, continuous value growth for shareholders.

A 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 any other company in the world.

The foundation of Alfa Laval's business concept is its customers. To make a company sustainable and successful, customers must continuously be provided added value.

Alfa Laval must be an attractive long-term investment. Shareholders want to minimize the risk of their investments, which Alfa Laval does for them by continuously improving its appeal – especially as an employer, a supplier and a customer.

Alfa Laval's business principles are built on trust

During the year, Alfa Laval published its Business Principles. For several years, these principles have been a natural and integral part of Alfa Laval corporate culture. In 2003, they were assembled in a document.

The carrying out of business transactions is based on trust, and this is where the Business Principles come in. Combined with the Alfa Laval core values, these principles define the manner in which the company should behave. Company management places great emphasis on the importance of complying with these principles, and will follow them up via the internal audit function.

Alfa Laval's four business principles

1. Environment

"Optimizing the use of natural resources is our business."

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

2. Social

"Respect for human rights is fundamental."

Alfa Laval respects human rights and the widely differing social cultures in which it operates and to which it delivers its products and services.

3. Business integrity

"High ethical standards guide our conduct."

Alfa Laval's approach to business development is based on honesty, integrity and respect for others.

4. Transparency

"Our commitment to open dialogue builds trust."

While Alfa Laval believes in forthright communications, at the same time, the company is careful not to release information that is commercially sensitive or valuable.

Financial goals

Volume growth

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

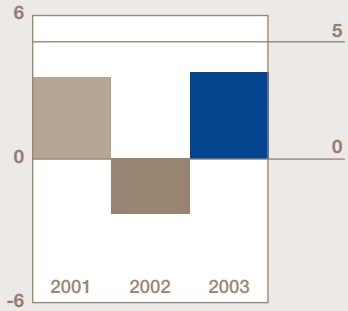
EBITA* in relation to sales

Goal: 12–15 percent.
The goal is to reach an EBITA margin of 12–15 percent of sales. The lower end of the target range applies during economic downturns while the upper end applies during periods of expansion.

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

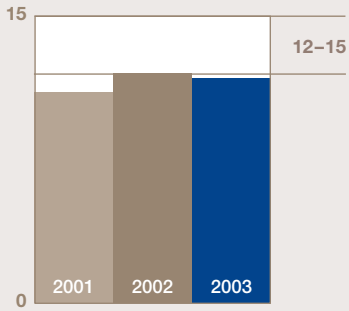
Return on capital employed

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



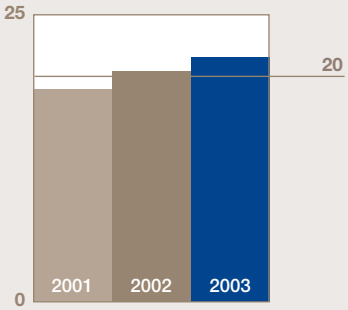
Volume growth, %

2001: 3.4
2002: -2.3
2003: 3.6



EBITA margin, %

2001: 11.0
2002: 12.0
2003: 11.7



Return on capital employed, %

2001: 18.5
2002: 20.2
2003: 21.3

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.
Outcome 2003: 0.49
As a standard, Alfa Laval aims to have a debt/equity ratio that, in the long term, will be lower than 1.0 – that is, the company's borrowed capital may not amount to more than 100 percent of the book value of its shareholders' equity. Debt/equity ratio may increase in connection with major acquisitions but this has to be viewed as temporary since cash flow and profits are expected to offset this effect.

Cash flow from current operations

Goal: 10–14 percent of sales.
Outcome 2003: 11.9
The standard is set slightly lower than the target operating-margin, adjusted EBITA, because organic growth normally results in an increase in tied-up working capital. The unrestricted cash flow will generate a substantial amount, regardless of the debt/equity ratio, but within the framework of the guidelines for debt/equity ratio that the company has established.

Investments

Goal: approximately 2.5 percent of sales.
Outcome 2003: 1.9
For existing operations, Alfa Laval's objective is to maintain investments in fixed assets at a level corresponding to about 2.5 percent of sales. This corresponds to depreciation according to plan. The purpose of this standard is to allow some scope for replacement investments and create a capacity expansion in line with organic growth for the Group's current key products.

Six gears
for profitable growth

Acquisition criteria

Alfa Laval has established the following financial criteria for acquisitions:

Supplementary acquisitions (such as the Danish-based Toftejorg):

The acquisition price may be no more than eight times EBITA.

The operations must contribute positively to the Group's cash flow and earnings per share, within not more than 18 months.

Strategic acquisitions (such as the Danish-based DSS):

The operations must contribute positively to the Group's cash flow and earnings per share within no more than 24–36 months.

During the second half of 2002, Alfa Laval launched a growth strategy. The basic philosophy is to grow faster than the market, and maintain profitability during growth.

Alfa Laval's strategy for profitable growth is based on the following six gears:

1. Strong growth from current products and services

Close cooperation with customers to understand and satisfy their requirements will ensure that the grow we have had in the past, based on our key products, will be strengthened in the future. Examples of how Alfa Laval applies this gear include the welded plate heat exchanger Compabloc and the intelligent valve, ThinkTop.

2. Market-driven research and development

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 our dialog with customers. Examples include AlfaCond (see page 12) and AlfaNova (see page 13).

3. 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.

An example of this is the acquisition in 2003 of the Danish Toftejorg, which produces products for tank cleaning – products that add to Alfa Laval's range of food and marine-related products.

4. 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 contracts, particularly, are now playing a more important role.

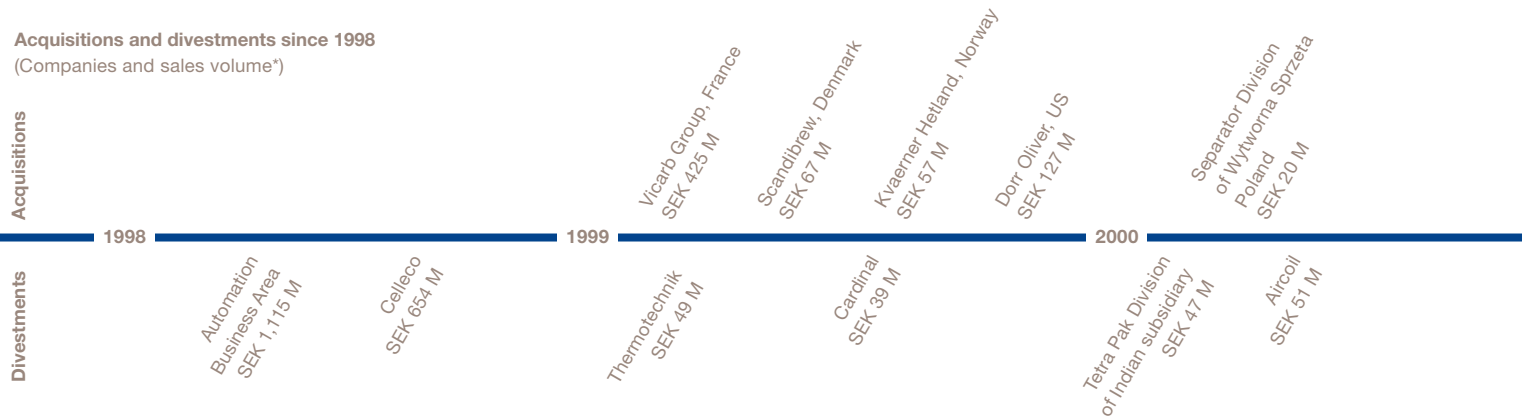
5. New marketing concepts

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. Two examples are Octopus – groundbreaking software for optimizing the operation of decanter centrifuges (read more on page 20) – and Alfdex – an innovative solution for cleaning crankcase gases from diesel engines, based on the separation of oil droplets and particles from the gases (see page 13).

6. New key products

Identifying 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

Acquisitions and divestments since 1998
(Companies and sales volume*)



*Refers to the year prior to divestment or acquisition.

to further increase our product offering and be a more complete and an even more valuable partner. Examples of this gear include the acquisition in 2002 of Danish Separations Systems (DSS), a company that develops, manufactures and sells membrane filters.

Annual volume growth of about 5 percent

Alfa Laval expects that these six gears will result in the company growing by an average of about five percent per year over a complete business cycle, including acquired and organic growth. Alfa Laval's markets are expected to grow by about two percent per year over a complete business cycle.

Strategy for acquisitions and alliances

Alfa Laval's business concept of optimizing 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

– around products that complement our current products and that can strengthen the customer offering that our customer segments make.

Two areas on which Alfa Laval is focusing are Life Science and Water Management – robustly expanding markets that already use Alfa Laval's key products. Life Science comprises mainly the pharmaceutical and biotechnology industries. In 1999–2002, the annual growth of this area was eleven percent, and it is expected to continue to grow at the same rate for the next few years.

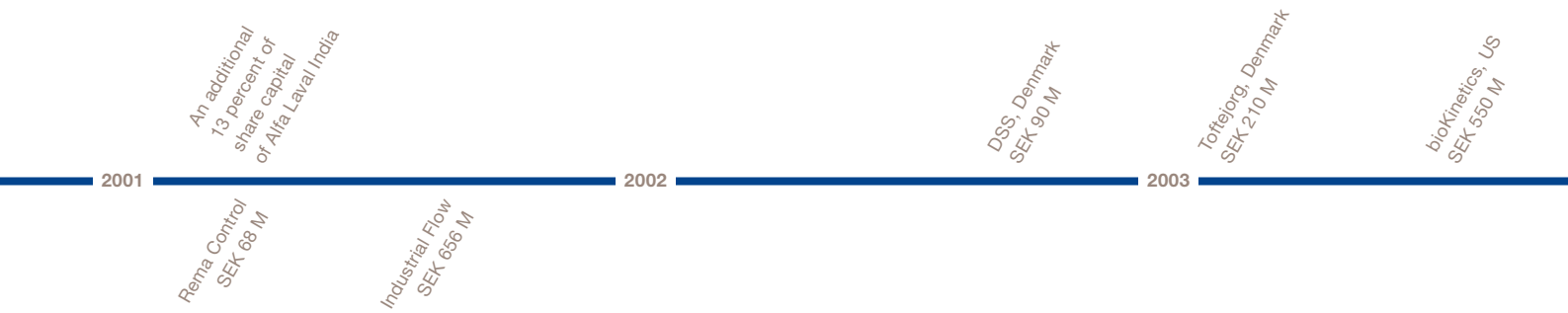
Water Management includes equipment and systems for water, waste water and sludge – a market that invests approximately SEK 13,000 million per year in equipment and service, and that is expected to grow by slightly over ten percent per year until 2007. Trends such as more stringent environmental legislation, tighter purification requirements on companies and greater hygiene are expected to exert further impetus on this development.

Alfa Laval's public listing in the spring of 2002, and the financial strength that resulted from it, have made growth through acquisitions an attractive prospect. Since the listing, the Group has made the following acquisitions:

- *bioKinetics*, US, with sales of approximately SEK 550 million in 2002. The company is market-leading in the North American market for integrated process solutions in biotechnology and the pharmaceutical industry.
- *Toftejorg*, Denmark, with sales of approximately SEK 210 million in 2002. The company is market-leading in equipment for advanced tank cleaning, and fits in well in the Marine and Diesel and Sanitary customer segments.
- *Danish Separation Systems*, (*DSS*), Denmark, with sales of approximately SEK 90 million in 2001. Specialists in membrane filtration, the established solution for separating small particles, particularly in biotechnology, pharmaceutical and food industries.

To enable the Group to proceed with acquisitions and form alliances in a systematic and efficient manner, in 2002 Alfa Laval instituted the special function, Business Development.

Alfa Laval's strategy for growth is structured in six gears, which will provide an annual volume growth averaging five percent annually.



The stable platform ...

The core of Alfa Laval's operations is based on three key technologies – heat transfer, centrifugal separation and fluid handling – with all three playing a decisive role in most industrial processes. Alfa Laval holds leading global positions in all of these areas of technology.

Heat transfer

Alfa Laval's heat exchangers are used for applications such as heating, cooling, freezing, ventilation, evaporation and condensation of fluids. As a result of the many applications in which heat exchangers can be used, Alfa Laval has a considerably large and geographically diverse customer base within industries such as chemical, food processing, oil and gas production, power generation and marine industries and for heating and ventilation of buildings.

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 estimates that it had a combined market share of approximately 36 percent in 2003. Spiral heat exchangers are used in the pulp industry and in waste treatment. 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 exchanges such as plate heat exchangers because the latter save space and energy and provide better maintenance security than shell-and-tube heat exchangers.

Alfa Laval's largest competitors in this area are Tranter/ SWEP (US), Invensys-APV (UK) and MG Technologies/GEA Ecoflex (Germany).

Separation

Ever since the company was formed in 1883 to capitalize on Gustaf de Laval's invention, the cream separator, the separation technology has been a central part of the operations. The technology is currently used to separate liquids from other liquids and solid particles from liquids. The separators are used in a number of industrial processes within the food processing and chemical industries, on ships, to purify fuel and lubricating oil, on oil rigs, to separate oil and water, in the mechanical engineering industry, to purify industrial fluids, and in industrial and municipal wastewater treatment plants. Alfa Laval is a global market leader in centrifugal separation, according to the company's estimates, in 2003 its share of the global market for all separation products combined was 24 percent.

A plate heat exchanger is constructed from a number of metal plates. Between the plates are channels through which two fluids, one hot and one cold, pass on opposite sides of the plates and in opposite directions to each other. Heat/cold are transmitted via the plates from one fluid to the other.

During the second half of 2003, Alfa Laval launched its AlfaNova, which offers performance features that far exceed those of existing plate heat exchangers, which increases its competitive advantage and broadens its area of application (read more about AlfaNova on page 13).

Due to the centrifugal force in the separators, the fluid/particles with the greatest density collect in the outer periphery of the separator bowl, and the fluid with the lower density in the center of the bowl. Both fluid phases are then discharged through separate outlets.

In 2003, Alfa Laval launched its Culturefuge 100, which is used in the biotechnology sector to efficiently separate the most important parts of cells, so that new drugs may be produced. Read more about Culturefuge 100 on page 13.

High-speed separators and decanter centrifuges are Alfa Laval's dominant products within centrifugal separation. High-speed separators are primarily used for separating fluids. A decanter centrifuge is a horizontal separation technique 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.

Alfa Laval's largest competitors in this area are: MG Technologies/GEA Westfalia Separator (Germany), Andritz (Andritz Bird, US and Andritz Guinard, France), Mitsubishi Kakoki Kaiska (Japan), Pieralisi (Italy) and Flottweg (Germany).

Fluid handling

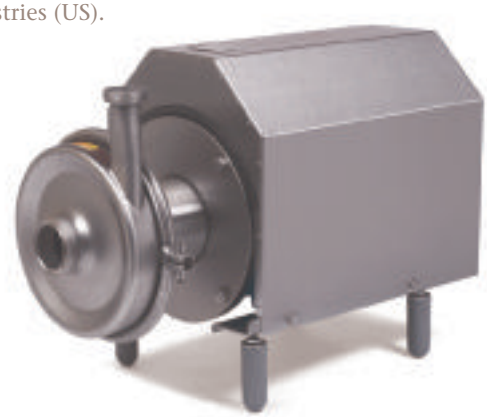
Transporting and regulating fluids in a safe and efficient manner is vital for industries. Alfa Laval focuses its competence on fluid handling, where the demand for hygiene is high. The company's pumps, valves and installation material are used in fluid-handling applications such as in the production 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 ten percent in 2003.

There are three types of high-sanitary pumps:

- *Centrifugal pumps,* which combines high efficiency with careful product treatment.
- *Rotary lobe pumps,* which are used to facilitate the flow of low-viscosity fluids that require a high standard of hygiene.
- *Liquid-ring pumps*, which have a wide range of applications.

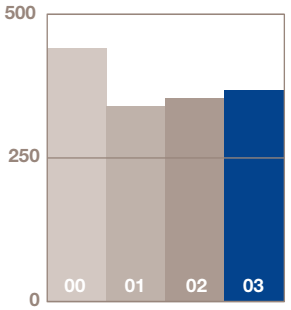
Valves are used to regulate and redirect liquid flows. Alfa Laval's mixproof valves are delivered as a complete package of solutions, complemented by intelligent regulating equipment. Butterfly valves are suitable for very liquid products and seat valves are characterized by a few movable parts and are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

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



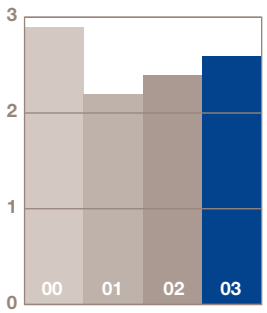
One of the products launched by Alfa Laval in 2003 in the key technology of fluid handling is the Solid C – a completely new standard pump for hygiene applications. Solid C is based on an advanced design for careful handling of fluids.

...that is constantly developing



R&D investments in SEK M

2000:	441
2001:	341
2002:	355
2003:	368



R&D investments in percentage of net sales

2000:	2.9
2001:	2.2
2002:	2.4
2003:	2.6

The Alfa Laval brand has been associated with innovation for over 100 years. An ongoing, consistent commitment to Research & Development (R&D) has been critical in building, strengthening and developing the company's global market leadership. Alfa Laval's R&D is distinctly customer-oriented, with the aim of devoloping better solutions for the customer.

Total R&D expenses amounted to SEK 368 million (355) in 2003 – that is, approximately 2.6 (2.4) percent of the Group's total sales. The Group has about 290 employees and four centers within R&D. The Process Technology Division and the 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. Such areas include biotechnology and wastewater treatment.

25–30 new products annually

Alfa Laval's R&D operations are based on a long-term commitment to basic research, focusing primarily on streaming technology and heat transfer. The company launches 25–30 new products annually.

Alfa Laval holds more than 200 patents on its own products, and the brand name Alfa Laval is registered in around 100 countries.

Steady product renewals 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.

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.

Over the past few years, the company's commitment to research and development has resulted in the following products:

AlfaCond

First purpose-built plate condenser in the world

AlfaCond is the first plate condenser in the world, purpose-built for the market for condensation of vapors at low pressure. What makes this product special is its size, and the placement of the input and output steam channels, condensation and cooling water.

Research & Development within Alfa Laval is carried out in four research centers. The pictures shows the facility in Tumba, Sweden.

The compact design saves space and reduces shipping and installation costs. One market segment that has shown great interest in AlfaCond is the fishing industry.

AlfaNova

A new technology with better temperature and pressure tolerance

Many researchers believe that heat exchangers made from only one material are the way of the future. Here, Alfa Laval is well advanced in this area. AlfaNova is a completely new plate heat exchanger made from a single material: stainless steel.

The actual brazed material in combination with the manufacturing technique is patented. AlfaNova tolerates the combination of high temperature and high pressure better than other brazed plate heat exchangers. These characteristics broaden the market for the product. New areas of application include processors that involve the use of ammonia.

Culturefuge 100

Separates delicate cells carefully and effectively

Culturefuge 100 is a small, powerful separator for the biotechnology sector. Many new biological products are produced from delicate organisms that are difficult to separate so that the key parts of the cells are not destroyed. Culturefuge 100 separates the delicate cells carefully and effectively. The product is aimed at the most advanced segment of the Life Science market: customers that develop monoclonal antibodies. Monoclonal antibodies are becoming increasingly important in the diagnosis and treatment of tumors and the development of new vaccines.

Aldec G2

Improves performance by up to 30 percent

Aldec G2 is a new generation of decanters that improve performance by up to 30 percent. It is based on a new platform that represents a technical advance in sludge treatment decanters. Aldec G2 carries out sludge thickening and dewatering.

Aldec G2 has a gearbox that, in addition to improving performance, minimizes the need for installed electricity, improves process control and reduces the need for maintenance.

Alfdex

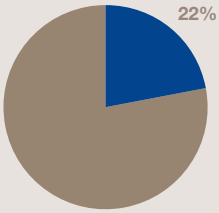
An innovative solution for cleaning crankcase gases

Alfdex, an innovative solution for cleaning exhaust fumes from diesel engines by separating oil drops and particles from crankcase gases. The market potential for the products is believed to be very large: in the next few years, environmental legislation in both the EU and the US will regulate levels of exhaust emissions from heavy vehicles much more sharply than is the case today.

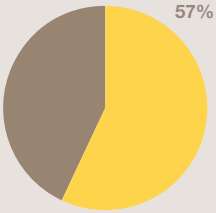
Alfdex is a project in which Alfa Laval cooperates, on market terms, with the Swedish listed company, Haldex.

Better order intake

in all customer segments



The Equipment Division's share of Group employees



The Equipment Division's share of Group sales

Equipment

In 2003, order intake increased in all five market segments of the Equipment Division. Comfort & Refrigeration, Fluids & Utilities and OEM were all stronger than 2002 throughout the year, while order intake in Sanitary was particularly strong during the second half of the year. In 2003, an interesting change in the market occurred in the Marine & Diesel segment. Order intake was weak in the beginning of the year, but improved at the end of the first half of the year. After a sharp acceleration in June, the increased order intake remained at a high level throughout the second half of the year. The favorable trend was most apparent in the marine market, which was bolstered almost exclusively by ship-building activity in Asia.

The Equipment Division is organized in five customer segments: Sanitary, Comfort & Refrigeration, Marine & Diesel, Fluids & Utility and OEM. The aftermarket, Parts & Service, is an important segment, which is covered separately on pages 22 and 23. The Equipment Division posted net sales of SEK 7,842 million (8,130) in 2003, or 56 (56) percent of Alfa Laval's total sales. The number of employees in the division was about 2,000 (about 2,100).

Focus on growth markets

The Equipment Division offers a wide range of products to customers that have a well-defined, recurring and regular need for Alfa Laval's products. Sales are generated mainly through systems builders, contractors and OEM companies as well as through distribution and retail outlets – that is, to customers other than the end-customers or users of the products. The division focuses on increasing value for customers by providing a high level of accessibility for products worldwide through increased sales and distribution channels, product development in cooperation with customers and customer adaption through module concept.

The Equipment Division's strategy is to maintain and strengthen its leading global positions by identifying new product applications in segments with favorable growth prospects.

Sanitary

Focus on sales channels yielded volume growth

For the Sanitary segment, 2003 represented an increase in order intake compared with the preceding year.

The strategy developed by the division, involving a focus on external sales channels, was successful, producing a volume increase.

During the year, the segment also entered into four alliances to reach its goal of being "the best company to do business with."

Integrating Toftejorg was a major priority during the year. The tank cleaning products are now an integrated part of the segment's offering to customers.

The bulk of sales within the Sanitary segment is generated in the beverage, dairy, food processing, pharmaceutical and biotechnology industries, all of which have stringent hygiene and safety requirements. Alfa Laval's pumps, valves, separators, heat exchangers, installation material and tank equipment are used in manufacturing liquid and viscous food products, as well as pharmaceutical and hygiene products.

Highlights of 2003

- Sharp increase in order intake in Marine & Diesel.
- Successful integration of the Danish tank-cleaning company Toftejorg, which was acquired at the beginning of 2003.
- The strategy with sales channels in the Sanitary segment resulted in higher volumes.
- Strong interest in new technology platform, AlfaNova, which was launched during the second half of 2003.


Photo: ALSTOM Marine Bernard BIGER

Cunard Line's Queen Mary 2 is the longest, widest, highest, fastest and most environmentally friendly ocean liner ever built. The systems and equipment onboard from Alfa Laval ensure that the ship is self sufficient in fresh water. Alfa Laval's products also minimize the ship's oil emissions and the oil content in wastewater.

The US is the primary market of the segment. 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.

Comfort & Refrigeration

Strong trend in Russia and China is ongoing

Order intake in Comfort & Refrigeration were better than in 2002, mainly because of the ongoing strong trend in Russia and China. Moreover, the focus on sales channels had favorable results in this segment as well. The launch of the new platform for welded plate heat exchangers, AlfaNova, was well received.

In the Comfort & Refrigeration segment, Alfa Laval sells a broad assortment of heat exchangers used in systems for district heating, district cooling and air conditioning of factories, offices and shopping malls, as well as for maintaining cold and frozen food display counters and ice rinks at the proper temperatures.

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-cooling 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.

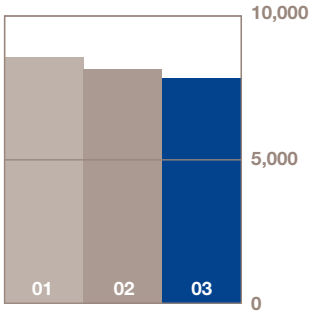
Marine & Diesel

Major increase in order intake

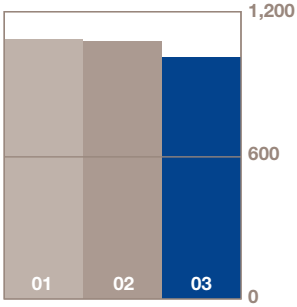
Alfa Laval's order intake within the Marine & Diesel segment was better than in 2002, mainly on account of increased activity among shipyards in Asia.

Moreover, the segment implemented a key account management team to take care of its largest diesel customer, Finland-based Wärtsilä, increasing both its proximity to the customer and the level of service it provides.

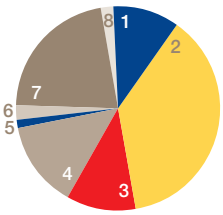
Integration of the Danish company Toftejorg was highly satisfactory. New



Net sales, SEK M
2001: 8,576
2002: 8,130
2003: 7,842

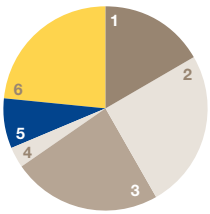


Operating profit, SEK M
2001: 1,084
2002: 1,078
2003: 1,011



Geographic distribution of the Equipment Division sales, %

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



Segment distribution of the Equipment Division sales, %

1 Marine & Diesel
2 Sanitary
3 Comfort & Refrigeration
4 Fluids & Utility
5 OEM
6 Parts & Service

sales of equipment for tank cleaning in the marine market rose 30 percent over 2002.

In Marine & Diesel, Alfa Laval is a significant equipment supplier to shipyards and diesel-engine manufacturers. Approximately two-thirds of all the ships in the world that are in service are equipped with Alfa Laval products. Their applications include fuel and lubricating oil cleaning processes, engine cooling, water purification and purification of sludge and oil-containing water. The list of customers includes Hyundai, MHI, Fincantieri, Wärtsilä 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

Fluids & Utility

Favorable trend in automotive industry in Asia and France

Order intake was better than in 2002. The improvement was particularly apparent in Asia and Latin America. The trend was also favorable in Central and Eastern Europe, while North America remained at the same level as 2002 and Western Europe and the Nordic countries declined.

During the year, order intake increased particularly in the automotive industry, in both Asia and France. Moreover, AlfaPure, a series of separator modules developed primarily to purify cutting and cleaning fluids, was developed further, making it now even simpler to use.

While currently a small segment within Alfa Laval, Fluids & Utility has enormous 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 purified fluids for turning and 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.

The customer base comprises companies in the automotive, metal, electronic and plastic manufacturing sectors such as GM, Daimler-Chrysler, IBM and Rolls Royce.

OEM (Original Equipment Manufacturers)

US breakthrough for plate heat exchangers in air-conditioning plants

Order intake improved compared with 2002, partly owing to a breakthrough in the American market for plate heat exchangers in air-conditioning systems. In 2003, Alfa Laval was awarded one of the largest-ever contracts in this area.

Moreover, sales of small welded heat exchangers continued to grow, increasing by nearly 50 percent in the past two years.

Also in this segment, the launch of the new brazed plate exchanger, AlfaNova, was well received, establishing the potential for a broadening of the customer base.

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. Some of the customers include Vaillant, Caterpillar and Carrier.

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 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.

Sara Lee/DE, with headquarters in the Netherlands, is a subsidiary of Chicago based Sara Lee Corporation. Sara Lee/DE is the largest operator worldwide in the out-of-home coffee market.

When a significant growth in this market was evident, Sara Lee/DE developed a unique high-speed coffee system for professional use, based on concentrated liquid coffee. In 1998 the company enlarged an existing plant for such coffee in Joure in the Netherlands. Another plant is now under construction in Suffolk, Virginia in the United States. Due to their excellent performance during a test in the Joure plant, Alfa Laval's Unique mix-proof valves and ThinkTop intelligent valve control units will also be installed at the heart of the new US plant.

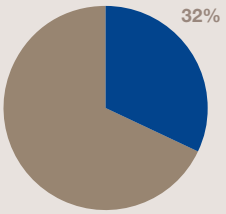
Jan Koopman, manager Technical Engineering of Manufacturing Technology at Sara Lee/DE in Joure was impressed by the high-IQ valve control technology already when it was demonstrated to him the first time. "Alfa Laval's solution satisfies our needs best. Getting back reliable information data and early warnings for preventive maintenance is vital in a production facility that has to operate 24 hours a day, seven days a week," he says.

"Based on our experience, we think that Alfa Laval's intelligent valves are central to successful production in an operation like ours."

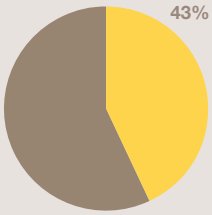
Jan Koopman, Sara Lee/DE

bioKinetics creates

possibilities to develop the Life Science segment



The Process Technology Division's share of Group employees



The Process Technology Division's share of Group sales

Process Technology

In 2003, order intake in the Process Technology Division was somewhat better than in 2002, excluding currency effects, due to a favorable trend in the fourth quarter. Food Technology posted steady growth while Energy & Environment first reversed the negative trend of 2002 a way along into the year. For Process Industry, 2003 developed weakly, but petrochemical investments gained pace toward the end of the year. In Life Science, order intake was somewhat weaker, but as a result of the acquisition of the American company, bioKinetics, in the fourth quarter, the segment reported a plus.

The Process Technology Division operates within four customer-oriented segments: Process Industry, Food Technology, Energy & Environment and Life Science. The aftermarket, Parts & Service, is an important segment which is presented separately on pages 22 and 23. In 2003, the division posted sales of SEK 5,994 million (6,377), or 43 (44) percent of the total sales of the Alfa Laval Group. The number of employees in the division was approximately 2,980 (approximately 2,700).

Customized solutions enhance efficiency in customers' processes

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.

Food Technology

Major projects within vegetable oils contributed to a stronger performance

Order intake within Food Technology improved compared with 2002, primarily due to favorable developments in China, India and the Ukraine.

During 2003, developments within vegetable oil processes were favorable and the segment received several major project orders.

Developments have also been favorable with regard to decanters for processes within the beverage industry.

Alfa Laval has a strong position as a supplier of process solutions to the beverage and food industries.

The solutions are used in the production of beer, wine, vegetable oils and meat and fish proteins. Since Alfa Laval laid the foundations for its strong position within the dairy industry 120 years ago, the company has accumulated an extensive knowledge of processes for separating, heating, cooling, pumping and controlling various foodstuffs.

Alfa Laval's growth in the brewery area exceeds market growth. The company has developed close relations with its 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 pasteurization, mixing, wort boiling and deaeration. The brewing industry performed slightly weaker in 2003 than the preceding year, although 2002 was an exceptionally strong year, particularly in Eastern Europe.

Customers served by Food Technology include such multinational groups as Cargill, ADM, Heineken and Anheuser-Busch.

Process Industry

Weak in 2003, but strong growth in the chemical sector in Asia and Eastern Europe

Order intake in the Process Industry was weaker than in 2002, which is mainly attributable to a continuing overall low level of investment in Western Europe and the US as well as globally, in the starch area.

Otherwise, the chemical sector in Asia and Eastern Europe reported a better order intake, and the petrochemical sector recovered.

The results of the focus on so-called 2-phase applications have begun to yield results, with compact heat exchangers replacing existing technology for condensation, reboiling and evaporation.

The launching of AlfaCond, the first purpose-built plate condenser (read more on page 12) attracted great interest in the market.

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. Compact heat exchangers have enormous potential, as they can often replace conventional shell-and-tube heat exchangers, enhancing efficiency and producing major savings in both space and installation and service costs.

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

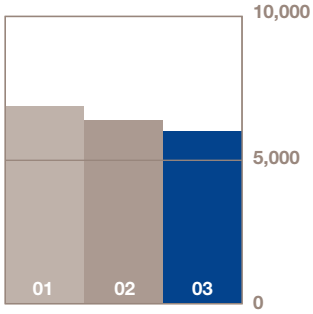
Energy & Environment

Downward trend halted, due mainly to strong order intake in environmental sector

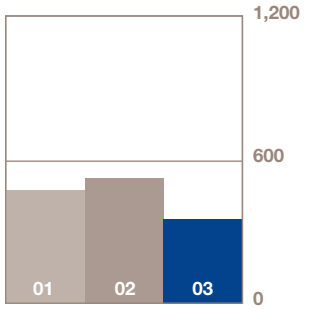
Order intake in 2003 started out weak. However, the downward trend was halted and weak growth was reported for the full year, mainly as a result of the favorable trend in the environmental area and to a certain extent in the energy area. However, the decline in investments in the cyclical oil and gas market continued.

In the environmental area, the launching of the new decanter, Aldec G2, was a key event. Alfa Laval reported an increase in order bookings, despite the market's weak growth, mainly as a result of recovered market share. During the year, Alfa Laval had a strong position in the UK, and strengthened its market positions in China.

In the power industry, the North American market continued to be strained. However, Alfa Laval was able to offset this to a large extent through



Net sales, SEK M
2001: 6,872
2002: 6,377
2003: 5,994



Operating profit, SEK M
2001: 473
2002: 521
2003: 352

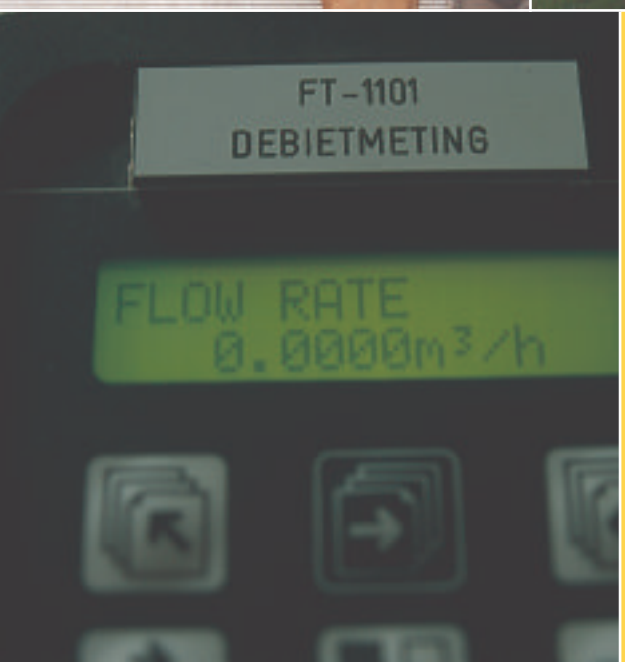
During 2003 the North American company bioKinetics was acquired. Their main products are modular designs that mainly focus on mammalian cell cultures. The picture shows a buffer hold system at Hemosol, a Toronto-based company developing artificial blood products.

Highlights of 2003

- Acquisition of American bioKinetics in fourth quarter of 2003.
- Several major projects in vegetable oils contributed to the favorable trend in Food Technology.
- Recovered market share in the environmental area.
- Strong growth in membrane technology.

"The only way to save money in the wastewater treatment business is by automating the whole process."

Ben Roelfzema,
Dutch Water Board, Zuiderzeeland



Sewage treatment is becoming more self-regulating and automated. Octopus from Alfa Laval is the first self-optimizing system in the sludge dewatering business. It can be described as a decanter autopilot that optimizes the decanter's operation around the clock.

The wastewater treatment plant in Almere in the Netherlands treats 30,000 cubic metres of sewage every day. The plant produces secondary sludge that is dewatered in decanter centrifuges. The sludge that Almere delivers to the incineration company has a dry solids content of between 18 and 22 percent. By contrast, before entering the decanter, the sludge has a concentration of 2.5 percent dry solids.

"With Octopus, we can set minimum and maximum levels for all relevant process parameters and optimize our costs," says Ben Roelfzema environmental manager at the Dutch Water Board Zuiderzeeland that owns and operates the plant in Almere. "And the Octopus system adjusts these by itself."

With the help of Octopus, the Almere plant has made substantial savings through more efficient sludge dewatering and through decreased use of polymer and fresh water. Another significant benefit is constant, good quality of the centrate (separated water in the dewatering process).

major projects in Asia, Russia and the Middle East.

Market conditions in the Oil & Gas market continued to be tight, resulting in fewer projects, despite the high price of oil. Investments in land-based drilling gave encouraging signals.

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 & Gas industry, Alfa Laval supplies solutions for drilling and production of crude oil and gas, freshwater production and treatment of oil-contaminated water. 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.

As a result of more stringent environmental legislation, the need for efficient handling of wastewater and sludge is increasing. 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.

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

Life Science

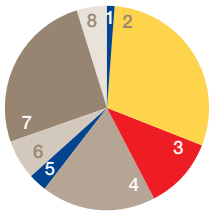
Acquisition of US-based bioKinetics creates development possibilities

Order intake in Life Science increased in 2003, as a result of the acquisition of the American company, bioKinetics. bioKinetics targets the biotechnology and pharmaceutical industries, and its main products are process modules, focusing on mammalian cell cultures. bioKinetics currently operates in North America. Combining the resources of bioKinetics with Alfa Laval's market presence will give Alfa Laval greater access to the European and Asian markets. In 2002, bioKinetics posted sales of SEK 550 million and had approximately 400 employees. Its customers include leading pharmaceutical and biotechnology companies such as Amgen and IDEX.

Alfa Laval also ranks among pioneers in the development of advanced separators for the increasing production of pharmaceuticals based on mammalian cells. Having acquired the Danish company, DDS, in 2002, Alfa Laval can now combine membrane filtration and centrifugal separation. The products are mutually complementary, and membrane filtration technique has already been further developed and its areas of application increased.

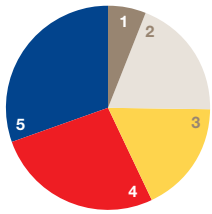
Life Science, which is a growing area of operations within Alfa Laval, serves the pharmaceutical, biotechnology, fermentation and health foods industries. The company has developed a number of products and solutions that meet the stringent safety and hygiene requirements applied by the supervisory authorities and the industries. Products aimed at this market include centrifugal separators for advanced cell separation, heat exchangers for condensation and sterilization, and pumps and valves for precise transport and flow control.

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



Geographic distribution of sales in the Process Technology Division

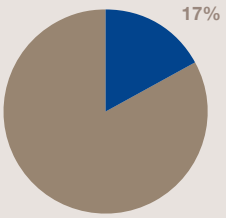
1 Sweden
2 Rest of EU
3 Rest of Europe
4 US
5 Rest of North America
6 Latin America
7 Asia
8 Other



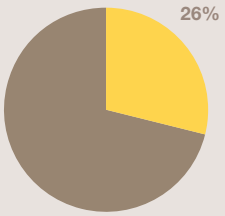
Segment distribution of sales in the Process Technology Division

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

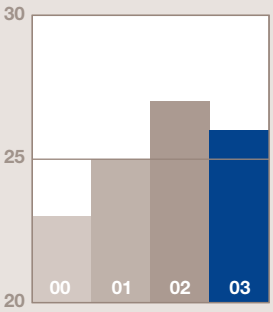
Continued growth



Percentage of Group's employees employed in Parts & Service



Percentage of Group sales generated through Parts & Service



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

2000: 23 **2002:** 27
2001: 25 **2003:** 26

Parts & Service

In 2003, Alfa Laval's aftermarket continued to grow, accounting for 26 percent of the Group's total sales in the year. Over the past few years, an increasing proportion of Alfa Laval's revenue has come from Parts & Service. In 1999, these operations comprised 22 percent of Group sales.

Establishment of many new service agreements

In 2003, Alfa Laval continued to develop the Parts & Service business in the more mature markets particularly in Europe and the US, to generate more performance agreements, thereby strengthening its long-term relationships with both large and small customers. During the year, Alfa Laval signed several new performance agreements, mostly with customers with an established fleet of separators. The performance agreements represent a major business potential for Alfa Laval.

During the year, the trend of sales was favorable in both Central and Eastern Europe and Asia. This trend will have a favorable effect on the aftermarket. A large part of the growth is related to growth in Alfa Laval's installed machine fleet, but it is also due to the fact that the organization is continually developing, is increasingly effective in its business development activities, and has broadened its offering to customers.

Strong trend in the marine area, in both spare parts and service

Alfa Laval's strong growth in the global marine market continued, both in spare parts and service. This applies particularly to original parts distributed from Alfa Laval's global network and support from technical service centers.

Food Processing and HVAC posted strong growth. The large installed base of plate heat exchangers, separators, pumps and valves demands active support in terms of spare parts and service from sales channels, in all industrial applications.

New organization, new culture

Alfa Laval's organization, based on 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. 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. Furthermore, the products have long lifetimes, with heat exchangers having a typical lifetime of 5 to 20 years and separators having a typical life span of 10 to 20 years. Alfa Laval has a global network of about 70 service centers that makes spare parts and services available to customers everywhere.

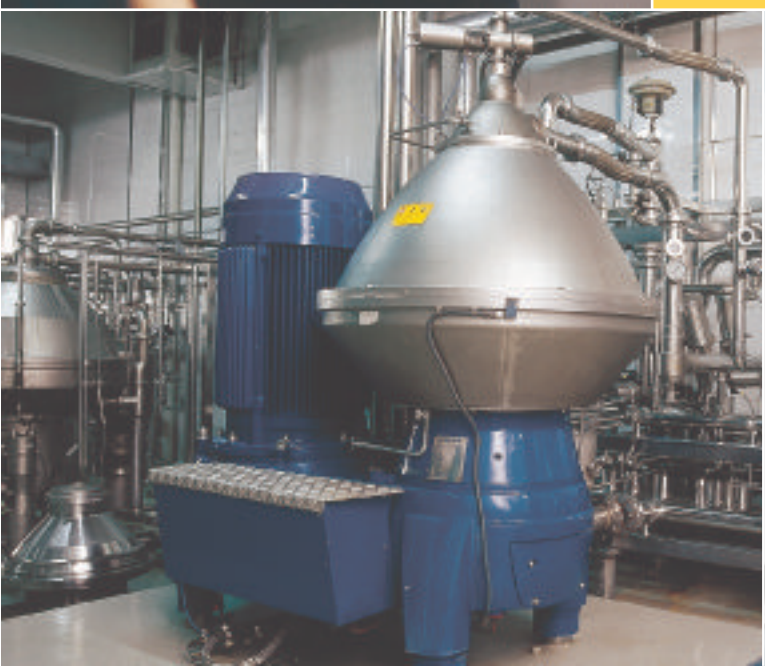
"The technical support and after-sales service we receive from Alfa Laval are important. We are treated as a key account."

Xiao Minghua, Angel Yeast

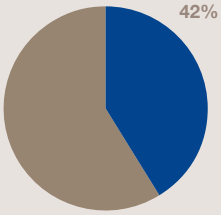
The Chinese company Angel Yeast is one of Asia's largest producers of yeast used mainly by bakeries but also by the brewery, food, pharmaceutical and healthcare industries. Angel Yeast is represented in more than 20 countries and its exports have climbed to 20 percent of sales.

Alfa Laval is an important partner to Angel Yeast since 1988 and has installed a large number of separators and plate heat exchangers that are carefully maintained for optimum operation. "Alfa Laval is one of the two top suppliers of yeast separators in the world and the one we are most familiar with", says Xiao Minghua, deputy general manager in charge of equipment maintenance and procurement. "We use the separators to keep purity high and ensure cleaner yeast."

Angel Yeast hopes to be one of the top five yeast makers in the world within five to ten years and aims at leadership not only in market share but also in technology. The company can compete globally today, partly thanks to the partnership with Alfa Laval.



Further improvement in delivery reliability



The Operations Division's share of Group employees

The Operations Division is a centralized function that performs all manufacturing, purchasing and logistics functions within Alfa Laval. In centralizing these functions, the company aims to optimize delivery reliability for customers, increase productivity, reduce operating costs and exploit economies of scale.

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.

Focus on SixSigma

In 2003, the division launched a new focus on SixSigma at its production units in Lund and Ronneby in Sweden. Toward the end of the year, the company began to introduce SixSigma at its units in Kolding, Denmark, and Alonte, Italy.

During the year, the production unit in Lund used SixSigma in its improvement activities – with favorable results. The target for 2003 was to save SEK 6 million with the help of SixSigma. A total of SEK 6.4 million in cost savings was the outcome.

To follow up process stability – a central concept of SixSigma – the unit introduced a measurement database that measures the number of errors per million runs. Once a month, the unit carries out measurements of 55 parameters – for example, discards from a press line, bottlenecks in key machines, late deliveries and delays from suppliers.

Considerable effort has been devoted to identifying the right parameters and ways of measuring them.

Manufacturing

Preparing for growth

Alfa Laval has 3,900 production employees and 20* large manufacturing units, of which 12 are in Europe, six in Asia and two in the US. During the past several years, global production has concentrated on fewer, 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 located mainly in Western Europe, the US and Japan.

In 2003, several production units were engaged in preparing their capacity to cope with a higher order intake. It was decided to build an extension onto the facility in Lund, which would cost approximately SEK 100 million, to boost

* Pertains to the largest production plants. The Group has a number of other manufacturing facilities.

Operations

Highlights of 2003

- Further improvement in delivery reliability, particularly in the Sanitary segment in the US.
- Focus on SixSigma, starting at the Swedish units in Lund and Ronneby.
- Investments to prepare for higher order intake, and decision to extend production facility in Lund for approximately SEK 100 million.
- Launching of new cost-savings phase in production purchasing, to achieve further improvements and savings.

In 2003, Alfa Laval acquired the Danish company Toftejorg; the specialist and market leader in advanced tank cleaning equipment. The pictures shows how all finished Toftejorg products are put through a rigorous testing process to ensure that they meet the company's uncompromising standards.

capacity and improve logistics. Work on the addition, which started during the second half of 2003, is expected to be complete during the second quarter of 2005. The costs of the investment will be charged mainly to 2004. Other major capacity investments were undertaken in China and India.

Logistics

Improved delivery structure in the US

Efforts to introduce the One4AL system in Western Europe continued. One4AL is a system that simplifies the flow from order to delivery and invoicing in a comprehensive 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.

One of the largest projects in the Operations Division in 2003 was the streamlining of the delivery chain in the US, particularly in the Sanitary segment. In 2003, the segment focused particularly on streamlining control of the delivery chain, including order and logistics solutions. A joint project with the sales company, this effort in combination with a review of the product program and supplier development resulted in a clear improvement in the company's delivery capability in North America.

New distribution centers were opened in Japan and China to supply Asia with products and spare parts. In Kolding, Denmark, preparation commenced for the startup in 2004 of a new logistics system for the entire logistics function. The aim of the new system is to further improve the delivery capability and streamline distribution.

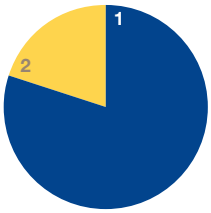
Purchasing

Volume advantages 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.

In 2003, the division also introduced a tool box to enable units to review and improve suppliers' delivery reliability in a systematic way. The purchasing organization introduced systems to promote continuous improvement, focusing on a number of key parameters, to increase competitiveness.

Optimizing knowledge and skills – time and time again

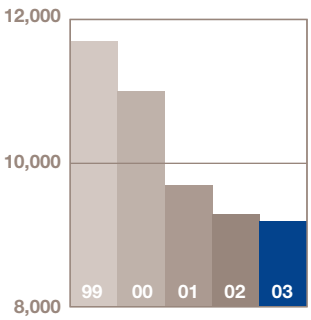


Gender division, %

1	Men	80
2	Women	20

Geographic distribution
(Average number of employees in 2003)

Ten largest countries		
1	Sweden	1,941
2	Denmark	1,098
3	India	1,031
4	US	742
5	France	599
6	Italy	484
7	China	411
8	UK	334
9	Germany	256
10	Russia	235
	Other	2,063
	Total	9,194



Average number of employees

1999:	11,696
2000:	11,001
2001:	9,693
2002:	9,292
2003:	9,194

Alfa Laval University

Alfa Laval's business concept is *"To optimize the performance of our customers' processes. Time and time again."* In line with this, the goal of Alfa Laval University is *"To optimize the knowledge and skills of our employees. Time and time again."*

University structure

Alfa Laval University is an umbrella term for all training activities within the Alfa Laval Group. Much of the internal training is held in Sweden and Denmark, where many R&D centers and business units are located, although extensive training is also conducted in other parts of the world. The majority of training is led by specialists and line managers as part of their regular duties. Internal training is supplemented with courses that use external instructors and mentors.

To ensure that training efforts within Alfa Laval University support the Group's business concept and strategies, a board has been appointed to support and inspire the University. The board comprises four members of Alfa Laval's executive management and two external university professors. Having external board members enables Alfa Laval University to stay better informed about the best educational programs in the market and about developments within other industries and academic institutions.

Alfa Laval University is divided into three faculties, each focusing on a different core area of expertise:

- Sales and marketing
- Technology
- Management

Alfa Laval University – activities in 2003

The primary focus in 2003 was on the Group's growth strategy. As a result, Alfa Laval University developed further training to support this strategy and also designed new processes and training programs.

The Intellectual Potential

Together with Carl-Henric Nilsson, Assistant Professor at Lund University, Alfa Laval continued to develop "The Intellectual Potential" during 2003 (for more detailed information, please see the Annual Report for 2002). The Intellectual Potential is a tool for identifying the development needs linked to an individual segment's growth strategy.

The Intellectual Potential asks five questions related to a business unit's global business linked to its strategy.

- Do we have the right people with the right skills?
- Are our business processes sufficient for the company to achieve its strategic goals?
- Is our organization innovative enough?
- Do we have sound relationships with customers, suppliers and strategic partners?
- How productive is our organization?

The Intellectual Potential is a task-oriented method whereby the management of the business unit follows a three-step process:

- *Strategy follow-up*. Take action to ensure that everyone understands the strategy, believes in it and receives the necessary support from management.
- *Review key processes* in the entire value chain. Take action to eliminate any knowledge gaps or misunderstandings.

- *Identify the indicators* that show whether each part of the business process is working satisfactorily. Take action in the form of skills development initiatives or personnel changes in any areas where performance is unsatisfactory.

Accelerator

A new tool that is mandatory for all salespeople. The process, used to plan sales activities, sums up individual sales activities and goals and specifies which skills development initiatives are required. Sales activities and results within a sales company can be summarized using standardized Key Performance Indicators (KPIs).

Connect

Connect is a new market planning process that ensures that sales activities at the sales companies and individual activity plans in Accelerator are linked to the growth strategy. At the same time, Connect ensures that perceived market opportunities are communicated back to the relevant segment so that business planning and strategies can be continually developed. During 2003, Connect was introduced in all segments and sales companies globally.

Training for new sales recruits

Training for new sales recruits is held in Sweden on a quarterly basis. Every new member of the sales organization is provided with an opportunity to hear and discuss the Group's strategy directly with the President and other members of executive management and key employees. New sales recruits are given theoretical and practical training in how to use Accelerator to plan their sales activities. They then take part in a tailor-made training program on how to plan sales activities for the specific product and applications they are expected to sell. During 2003, 65 newly recruited salespersons were trained in this manner.

Sales and technical training for experienced sales personnel

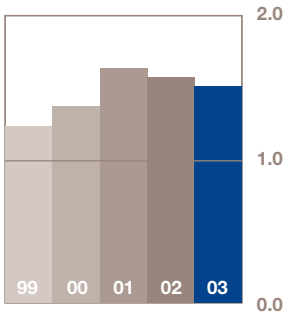
This is the largest part of the training. In 2003, 112 courses were held within the Group for a total of 1,056 participants from 41 countries. The average length of the training was three days. During 2002 and 2003, the effectiveness of this training was evaluated and improvements implemented. All courses are now evaluated in accordance with standardized criteria and the feedback is then used in the training and selection of teachers.

Dialogue for growth

Managers and specialists are appointed to form a working committee that meets to discuss and solve growth-related problems and opportunities. Each meeting is attended by a representative of the executive management and a representative from a company from another industry that has handled and utilized similar growth opportunities. Three "Dialogues for Growth" were held in 2003.

Number of employees

The Alfa Laval Group had a total of 9,358 employees at December 31, 2003, an increase of 233 compared with a year earlier. In 2003, 457 employees joined the Group through acquisitions.



Sales per employee, SEK M

1999:	1.23
2000:	1.37
2001:	1.63
2002:	1.57
2003:	1.51

* Average no. of employees.

Leadership on the seven seas

Message in a bottle: More than half of the ships in the world are equipped with Alfa Laval products and solutions. For the benefit of the ship itself: cleaning, conditioning and handling of fuel and lube oil. For the benefit of passengers and crew: purification of sea water, and air-conditioning systems to create the perfect climate on board. For the benefit of the environment: effective tank cleaning, advanced waste management, and economies in the use of energy.

But Alfa Laval's involvement in the marine industry goes further than that. Alfa Laval has a worldwide network for marine service in all major ports and provides the necessary assistance for ship owners who want their fleet to be moving full steam ahead.

Board of Directors' Report

The Board of Directors and the President of Alfa Laval AB (publ) hereby submit their annual report for the year of operation January 1, 2003 to December 31, 2003.

Alfa Laval AB is a public limited liability company. The seat of the Board is in Lund and the company is registered in Sweden under corporate registration number 556587-8054. The visiting address of the head office is Rudeboksvägen 1 in Lund and the postal address is Box 73, 221 00 Lund, Sweden.

Ownership and legal structure

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

The company had 7,254 (5,746) shareholders on December 31, 2003. The two largest owners are Industri Kapital and Tetra Laval, where 17.9 (26.9) percent are owned by the partnerships that are controlled by Industri Kapital 2000 Ltd, United Kingdom and 17.7 (17.7) percent are owned by Tetra Laval B.V., the Netherlands. On October 29, 2003 Industri Kapital has decreased the ownership in Alfa Laval by 9.0 percentage units from 26.9 percent. Next to the two largest owners there are eight institutional investors with ownership in the range of 4.5 to 1.7 percent. These ten largest owners own 60.1 percent of the shares.

Operations

The Alfa Laval Group is engaged in the development, production and sales of products and systems based on three main technologies: separation/filtration, heat transfer and fluid handling. Alfa Laval's primary segments are the two divisions "Equipment" and "Process Technology", where the sales and marketing activities are performed. The divisions are based on ten customer segments. The 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. The Group also has a common function "Operations" for procurement, production and logistics. The Group's secondary segments are geographical markets.

Sale of business

On December 5, 2003 an asset purchase agreement was signed between the subsidiary Tri-Lad Inc. in Canada and local management of the company whereby all non-financial assets were sold to local management. The closing date is January 30, 2004. Tri-Lad Inc. is selling equipment to the oil and gas industry and was a non-core activity within Alfa Laval. It has been up for sale since several years.

The divestment of the operation called Industrial Flow was made on April 2, 2001. The sales price was SEK 330.6 million. In the annual report for 2001, a realised gain of SEK 10.0 million was recognised. A few activities remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million. These items have been reported as comparison distortion items. During 2000, Industrial Flow had net sales of SEK 655.5 million and 689 employees.

Sale of real estate

On February 26, 2003 the property in Newmarket in Canada was sold for SEK 20.0 million, with a realised gain of SEK 3.6 million. In connection with the construction of a new headquarter building in Lund a piece of land was sold to the new landlord for SEK 3.8 million with a realised gain of SEK 2.0 million. These disposals are reported as comparison distortion items in the income statement. The sale of the property in Kenosha in Wisconsin has been delayed due to the situation on the real estate market in the US. Other properties in Spain, Brazil, Canada, Denmark, Wales and Peru are also planned for sale.

The sale of the property in Warminster, the United States was completed in March 2002 at a price of SEK 62.1 million and with a realised loss of SEK -43.2 million. The real estate in Johannesburg in South Africa was divested in May 2001. The sales price was SEK 13.6 million resulting in a realised loss of SEK -0.3 million. The sale of the real estate in Glinde in Germany was completed in October 2001 at a price of SEK 196.4 million, with a realised loss of SEK -8.3 million. In addition, some smaller properties in Spain and Sweden and one condominium in Sweden were sold in 2001 for a total of SEK 14.2 million, with a realised gain of SEK 3.9 million.

Purchase of business

On October 2, 2003, Alfa Laval acquired the Life Science division, bioKinetics, from Kinetics Group Inc. in the US for SEK 215 million corresponding to approximately six times expected EBIT for 2003. The Kinetics Group Inc. was taken private in August 2000 in an investor led buy-out from United States Filter Corporation.

bioKinetics is a North American leader in technology-driven integrated process solutions for the biotech and pharmaceutical industries. bioKinetics' main products are modular designs that mainly focus on mammalian cell cultures. These modules are predominantly bioreactor modules, but also

modules for cell harvesting, purification and bio-deactivation. In the bioKinetics customer base leading pharmaceutical and biotech companies such as Amgen, IDEC, Lonza and Merck can be found.

Life Science, defined as pharmaceutical and biotech, is a market where Alfa Laval already today is active with all core products. However, as the Life Science market shows a very high growth Alfa Laval has to secure that the potential is captured. The operations are reported as a part of the Process Technology Division.

bioKinetics is headquartered in Philadelphia, PA with additional operations in North Carolina and California in the US and Toronto in Canada. The difference between the purchase price paid and the net assets acquired is SEK 143.6 million. SEK 22.3 million of this has been allocated to patents and unpatented know-how, while the residual SEK 121.3 million has been allocated to goodwill. The goodwill is amortised over 10 years. bioKinetics has approx 400 employees and net sales of approximately SEK 550 million.

As earlier communicated Alfa Laval suspects irregularities in the accounting with regard to revenue recognition for certain customer projects in bioKinetics. Alfa Laval has therefore initiated a further investigation specifically addressing the suspected irregularities. The preliminary findings from this investigation support the suspicions. Alfa Laval has as a consequence decided to initiate new negotiations with the former owner Kinetics Group Inc.

On January 31, 2003, the Danish Toftejorg A/S Group was acquired, with effect from January 1, 2003. The operations cover R&D, assembly and sales of advanced tank cleaning equipment, targeting the Food and Marine industries. In addition to the operations in Denmark, the Toftejorg Group had sales companies in Sweden, Norway, Germany, the UK, France, Singapore, the United States and its own representation in South Korea. The operations are integrated into the Equipment Division. The difference between the purchase price paid and the net assets acquired is SEK 33.9 million. SEK 0.9 million of this has been allocated to a property in the US, while the residual SEK 33.0 million has been allocated to goodwill. The goodwill is amortised over 10 years. Toftejorg has annual sales of about SEK 210 million and approximately 100 employees.

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 SEK 110.1 million. This has entirely been allocated to goodwill. This goodwill is amortised over 20 years. The company has annual sales of about SEK 90 million 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, 2001 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. The purchase of the additional shares resulted in a cash payment of SEK 87.3 million. The difference between the purchase price paid and the net assets acquired was SEK 39.2 million. This has been allocated to goodwill in its entirety. This goodwill is amortised over 20 years. During 2001, Alfa Laval (India) Ltd had external net sales of SEK 530.8 million and on average 1,003 employees.

Orders received

Orders received amounted to SEK 3,750.4 (3,501.4) million for the fourth quarter. Excluding exchange rate variations, the order intake for the Group was 15.7 percent higher than the fourth quarter last year.

Orders received amounted to SEK 14,145.3 (14,674.8) (15,893.9) million during 2003. Excluding exchange rate variations, the order intake for the Group was 4.9 percent higher than last year. Orders received from the after market Parts & Service grew in absolute terms for the fourth consecutive year and were 26.1 (26.8) percent of the group's total orders received.

Order backlog

The order backlog at December 31, 2003 was SEK 4,021.1 (4,340.1) million. Excluding exchange rate variations, the order backlog was 6.4 percent higher than the order backlog at the end of 2002.

Net sales

Net sales of the Alfa Laval Group amounted to SEK 4,086.3 (4,175.1) million for the fourth quarter of this year. Excluding exchange rate variations, the invoicing was 6.6 percent higher than the fourth quarter last year.

Net sales of the Alfa Laval Group amounted to SEK 13,909.3 (14,594.9) (15,829.6) million during 2003. Excluding exchange rate variations, the invoicing was 3.6 percent higher than last year.

Segment reporting

Alfa Laval's primary segments are the two divisions "Equipment" and "Process Technology". The divisions are based on a split into a number of customer segments. The 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.

Divisional reporting

EQUIPMENT DIVISION

The Equipment division consists of six customer segments: Comfort & Refrigeration, Fluids & Utility Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service.

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

Orders received increased by 7.1 percent and net sales increased by 3.7 percent during 2003 compared to last year.

All customer segments in the Equipment division, have reported an increase in orders during 2003 com-

pared to 2002. Orders received for the fourth quarter 2003 were well above the fourth quarter last year for all segments giving an increase for the quarter of 16.8 percent for the division as a whole. The organic growth in the fourth quarter was 14.9 percent.

Applications such as marine, comfort and industrial original equipment manufacturers have shown a strong demand during most of the year. Channels in the Sanitary segment such as contractors and end-users have also developed well.

Parts & Service has continued to grow also in the last quarter of 2003. The growth came out of industrial applications as well as marine.

As orders exceeded sales, the division will start 2004 with an order backlog greater than the opening backlog for 2003. This is general for all segments, but the increase is greater for marine.

Operating income

Operating income was SEK 1,010.9 (1,098.8) million in 2003. The decrease in operating income during 2003 is due to higher gross margin by SEK 27.7 million (out of which fx-transaction differences of about SEK -79.5 million), higher costs for research and development by SEK -10.0 million and for other overhead by SEK -38.1 million and a negative translation impact from exchange rates by SEK -67.5 million. The increase in other overhead is linked to the acquisition of Toftejorg.

PROCESS TECHNOLOGY DIVISION

The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

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

Orders received increased by 2.3 percent and net sales increased by 3.6 percent during 2003 compared to last year. The increase in orders as well as sales was largely coming from the acquisition of bioKinetics.

The division reported an increase in orders during the fourth quarter of 8.1 percent exclusive of acquisitions compared to the corresponding period last year. This is seen as a definite change in demand for all capital sales segments except Process Industry. Including acquisitions orders received increased by 12.7 percent during the fourth quarter.

For the full year 2003 all segments but Process Industry have reported growth. Applications like vegetable oil, environment and beverages have reported the most significant increases in orders compared to 2002. Parts & Service has reported another year of growth.

As orders exceeded sales, the opening backlog for 2004 is greater than the backlog going into 2003.

Operating income

Operating income was SEK 351.5 (537.5) million in 2003. The decrease in operating income during 2003 is due to lower gross margin by SEK -187.3 million (consisting of fx-transaction differences of about SEK -72.5 million and the remainder a combination of lower volume, changed mix and price), higher costs for research and development by SEK -1.8 million and lower costs for other overhead by SEK 54.2 million and a negative translation impact from exchange rates by SEK -51.1 million.

OPERATIONS DIVISION AND OTHER

Operations are responsible for procurement, production and logistics. Other is referring to corporate overhead and non-core businesses.

Operating income was SEK -229.5 (-387.6) million in 2003. The increase in operating income during 2003 is due to higher gross margin by SEK 33.7 million, contributions to Alfa Laval Pension fund with SEK 48.9 million, a receivable on insurance captive (property and business interruption insurance) brought to income with SEK 18.0 million and lower costs for other overhead by SEK 57.5 million.

Reporting by geographical markets

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

Orders received

Orders received increased in Central and Eastern Europe and Asia and increased somewhat in North America and Latin America during 2003. Oceania and Africa reported decreased orders received, whereas the orders received for Western Europe and the Nordic countries were slightly below the level of last year.

Net sales

The invoicing increased in Central and Eastern Europe, Asia, Latin America and Africa and increased somewhat in Oceania during 2003. Net sales in Western Europe were unchanged, whereas North America was below and the Nordic countries slightly below the level of last year.

Personnel

The parent company does not have any employees.

The Group has on average had 9,194 (9,292) (9,693) employees. At the end of December 2002 the Group had 9,125 employees. The number of employees was 9,358 on December 31, 2003. The increase compared to 2002 is due to the acquisitions of bioKinetics with 356 employees and Toftejorg with 87 employees at the end of 2003.

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 transfer. 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 has amounted to SEK 368.1 (355.2) (341.4) million, corresponding to 2.6 percent (2.4 percent) (2.2 percent) of net sales. At constant exchange rates, this represents an increase by SEK 14.2 million or 4.0 percent between 2003 and 2002.

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 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 December 31, 2003 named as co-defendant in a total of 123 asbestos-related lawsuits with a total of approximately 19,900 plaintiffs. The lawsuits filed in Mississippi account for approximately 99 percent of all plaintiffs.

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

After thorough investigations Alfa Laval continues to believe that potential claims in connection with 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.

During the fourth quarter 2003 Alfa Laval Inc. has been named as co-defendant in an additional nine lawsuits with a total of 13 plaintiffs. During the fourth quarter seven lawsuits involving approximately 400 plaintiffs have been resolved. This gives a grand total of 70 lawsuits that have been resolved.

Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the company's financial condition or results of operation.

Result for the parent company

The parent company's result after financial items was SEK 0.7 (-87.9) (-331.3) million, out of which comparison distortion costs were SEK - (-14.1) (-) million, net interests were SEK 6.0 (-94.2) (-244.4) million, realised and unrealised exchange rate gains and losses SEK -0.1 (24.7) (-84.4) million and fees to the Board and other administration costs the remaining SEK -5.2 (-4.3) (-2.5) million. Tax on received Group contribution was SEK 171.8 (15.0) (-) million and deferred tax on unused tax losses SEK 4.5 (-) (-) million. Net income for the year was SEK 177.0 (-72.9) (-331.3) million.

Unrestricted equity capital for the parent company and the Group

The unrestricted equity capital of Alfa Laval AB (publ) was SEK 1,069.0 (673.7) (1,457.8) million.

The unrestricted equity capital of the Alfa Laval Group was SEK 891.2 (511.2) (1,407.8) million. The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of SEK 54.3 (22.0) (60.7) million. After deduction for this, the net available for distribution is thus SEK 836.9 (489.2) (1,347.1) million.

Proposed disposition of earnings

The Board of Directors propose a dividend of SEK 4.00 (2.00) (-) per share corresponding to SEK 446.7 (223,3) (-) million and that the remaining income of SEK 622.3 (450.3) (1,457.7) million be carried forward, see page 86.

Events after the balance sheet date

The balance sheets and the income statements will be adopted at the Annual General Meeting of shareholders on April 27, 2004.

In a press release on January 27, 2004, the President and Chief Executive Officer Sigge Haraldsson has communicated his intention to retire in October 2004.

The nomination committee proposes that Gunilla Berg is elected as a member of the Board and that Sigge Haraldsson is not re-elected at the coming Annual General Meeting.

Outlook 2004

In the fourth quarter and full year 2003 report issued on February 16, 2004, the President and Chief Executive Officer Sigge Haraldsson stated:

"Markets recovered during the second half of 2003 within most of the customer segments in which Alfa Laval is active. It is our opinion that the recovery will continue during 2004. Assuming that the recovery will not be affected by unforeseen events in the world, we believe in a strong increase in orders received during 2004.

We assess that the EBITA-margin, excluding currency effects, will be improved."

Date for the next financial report

The interim report for the first quarter 2004 will be published on April 27, 2004.

Seven-year overview

SEK millions, unless otherwise stated	Alfa Laval 2003	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	13,909.3	14,594.9	15,829.6	15,012.3	14,405.4	14,733.6	15,676.4
Comparison distortion items	5.6	-29.2	5.3	129.9	29.8	497.2	236.3
Operating income	1,138.5	1,219.5	1,231.4	810.1	248.9	772.4	562.5
Financial net	-321.1	-542.6	-1,189.6	-1,106.6	-132.9	-204.8	-394.3
Result after financial items	817.4	372.1	41.8	-296.5	116.0	567.6	168.2
Minority share in subsidiaries' income	-41.6	-33.6	-32.0	-47.6	-26.7	-15.6	4.0
Taxes	-130.0	-218.3	26.3	-60.6	-333.3	39.7	-278.8
NET INCOME FOR THE YEAR	**645.8**	**120.2**	**36.1**	**-404.7**	**-244.0**	**591.6**	**-120.1**
Balance sheet information							
Goodwill	3,098.5	3,369.0	3,372.9	3,314.2	1,692.2	2,069.1	2,758.8
Other intangible assets	1,101.5	1,334.3	1,640.4	1,805.4	22.9	24.8	32.6
Property, plant and equipment	2,756.5	3,082.7	3,598.9	4,111.8	2,882.5	2,913.0	3,070.0
Financial long-term assets	670.7	751.9	1,102.4	1,094.5	324.4	635.1	135.9
Inventories	2,217.8	2,279.0	2,623.9	2,882.0	2,930.4	3,321.1	3,432.3
Current receivables	3,631.3	3,590.3	4,333.7	4,353.3	3,891.1	4,037.6	4,883.4
Current deposits	658.6	414.3	293.3	595.5	283.1	95.7	163.9
Cash and bank	554.6	605.9	666.4	634.5	677.0	550.7	506.2
TOTAL ASSETS	**14,689.5**	**15,427.3**	**17,631.8**	**18,791.2**	**12,703.5**	**13,647.1**	**14,983.1**
Equity capital	4,897.0	4,512.3	1,445.1	1,312.3	3,342.6	3,652.1	2,967.4
Minority interest	104.2	108.2	131.8	169.5	147.7	119.0	173.0
Provisions for pensions etc.	754.8	720.6	774.9	658.3	520.5	671.8	745.8
Provisions for taxes	817.0	990.3	1,143.6	1,413.1	199.1	182.0	240.0
Other provisions	891.2	989.3	1,063.2	1,179.1	949.7	0.0	0.0
Long-term liabilities	3,491.8	4,233.4	8,321.4	8,899.3	449.3	2,957.4	3,313.0
Current liabilities	3,733.5	3,873.3	4,751.6	5,159.6	7,094.7	6,064.8	7,543.9
TOTAL EQUITY CAP. & LIAB.	**14,689.5**	**15,427.3**	**17,631.8**	**18,791.2**	**12,703.5**	**13,647.1**	**14,983.1**

SEK millions, unless otherwise stated	Alfa Laval 2003	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
KEY RATIOS							
Orders received	14,145.3	14,674.8	15,893.9	15,374.4	13,896.8	13,865.7	14,551.3
Order backlog at year end	4,021.1	4,340.1	4,313.5	4,063.0	3,532.0	3,906.7	4,362.9
EBITA	1,632.6	1,726.2	1,743.3	1,289.8	964.0	1,462.1	1,252.2
EBITDA	1,925.7	2,057.5	2,143.6	1,756.0	1,439.8	1,957.9	1,776.6
EBITA-margin, %	11.7	11.8	11.0	8.6	6.7	9.9	8.0
EBITDA-margin, %	13.8	14.1	13.5	11.7	10.0	13.3	11.3
Adjusted EBITA	1,627.0	1,755.4	1,738.0	1,159.9	934.2	964.9	1,015.9
Adjusted EBITDA	1,920.1	2,086.7	2,138.3	1,626.1	1,410.0	1,460.7	1,540.3
Adjusted EBITA-margin, %	11.7	12.0	11.0	7.7	6.5	6.5	6.5
Adjusted EBITDA-margin, %	13.8	14.3	13.5	10.8	9.8	9.9	9.8
Profit margin, %	5.9	2.5	0.3	-2.0	0.8	3.9	1.1
Excl. Goodwill and step-up values:							
Capital turnover rate, times	5.0	4.4	4.1	3.4	3.2	3.4	3.7
Capital employed	2,807.2	3,283.0	3,901.0	4,385.1	4,475.8	4,367.0	4,281.7
Return on capital employed, %	58.2	52.6	44.7	29.4	21.5	33.5	29.2
Incl. Goodwill and step-up values:							
Capital turnover rate, times	1.8	1.7	1.7	1.9	2.3	2.2	2.4
Capital employed	7,667.2	8,564.5	9,401.2	8,010.8	6,356.5	6,781.0	6,631.4
Return on capital employed, %	21.3	20.2	18.5	16.1	15.2	21.6	18.9
Return on equity capital, %	13.2	2.7	2.5	-30.8	-7.3	16.2	-4.0
Solidity, %	33.3	29.2	8.2	7.0	26.3	26.8	19.8
Net debt	2,401.1	3,498.5	7,777.5	8,422.4	2,854.5	2,808.7	4,079.5
Debt ratio, times	0.49	0.78	5.38	6.42	0.85	0.77	1.37
Interest coverage ratio, times	5.0	3.0	1.9	1.6	5.9	6.2	4.1
Cash flow from:							
operating activities	1,653.5	1,923.8	1,998.7	1,630.4	1,324.4	558.5	-491.5
investing activities	-457.4	-547.8	114.9	-8,284.0	-599.5	-189.2	-3,168.9
financing activities	-1,167.2	-1,320.3	-2,095.0	6,617.9	-586.4	-324.8	3,420.5
Investments	258.5	276.7	274.9	311.7	431.2	438.4	485.9
Average number of employees	9,194	9,292	9,693	11,001	11,696	12,613	13,704
Earnings per share, SEK	5.78	1.41	0.96	-10.79	-19.52	47.30	-4.00
Cash earnings per share, SEK	0.26	0.65	0.50	-0.95	11.08	3.56	-7.99

Consolidated cash-flow statements

Amounts in SEK millions	*Note*	Jan 1– Dec 31 2003	Jan 1– Dec 31 2002	Jan 1– Dec 31 2001
Cash flow from operating activities				
Operating income		1,138.5	1,219.5	1,231.4
Adjustment for depreciation		787.2	838.0	912.2
Adjustment for other non-cash items		22.1	35.0	3.9
		1,947.8	**2,092.5**	**2,147.4**
Taxes paid		-268.6	-396.2	-462.9
Cash flow from operations before working capital		1,679.2	1,696.3	1,684.5
Changes in working capital:				
(Increase)/decrease of current receivables		-25.4	339.3	230.3
(Increase)/decrease of inventories		-17.2	140.4	263.1
Increase/(decrease) of liabilities		16.9	-252.2	-179.1
		-25,7	**227,5**	**314,2**
Cash flow from operating activities		**1,653.5**	**1,923.8**	**1,998.7**
Cash flow from investing activities				
Investments in fixed assets		-258.5	-276.7	-274.9
Divestment of fixed assets		40.1	120.7	336.2
Additional purchase price		-	-367.5	-
Acquisition of businesses	*24*	-289.5	-135.7	-58.5
Reduction of purchase price	*24*	-	81.6	76.3
Divestment of businesses	*24*	-	-	281.6
Provisions		50.5	29.8	-245.8
Cash flow from investing activities		**-457.4**	**-547.8**	**114.9**
Cash flow from financing activities				
Financial net, paid		-231.1	-973.3	-697.0
New issue of shares		-	3,136.6	-
Dividends		-223.3	-	-
(Increase)/decrease of other financial assets		-256.9	-84.2	306.6
Capitalised financing costs, acquisition loans		-	-39.7	-
Increase/(decrease) of liabilities to credit institutions	*27*	-455.9	-3,359.6	-1,704.6
Cash flow from financing activities		**-1,167.2**	**-1,320.3**	**-2,095.0**
Net increase (decrease) in cash and bank		28,9	55,7	18,7
Cash and bank at the beginning of the year		605.9	666.4	634.5
Translation difference in cash and bank		-80.2	-116.2	13.2
Cash and bank at the end of the period	*23*	**554.6**	**605.9**	**666.4**
Cash flow per share, SEK		0.26	0.65	0.50
Average number of shares*		111,671,993	85,482,322	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”.

Comments to the consolidated cash-flow statements

For further comments on certain individual lines in the cash-flow statements, reference is made to Notes 23, 24 and 27.

Cash flow

Cash flow from operating and investing activities amounted to SEK 1,196.1 (1,376.0) (2,113.6) million during 2003, out of which divestments generated cash of SEK 40.1 (120.7) (617.8) million.

Adjustment for other non-cash items

Other non-cash items are mainly referring to realised gains and losses in connection with sale of assets. These have to be eliminated since the cash impact of divestments of fixed assets and businesses are reported separately under cash flow from investing activities. The other non-cash items are in addition to the non-cash impact of depreciations on the line above.

Working capital

Working capital increased by SEK 25.7 million during 2003. The corresponding figure for 2002 and 2001 was a decrease by SEK 227.5 and 314.2 million respectively.

Investments

Investments in property, plant and equipment amounted to SEK 258.5 (276.7) (274.9) million during 2003. 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 asset have been redistributed, which has resulted in a relatively lower investment level. Depreciation, excluding allocated step-up values, amounted to SEK 293.1 (331.3) (400.3) million during the year.

Additional purchase price

In connection with the IPO in 2002 an additional purchase price of EUR 40.0 million, corresponding to SEK 367.5 million, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Holding AB Group. This has entirely been reported as goodwill in the Group and is amortised over the same period as the original acquisition.

Acquisitions and disposals

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

Purchase price reimbursement

The Alfa Laval Group has received SEK - (81.6) (76.3) million 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

See the statement over "Changes in consolidated equity capital" for a further description of the capitalisation of the company.

Cash earnings per share

Cash earnings per share are SEK 0.26 (0.65) (0.50). The cash flows from operating activities calculated per share are SEK 14.81 (22.51) (53.30). 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 111,671,993 (85,482,322) (37,496,325). There is no dilution effect since all warrants were exercised in 2002, see Note 4.

Consolidated income statement

Amounts in SEK millions	*Note*	Jan 1– Dec 31 2003	Jan 1– Dec 31 2002	Jan 1– Dec 31 2001
Net sales	*1*	13,909.3	14,594.9	15,829.6
Cost of goods sold	*9*	-8,976.3	-9,262.2	-10,348.0
Gross profit	*1*	4,933.0	5,332.7	5,481.6
Sales costs	*2, 3, 7*	-2,245.8	-2,115.1	-2,442.6
Administration costs	*2, 3, 6, 9*	-870.1	-1,030.7	-789.2
Research and development costs		-368.1	-355.2	-341.4
Comparison distortion items	*8*	5.6	-29.2	5.3
Other operating income		242.4	268.7	389.1
Other operating costs	*9*	-367.2	-664.0	-893.3
Amortisation of goodwill	*9, 10*	-191.3	-187.7	-178.0
Operating income		**1,138.5**	**1,219.5**	**1,231.4**
Dividends	*11*	6.9	7.8	9.6
Interest income	*12*	267.5	351.4	238.0
Interest expense	*12*	-595.5	-901.8	-1,437.2
Comparison distortion items	*27*	-	-304.8	-
Result after financial items		**817.4**	**372.1**	**41.8**
Minority share in subsidiaries' income	*13*	-41.6	-33.6	-32.0
Taxes on this year's result	*14*	-110.2	-185.7	60.9
Other taxes	*14*	-19.8	-32.6	-34.6
Net income for the year		**645.8**	**120.2**	**36.1**
Earnings per share, SEK		5.78	1.41	0.96
Average number of shares *		111,671,993	85,482,322	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".

Comments to the consolidated income statement

For comments on the individual lines in the income statement, reference is made to Notes 1 to 14 and Note 27. For comments on the segments, see note 1.

As a basis for comments on the various main items of the income statement, please find a comparison between the last three years:

Income statement analysis*

SEK millions	Oct 1–Dec 31 2003	Oct 1–Dec 31 2002	Oct 1–Dec 31 2001	Jan 1–Dec 31 2003	Jan 1–Dec 31 2002	Jan 1–Dec 31 2001
Net sales	4,086.3	4,175.1	4,738.6	13,909.3	14,594.9	15,829.6
Adjusted gross profit	1,385.0	1,539.1	1,679.5	5,235.8	5,651.7	5,815.5
- in % of net sales	33.9	36.9	35.4	37.6	38.7	36.7
Expenses	-846.5	-922.3	-1,080.2	-3,315.7	-3,565.0	-3,677.2
- in % of net sales	20.7	22.1	22.8	23.8	24.4	23.2
Adjusted EBITDA	538.5	616.8	599.3	1,920.1	2,086.7	2,138.3
- in % of net sales	13.2	14.8	12.6	13.8	14.3	13.5
Depreciation	-75.5	-81.8	-103.3	-293.1	-331.3	-400.3
Adjusted EBITA	463.0	535.0	496.0	1,627.0	1,755.4	1,738.0
- in % of net sales	11.3	12.8	10.5	11.7	12.0	11.0
Amortisation of goodwill **	-124.5	-125.9	-127.9	-494.1	-506.7	-511.9
Comparison distortion items	2.0	-0.7	5.3	5.6	-29.2	5.3
EBIT	340.5	408.4	373.4	1,138.5	1,219.5	1,231.4

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

The year generated a gross profit of SEK 4,933.0 (5,332.7) (5,481.6) million. Excluding the amortisation of SEK 302.8 (319.0) (333.9) million on step-up values, the adjusted gross profit is SEK 5,235.8 (5,651.7) (5,815.5) million. This corresponds to 37.6 (38.7) percent of net sales.

Sales and administration expenses amounted to SEK 3,115.9 (3,145.8) (3,231.8) million. Excluding exchange rate variations, these expenses were 2.7 percent higher than last year. However, excluding acquired activities sales and administration expenses were on about the same level as last year.

The costs for research and development have amounted to SEK 368.1 (355.2) (341.4) million, corresponding to 2.6 percent (2.4 percent) (2.2 percent) of net sales. At constant exchange rates, this represents an increase by SEK 14.2 million or 4.0.percent between 2003 and 2002.

Adjusted EBITDA amounted to SEK 1,920.1 (2,086.7) (2,138.3) million for the year. The adjusted EBITA amounted to SEK 1,627.0 (1,755.4) (1,738.0) million. The adjusted EBITA margin was 11.7 (12.0) (11.0) percent. The adjusted result after tax, excluding amortisation of goodwill and step-up values and the corresponding tax, is SEK 9.34 (6.17) per share.

Compared with last year Alfa Laval has been affected negatively during 2003 by exchange rate differences, both through translation differences and through the net exposure when trading in foreign currencies. The negative effect on adjusted EBITA has been calculated to totally about SEK 273 (130) million, where of SEK 121 (80) million represent translation differences, for the full year 2003 compared with last year. 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.

Net commercial exchange differences have amounted to SEK 268.8 (284.8) (137.7) million. These arise in connection with delivery of goods and other operational activities and have thereby affected the operating result.

A change programme called "Beyond Expectations" was introduced during 1999. The restructuring programme has been ahead of plan and was already after the third quarter 2003 on the level expected at the end of 2003. Based on achieving the estimated savings of more than SEK 850 million, the programme was closed after the third quarter. At the end of 2002, the achieved savings amounted to about SEK 775 million. In the income statement for 2003 there are savings corresponding to approximately SEK 800 (670) (450) million.

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

Income statement analysis*

	2003				2002				2001	
SEK millions	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net sales	4,086.3	3,426.3	3,402.0	2,994.7	4,175.1	3,503.7	3,654.2	3,261.9	4,738.6	3,832.1
Adjusted gross profit	1,385.0	1,318.9	1,334.5	1,197.4	1,539.1	1,394.7	1,426.4	1,291.5	1,679.5	1,366.8
- in % of net sales	33.9	38.5	39.2	40.0	36.9	39.8	39.0	39.6	35.4	35.7
Expenses	-846.5	-818.0	-849.8	-801.4	-922.3	-902.5	-898.3	-841.9	-1,080.2	-881.5
- in % of net sales	20.7	23.9	25.0	26.8	22.1	25.8	24.6	25.8	22.8	23.0
Adjusted EBITDA	538.5	500.9	484.7	396.0	616.8	492.2	528.1	449.6	599.3	485.3
- in % of net sales	13.2	14.6	14.2	13.2	14.8	14.0	14.5	13.8	12.6	12.7
Depreciation	-75.5	-70.7	-72.2	-74.7	-81.8	-78.6	-83.1	-87.8	-103.3	-94.1
Adjusted EBITA	**463.0**	**430.2**	**412.5**	**321.3**	**535.0**	**413.6**	**445.0**	**361.8**	**496.0**	**391.2**
- in % of net sales	**11.3**	**12.6**	**12.1**	**10.7**	**12.8**	**11.8**	**12.2**	**11.1**	**10.5**	**10.2**
Amortisation of goodwill **	-124.5	-124.1	-121.8	-123.7	-125.9	-128.7	-125.7	-126.4	-127.9	-129.8
Comparison distortion items	2.0	0.0	0.0	3.6	-0.7	15.9	0.5	-44.9	5.3	0.0
EBIT	340.5	306.1	290.7	201.2	408.4	300.8	319.8	190.5	373.4	261.4

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

The result has been affected by comparison distortion items of SEK 5.6 (-29.2) (5.3) million, which are specified below.

On February 26, 2003 the property in Newmarket, Canada was sold for SEK 20.0 million, with a realised gain of SEK 3.6 million. In connection with the construction of a new headquarter building in Lund a piece of land was sold to the new landlord for SEK 3.8 million with a realised gain of SEK 2.0 million.

The sale of the property in Warminster, the United States was completed at the end of March 2002 at a price of SEK 62.1 million and with a realised loss of SEK -43.2 million. The divestment of the operation called Industrial Flow was made on April 2, 2001. In the annual report for 2001, a realised gain of SEK 10.0 million was recognised. A few activities remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million.

During 2001 the following properties were sold. The real estate in Johannesburg in South Africa was divested in May. The sales price was SEK 13.6 million resulting in a realised loss of SEK -0.3 million. The sale of the real estate in Glinde in Germany was completed in October for a price of SEK 196.4 million, with a realised loss of SEK -8.3 million. In addition, some smaller properties in Spain and Sweden and one condominium in Sweden were sold for a total of SEK 14.2 million, with a realised gain of SEK 3.9 million.

The financial net has amounted to SEK -259.5 (-593.8) (-959.9) million, excluding realised and unrealised exchange rate losses and gains. The main elements of costs were interest on debt to the banking syndicate of SEK -115.6 (-228.3) (-369.4) million, interest on the bond loan of SEK -132.0 (-219.4) (-253.3) million, interest on the loan from Tetra Laval Finance Ltd of SEK - (-97.1) (-244.5) million and a net of dividends and other interest income and interest costs of SEK -11.9 (-49.0) (-92.7) million. The decrease in interests to the banking syndicate between 2003 and 2002 is mainly due the cancellation of the previous interest rate swaps that were requested by the previous banking syndicate. The decrease in interests on the bond loan is due to the large amortisation during 2002.

The net of realised and unrealised exchange rate differences amounts to SEK -61.6 (51.3) (-229.7) million, out of which SEK -20.5 (130.4) million in the fourth quarter.

In connection with the dissolution of the pre-IPO capital structure in 2002, the income statement was charged with non-recurring financial costs of SEK -304.8 million. These consisted of the reversal of capitalised financing costs of totally SEK -219.6 million 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 as well as the premium of SEK -85.2 million at the repayment of 35 percent of the bond loan of EUR 220 million.

The result after financial items was SEK 817.4 (372.1) (41.8) million.

Income taxes were SEK -110.2 (-185.7) (60.9) million.

Earnings per share

Earnings per share are SEK 5.78 (1.41) (0.96). 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 111,671,993 (85,482,322) (37,496,325). Any dilution does not exist since all warrants have been exercised, see Note 4.

Consolidated balance sheet

ASSETS Amounts in SEK millions	*Note*	2003	2002
Fixed assets			
Intangible assets	*15, 16*		
Concessions, patents, licenses, trademarks and similar rights		1,100.8	1,333.6
Renting and similar rights		0.7	0.7
Goodwill		3,098.5	3,369.0
		4,200.0	4,703.3
Property, plant and equipment	*15, 17*		
Real estate		1,171.2	1,309.9
Machinery and other technical installations		858.5	990.1
Equipment, tools and installations		668.6	742.0
Construction in progress and advances to suppliers concerning property, plant and equipment		58.2	40.8
		2,756.5	3,082.7
Financial long-term assets			
Other long-term securities	*18*	22.5	53.1
Pension assets	*25*	126.7	106.8
Capitalised financing costs, acquisition loans		44.6	58.0
Deferred tax asset		476.9	534.1
		670.7	751.9
Total fixed assets		**7,627.2**	**8,537.9**
Current assets			
Inventories	*19*	2,217.8	2,279.0
Current receivables			
Accounts receivable	*20*	2,463.3	2,504.0
Other receivables	*21*	1,070.4	973.9
Prepaid costs and accrued income		85.4	100.2
Capitalised financing costs, acquisition loans		12.2	12.2
		3,631.3	3,590.3
Current deposits			
Other current deposits	*22*	658.6	414.3
Cash and bank	*23*	554.6	605.9
Total current assets		**7,062.3**	**6,889.4**
TOTAL ASSETS		**14,689.5**	**15,427.3**

EQUITY CAPITAL AND LIABILITIES

Amounts in SEK millions	*Note*	2003	2002
Equity capital			
Restricted equity capital			
Share capital, 111,671,993 shares (par value SEK 10)		1,116.7	1,116.7
Restricted reserves		2,889.1	2,884.4
		4,005.8	4,001.1
Unrestricted equity capital			
Unrestricted reserves		245.4	391.0
Net income for the year		645.8	120.2
		891.2	511.2
Total equity		**4,897.0**	**4,512.3**
Minority interest	*13*	104.2	108.2
Provisions			
Provisions for pensions and similar commitments	*25*	754.8	720.6
Provisions for taxes	*14*	817.0	990.3
Other provisions	*26*	891.2	989.3
		2,463.0	**2,700.2**
Long-term liabilities	*27*		
Liabilities to credit institutions		2,427.0	3,105.8
Bond loan		1,064.8	1,127.6
		3,491.8	**4,233.4**
Current liabilities			
Liabilities to credit institutions	*27*	103.7	254.4
Advances from customers		512.1	571.3
Accounts payable		1,076.0	1,027.9
Notes payable		123.4	145.3
Tax liabilities		451.7	457.6
Other liabilities	*28*	648.7	632.5
Accrued costs and prepaid income	*29*	817.9	784.3
		3,733.5	**3,873.3**
TOTAL EQUITY CAPITAL AND LIABILITIES		**14,689.5**	**15,427.3**
PLEDGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets	*30*	45.4	78.3
Contingent liabilities	*30*	1,471.1	1,698.0

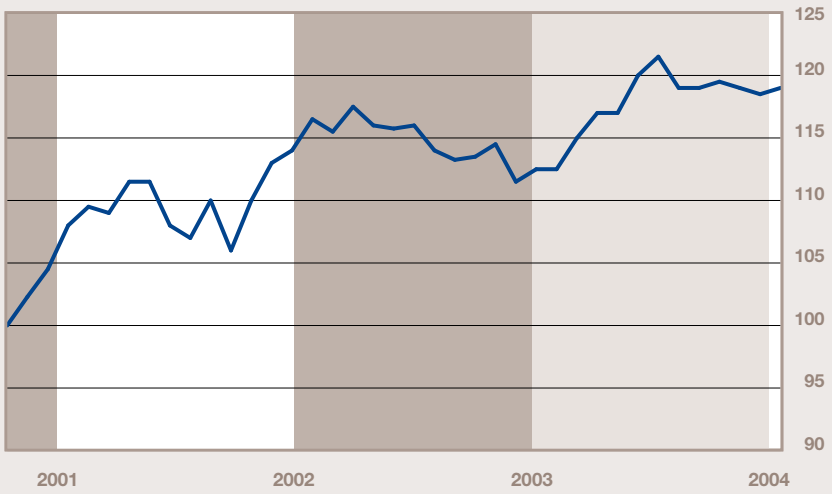
Comments on the consolidated balance sheet

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 EUR 220 million. 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 is depending on the development of the market rates and the confidence in Alfa Laval.

Capital employed

The capital employed including goodwill and step-up values amounted to SEK 7,667.2 (8,564.5) million at the end of the year.

Return on capital employed

The return on capital employed including goodwill and step-up values amounted to 21.3 (20.2) percent during 2003.

Capital turnover rate

The capital turnover rate calculated on the average capital employed including goodwill and step-up values amounted to 1.8 (1.7) times for the year.

Return on equity capital

The net income for the year in relation to equity capital was 13.2 (2.7) 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 33.3 (29.2) percent at the end of the year.

Net debt

The net debt was SEK 2,401.1 (3,498.5) million at the end of the year.

Debt ratio

The debt ratio, that is the net debt in relation to equity capital, was 0.49 (0.78) times at the end of December.

Changes in consolidated equity capital

Amounts in SEK millions	Share capital	Restricted equity	Unrestricted equity	Total
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**
2003				
Dividends	-	-	-223.3	-223.3
Transfer between restricted equity and unrestricted equity in Group companies	-	4.3	-4.3	0.0
Translation difference	-	0.4	-38.2	-37.8
Net income for 2003	-	-	645.8	645.8
As of December 31, 2003	**1,116.7**	**2,889.1**	**891.2**	**4,897.0**

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
2003	-37.8	-224.7	The USD was depreciated by 17.5 %	140.3

Comments on changes in consolidated equity capital

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

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 in 2002, 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. In total the equity capital increased by SEK 3,136,612,806.

The proposed dispositions of earnings for the subsidiaries suggest transfers to restricted equity capital of SEK 54.3 (22.0) (60.7) million. After deduction for this, the net available for distribution is thus SEK 836.9 (489.2) (1,347.1) million.

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

Parent company cash-flow statement and income statement

PARENT COMPANY CASH-FLOW STATEMENT

Amounts in SEK millions	Jan 1– Dec 31 2003	Jan 1– Dec 31 2002	Jan 1– Dec 31 2001
Cash flow from operating activities			
Operating income	-5.2	-4.3	-2.5
Taxes paid	-	-	-
Cash flow from operations before changes in working capital	-5.2	-4.3	-2.5
Changes in working capital			
(Increase)/decrease of current receivables	185.2	-62.7	0.0
Increase/(decrease) of liabilities	-16.1	-94.3	0.8
	169.1	-157.0	0.8
Cash flow from operating activities	**163.9**	**-161.3**	**-1.7**
Cash flow from investing activities			
Shares in subsidiaries	-	-819.0	-
Cash flow from investing activities	**0.0**	**-819.0**	**0.0**
Cash flow from financing activities			
Financial net, paid	6.0	-95.3	0.1
New issue of shares	-	3,136.6	-
Dividends	-223.3	-	-
Received group contribution	53.4	-	-
Increase/(decrease) of loans	-	-2,061.0	-
Cash flow from financing activities	**-163.9**	**980.3**	**0.1**
Net increase (decrease) in cash and bank	**0.0**	**0.0**	**-1.6**
Cash and bank at the beginning of the year	0.0	0.0	1.6
Cash and bank at the end of the period	**0.0**	**0.0**	**0.0**

PARENT COMPANY INCOME STATEMENT

Amounts in SEK millions	*Note*	Jan 1– Dec 31 2003	Jan 1– Dec 31 2002	Jan 1– Dec 31 2001
Administration costs		-4.4	-3.9	-2.5
Other operating costs		-0.8	-0.4	0.0
Operating income/loss		-5.2	-4.3	-2.5
Interest income and similar result items	*12*	6.0	28.7	0.1
Interest costs and similar result items	*12*	-0.1	-98.2	-328.9
Comparison distortion items		0.0	-14.1	-
Result after financial items		0.7	-87.9	-331.3
Tax on received Group contribution		171.8	15.0	-
Deferred tax		4.5	-	-
Net result for the year		**177.0**	**-72.9**	**-331.3**

Parent company balance sheet

Amounts in SEK millions	*Note*	2003	2002
ASSETS			
Long-term assets			
Financial long-term assets			
Shares in group companies	*18*	4,460.9	4,460.9
Total long-term assets		**4,460.9**	**4,460.9**
Current assets			
Current receivables			
Receivables on group companies		491.9	117.0
Other receivables		4.5	0.7
Accrued income and prepaid costs		0.5	-
		496.9	117.7
Cash and bank		0.0	0.0
Total current assets		**496.9**	**117.7**
TOTAL ASSETS		**4,957.8**	**4,578.6**
EQUITY CAPITAL AND LIABILITIES			
Equity capital			
Restricted equity capital			
Share capital, 111,671,993 shares (par value SEK 10)		1,116.7	1,116.7
Premium fund		2,769.8	2,769.8
		3,886.5	**3,886.5**
Unrestricted equity capital			
Unrestricted funds		1,472.8	1,254.5
Accumulated losses		-580.8	-507.9
Net income for the year		177.0	-72.9
		1,069.0	673.7
Total equity capital		**4,955.5**	**4,560.2**
Current liabilities			
Liabilities to group companies		0.3	18.4
Accrued costs and prepaid income		2.0	-
		2.3	**18.4**
TOTAL EQUITY CAPITAL AND LIABILITIES		**4,957.8**	**4,578.6**
POSTER INOM LINJEN			
Pledged assets and contingent liabilities			
Pledged assets			
Pledges and similar collaterals for own liabilities and commitments accounted for as provisions		None	None
Contingent liabilities (for subsidiaries)			
Performance guarantees		None	None
Other contingent liabilities		None	None

Parent company's equity capital

Parent company Alfa Laval AB (publ)	Share capital	Restricted equity	Unrestricted equity	Total
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**
2003				
Dividends	-	-	-223.3	-223.3
Group contribution	-	-	613.4	613.4
Tax on received Group contribution	-	-	-171.8	-171.8
Net result 2003	-	-	177.0	177.0
As of December 31, 2003	**1,116.7**	**2,769.8**	**1,069.0**	**4,955.5**

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

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 in 2002, 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. In total the equity capital increased by SEK 3,136,612,806.

Notes to the financial statements

Amounts in SEK millions, 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 35.

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.

Alfa Laval does not report the depreciation on goodwill distributed on the different functions in the income statement since almost the entire goodwill depreciation is referring to the goodwill that appeared in a leveraged buy out transaction in 2000. The comparability with other companies will be severely suffering if the goodwill depreciation is allocated to the income statement functions. For this reason the goodwill depreciation is isolated to a specifically identified item. The specific financial construction used in the ownership change will otherwise result in a misleading income reporting during two decades. The change of ownership in 2000 in fact meant that the net assets of Alfa Laval were re-valued to market value, which does not apply generally for other listed companies. In anticipation of the new international accounting statements, where goodwill is not depreciated but instead tested for impairment, the current treatment avoids any problem with comparability between years.

Implementation of International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) will be the new name for all new International Accounting Standards. IFRS are still issued by the International Accounting Standards Board (IASB) (previously Council). IFRS 1 covers the transitional provisions for the implementation of IFRS. All companies within the European Union are obliged to change to IFRS as of January 1, 2005.

Already in 2000 Alfa Laval started to implement the International Accounting Standards (IAS) issued by IASB and translated and adapted to Swedish legislation by the Financial Accounting Standards Council in Sweden. Since there are some minor differences between the Swedish recommendations and IAS, Alfa Laval has never claimed to be following IAS. Technically this means that Alfa Laval will be a first time applicant under IFRS 1 in 2005. The adoption to IFRS is however already in place since Alfa Laval has implemented all relevant IAS standards, except IAS 39. This statement will be implemented once IASB has issued the updated IAS 39.

Changed/implemented accounting principles

During 2003 RR27 "Financial Instruments: Disclosure and Presentation" has been implemented. This has not introduced any major changes or amendments to the disclosure and presentation in 2002. Chapter 5 § 18b in Swedish Annual Report's Acts (ÅRL) "Gender among managers" has also been implemented. The definition of members of the Board and managers is not at all as clear as in the Industry and Commerce Stock Exchange Committee's statement concerning executive officers below. For this reason, several measures have been supplied in order to enlighten the subject.

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

During 2001 RR15 Intangible Assets, RR21 Borrowing Costs, RR22 Presentation of Financial Statements and RR23 Related Party 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 2003, 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 SEK 225 million 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 Presentation of 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 Impairment of Assets, RR21 Borrowing Costs and RR23 Related Party 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 amortised; 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 SEK 891.2 (989.3) million is reported as other provisions. This constitutes 6.1 (6.4) 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 accounting principles for provision would be changed sometime in the future, this could have a substantial impact on the Group's financial position.

Advertising costs

Advertising costs are expensed as incurred.

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 capitalised and amortised over the maturity of the loan.

Business combinations – consolidation principles (including 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. Alfa Laval owns 50 percent in three different joint ventures: Rolls Laval Heat Exchangers Ltd with Rolls Royce as partner, Hynetics Inc. with Hyclone Inc. as partner and Gigantissimo 2444 AB with Haldex as partner. These companies are 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.

Comparison distortion items

Items that do not have any link to the normal operations of the Group or that

are of a non-recurring nature are classified as comparison distortion items. A reporting together with other items in the income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations from an outside viewer. Comparison distortion items affecting operating income are reported as a part of operating income, while comparison distortion items affecting the result after financial items are reported as a part of the financial net. Comparison distortion items on each level are reported net in the income statement if the items being included in the netting are not material, see RR22 Presentation of Financial Statements item 27 and 32 and the Swedish Annual Report's Act (ÅRL) chapter 3 § 4.

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 present value of the benefit obligations in the defined benefit plans is decided through yearly actuarial calculations made by independent actuaries. The plan assets are valued at market value.

The net plan asset or liability is arrived at in the following way:

+ The present value of the defined benefit obligation at December 31
+ any actuarial gains not recognised
- any actuarial losses not recognised
- any past service costs not yet recognised
- the fair value of the plan assets at Dec. 31

= a net liability if positive / a net asset if negative

If the calculation gives a net asset, the lower of this asset and the sum of any cumulative unrecognised net actuarial losses and past service costs and the present value of refunds or reductions in future contributions is reported as the net plan asset.

If the net cumulative unrecognised actuarial gains and losses at the end of the previous year is outside a ten percent corridor calculated on the greater of the present value of the defined benefit obligation or the fair value of the plan assets, then the excess is recognised over the remaining service period of the employees participating in the plan.

The Swedish ITP-plan is seen as a "multi-employer plan" that is treated as a defined contribution plan according to item 30 in RR29.

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 instruments

During 2003 RR27 "Financial Instruments: Disclosure and Presentation" has been implemented. This has not introduced any major changes or amendments to the disclosure and presentation in 2002. RR27 is based on IAS 32 and describes how financial instruments are presented in the balance sheet and the required disclosures to enable a reader of financial reports to understand how the financial instrument is influencing the income statement, balance sheet and cash flow of a company. It does not regulate when a financial instrument is reported in or removed from the balance sheet or the valuation of financial instruments. This will instead be covered by IAS 39.

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

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. The fair value of financial instruments is shown in Note 34.

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, harmonisation	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, strategic	20 years
Goodwill, other	10 years

The acquisition of the Alfa Laval Holding AB Group and Danish Separation Systems A/S are considered as strategic acquisitions where the intangible assets have a lifetime of more than 20 years. The acquisition of Toftejorg and bioKinetics are complimentary to the existing business. The reason why the depreciation period is more than five years also for these acquisitions is that Toftejorg has a strong position in tank cleaning equipment and bioKinetics has a powerful modular process concept, both of which are perceived to have economic life expectancies of much more than five years.

Any additions to the purchase price in connection with investments in fixed assets or acquisitions of businesses are amortised over the same period as the original purchase price. This means that the time when the asset is fully depreciated is identical regardless of when payments are made. This is a reflection of the fact that the estimated economic live of the asset is the same.

Upon sale or scrapping of assets, the results are calculated in relation to the net book value after depreciation according to plan. The result on sales is included in operating income.

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.

Income Taxes

Income taxes are reported in accordance with RR9 Income Taxes.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Current tax liabilities (receivables) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. In essence, this means that current tax is calculated according to the rules that apply in the countries where the profit was generated.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill and certain other items.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carry-forward of unused tax losses; and (c) the carry-forward of unused tax credits. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable (>50 percent) that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable (>50 percent) that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

If it is not any longer probable that sufficient taxable profits will be available against which a deferred tax asset can be utilised, then the deferred tax asset is reduced by increasing the valuation allowance accordingly.

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

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 utilisation in the factory. Finished goods are normally valued at the delivery value (i.e. at cost) from the factory if the delivery is forthcoming. Spare parts that can be in the inventory during longer periods of time are normally valued at net realisable value. Out of the total inventory, the valuation at net realisable value therefore constitutes a considerable part.

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 amortisation of the receivable.

When Alfa Laval is the lessee, leased assets that are regarded as financial leases are accounted for as capitalised assets and a corresponding financial payable to the lessor in the balance sheet. The leasing fee to the lessor is accounted for as financial cost calculated as interest on the outstanding payable and as amortisation of the payable. Depreciation according to plan is done in the same manner as purchased assets.

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

Long-term construction projects

Revenue for projects is recognised using the percentage of completion method in 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.

Provisions

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

A provision is recognised when, and only when:

- there is a present legal or constructive obligation as a result of past events;
- it is probable that a cost will be incurred in settling the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the cost required to settle the present obligation at the balance sheet date.

In measuring the provision:
- risks and uncertainties are taken into account;
- the provisions are discounted, where the effect of the time value of money is material. When discounting is used, the increase of the provision over time is recognised as an interest cost;
- future events, such as changes in law and technology, are taken into account where there is sufficient objective evidence that they will occur; and
- gains from the expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

If a reimbursement of some or all of the costs to settle a provision is expected (e.g. through insurance contracts, indemnity clauses or supplier's warranties), the reimbursement is recognised:
- when, and only when, it is virtually certain that the reimbursement will be received if the obligation is settled. The amount recognised for the reimbursement must not exceed the amount of the provision; and
- as a separate asset (gross). In the income statement, however, the income related to the reimbursement is netted against the cost for the provision.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a cost to settle the obligation will be incurred, the provision is reversed.

A provision must only be used for the purpose it was originally recognised for. Provisions are not recognised for future operating losses. An expectation of future operating losses is though an indication that certain assets of the operation may be impaired. If a contract is onerous, the present obligation under the contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the general recognition criteria are met. A constructive obligation to restructure arises only when there is:
- a detailed formal plan for the restructuring, identifying at least:
  a) the business or part of a business concerned;
  b) the principal locations affected;
  c) the location, function and approximate number of employees who will be compensated for terminating their services;
  d) the costs that will be undertaken; and
  e) when the plan will be implemented; and
- a valid expectation in those affected that the restructuring will be carried out.

A management or board decision to restructure does not give rise to a constructive obligation at the balance sheet date unless the company has, before the balance sheet date:
- started to implement the restructuring plan; or
- communicated the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will happen.

When a restructuring involves the sale of an operation, no obligation arises for the sale until the company is committed to the sale, i.e. through a binding sales agreement.

A restructuring provision only includes the direct costs arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the company.

Research & Development

Research & Development costs are charged to the income statement in the year in which they are incurred. RR15 Intangible Assets requires development costs to be capitalised if certain requirements are fulfilled. The development costs within Alfa Laval do normally not meet the requirements for capitalisation according to RR15 Intangible Assets.

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.

Sick leave in Sweden

The Swedish Annual Report's Acts (ÅRL) requires the sick leave among Swedish employees to be reported split on different specifically defined categories. This is a way to get focus on the contemporary problem of high sick leave rates and if certain employers are having a high or a low sick rate within the company. The specification is found in Note 2.

Transactions in foreign currencies

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

Within the Group, exchange gains and losses on loans denominated in foreign currencies that finance acquisitions of foreign subsidiaries are transferred to 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.

Financial risks

Financial instruments

Financial risks are referring to financial instruments. Alfa Laval has the following instruments: cash, deposits, bank loans, the bond loan and a limited number of derivative instruments to hedge currency rates or interests. These include currency forward contracts, currency options, interest-rate swaps and interest-forward contracts.

Financial policy

In order to control and limit the financial risks, the Board of the Group has established a financial policy. The Group has an aversive attitude toward financial risks. This is expressed in the policy. It establishes the distribution of responsibility between the local companies and the central finance function in Alfa Laval Treasury International AB, what financial risks the Group can accept and how the risks should be limited.

Price risk

There are three different types of price risks: currency risk, interest risk and market risk. See below.

Currency risk

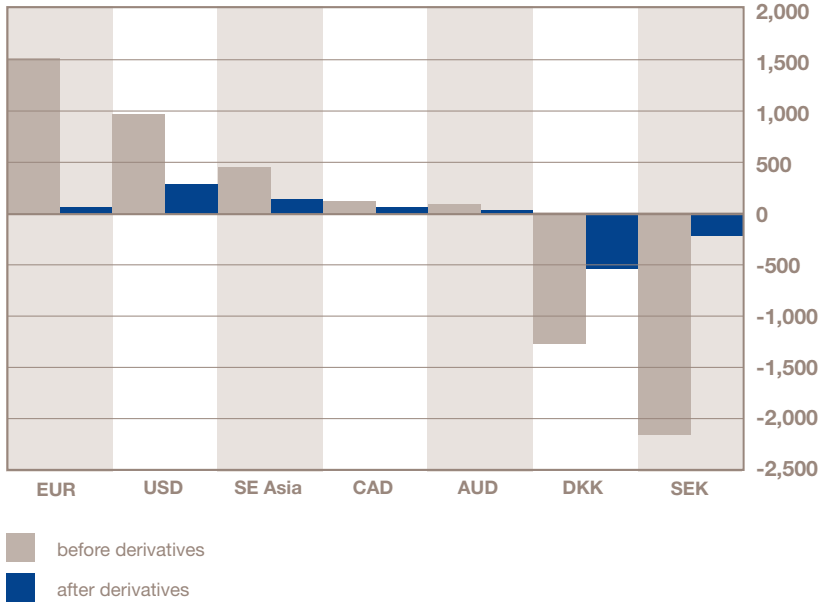
Transaction exposure

The Group is principally exposed to currency risk from potential changes in contracted and projected flows of payments and receipts. The objective of foreign exchange risk management is to reduce the impact of foreign exchange movements on the Group's income and financial position.

The Group normally has a natural risk coverage through the sale as well as costs in local currencies. The financial policy states that the local companies are responsible for identifying and hedging exchange rate exposures on all commercial flows via Alfa Laval Treasury International. Contract based exposures must be fully hedged. In addition, the balance of projected flows the next 12 months must be hedged to at least 50 percent. The remaining part of the projected flows can be partially hedged after conferring with the Group's central finance function. Alfa Laval Treasury International can add to or reduce the total hedging initiated by the local companies in the currencies that Alfa Laval has commercial exposure up to but not exceeding 100 percent of one year's commercial exposure for each currency.

The Group's net exposure in different currencies before and after derivatives during 2003 has amounted to:

Net exposure per currency during 2003



Currency contracts are entered into continuously during the year with twelve months being the maximum duration. This means that the company experiences the effects from the market currency rate movements with a varying degree of delay.

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

Exchange rate change against SEK

	2003		2002		2001	
In SEK millions	+10%	-10%	+10%	-10%	+10%	-10%
Effect on operating income without hedging measure						
USD	97	-97	101	-101	117	-117
EUR	152	-152	154	-154	125	-125
DKK	-127	127	-135	135	-147	147
Other USD related currencies	46	-46	29	-29	25	-25
Other	39	-39	58	-58	80	-80
Total	**207**	**-207**	**207**	**-207**	**200**	**-200**

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

	2003		2002		2001	
In millions	Original currency	SEK	Original currency	SEK	Original currency	SEK
Outflows						
EUR	-275.7	-2,499.0	-188.8	-1,729.4	-104.7	-973.8
USD	-161.5	-1,171.3	-190.2	-1,672.1	-173.1	-1,827.0
DKK	-750.3	-913.8	-558.0	-688.2	-6.3	-7.8
HKD	-	-	-173.3	-195.3	-51.6	-69.9
NOK	-165.8	-178.5	-133.3	-167.5	-146.0	-170.7
JPY	-765.7	-51.9	-1,713.3	-126.2	-2,094.3	-168.8
CAD	-17.8	-98.5	-7.7	-42.9	-18.4	-121.4
GBP	-7.6	-97.5	-0.9	-13.6	-6.4	-98.2
Other		-70.2		-84.2		-61.6
Total		**-5,080.7**		**-4,719.4**		**-3,499.2**
Inflows						
SEK	5,172.8	5,172.8	4,832.8	4,832.8	3,362.7	3,362.7
SGD	7.2	30.6	5.4	27.3	22.0	125.5
Other		4.9		10.6		-
Total		**5,208.3**		**4,870.7**		**3,488.2**
Net exposure		**127.6**		**151.3**		**-11.0**

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 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 and how the value of financial instruments vary due to changes in market interest rates. The Group attempts to manage interest-rate risk by matching fixed interest periods of financial assets and liabilities and through the use of derivative financial instruments such as interest-rate swaps.

The financial policy states that the interest rate risk and duration are measured by each main currency. The interest duration for the loans must be between zero and three months for 66 percent of the loans and between six and 36 months for 33 percent of the loans.

The loan with the new banking syndicate accrues interest at floating rate. The Group has chosen to hedge 22 (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 unit), the interest costs of the Group would increase by about SEK 17 (16) (18) million. The reason why this amount has not decreased due to the decreased loans is that the part of the loans that is affected by floating rates has increased after the cancellation of the interest rate swap.

Market risk

Market risk is defined as the risk for changes in the value of a financial instrument due to changed market prices. For all financial instruments, except the bond loan, the price risk only consists of currency risk and interest risk. For the bond loan there is a market risk, but as long as a market value that is higher than the booked value does not have to be reported in the balance sheet, this does not present a problem. IAS 39 will not change the reporting of the bond loan since it will still be valued at its acquisition value.

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 with the banking syndicate consists of two parts. The first part is an amortisation free loan of originally EUR 423.9 million. This has been reduced to EUR 263.7 million through voluntary amortisation of EUR 87.4 million and reduction through exchange rate movements of EUR 72.8 million. The other part is a revolving working capital facility of EUR 150 million, which was unutilised as of December 31, 2003. Alfa Laval has initiated negotiations with the banking syndicate in order to

convert the whole loan to a revolving facility potentially combined with a SEK based short-term commercial paper programme. A commercial paper programme requires an official credit rating and generally means lower interest rates but without any guarantees for sustained financing. This is then covered by the extended revolving facility.

Cash flow risk

Cash flow risk is defined as the risk that the size of future cash flows linked to financial instruments is fluctuating. This risk is mostly linked to changed interest and currency rates. To the extent that this is perceived as a problem, different derivative instruments are used to fix rates. See description of exposure and hedging measures under interest risk.

Refinancing risk

Refinancing risk is defined as the risk that the refinancing of maturing loans becomes difficult or costly. The loans of the Group are mainly long term and only mature when the agreed loan period expires. This means that the Group during the foreseeable future does not need to refinance maturing loans. The loan facility with the banking syndicate consists of two parts. The first part is an amortisation free loan of originally EUR 423.9 million. This has been reduced to EUR 263.7 million through voluntary amortisation of EUR 87.4 million and reduction through exchange rate movements of EUR 72.8 million. The other part is a revolving working capital facility of EUR 150 million, which was unutilised as of December 31, 2003. The maturity of this combined facility is five years. The bond loan matures only in 2010. Alfa Laval has initiated negotiations with the banking syndicate in order to convert the whole loan to a revolving facility potentially combined with a SEK based short-term commercial paper programme. A commercial paper programme requires an official credit rating and generally means lower interest rates but without any guarantees for sustained financing. This is then covered by the extended revolving facility.

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 SEK 42.2 (32.2) (78.6) million.

Risk for claims

The risk for claims refers to the costs Alfa Laval would incur to rectify faults in products or systems and possible costs for penalties. Alfa Laval strives to minimize these costs through an ISO certified quality assurance. The major risks for claim costs appear in connection with new technical solutions and new applications. The risks are limited through extensive tests at the manufacturing site and at the customer site. The Group's claim costs have amounted to SEK 151.5 (204.0) (154.3) million.

Risk connected to technical development

This risk refers to the risk that some competitor develops a new technical solution that makes Alfa Laval's products technically obsolete and therefore difficult to sell. Alfa Laval addresses this risk by a deliberate investment in research and development aiming at being in the absolute frontline of technical development.

Economic risk

Competition

The Group operates in competitive markets. The implemented split in divisions based on customer segments is a further step in the efforts to address this competition. The restructuring 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 ten percent.

Prices of raw material

The Group depends on deliveries of stainless steel, carbon steel, copper and titanium etc for the manufacture of products. The prices in some of these markets are volatile and the supply of titanium has occasionally been limited. There is a limited number of possible suppliers of titanium. The risk for severely increased prices or limited supply constitutes serious risks for the operations. The possibilities to pass on higher input prices to an end customer vary from time to time and between different markets depending on the competition. The Group is addressing this risk by securing long-term supply commitments and through fixed prices from the suppliers during six to twelve months.

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 USD 1,000 million each. In Alfa Laval's opinion, adequate guarantees have been received from Tetra Laval, covering possible losses related to these litigations.

Alfa Laval's subsidiary in the US, Alfa Laval Inc., was as of December 31, 2003 named as co-defendant in a total of 123 asbestos-related lawsuits with a total of approximately 19,900 plaintiffs. The lawsuits filed in Mississippi

account for approximately 99 percent of all plaintiffs.

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

After thorough investigations Alfa Laval continues to believe that potential claims in connection with 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.

During the fourth quarter 2003 Alfa Laval Inc. has been named as co-defendant in an additional nine lawsuits with a total of thirteen plaintiffs. During the fourth quarter seven lawsuits involving approximately 400 plaintiffs have been resolved. This gives a grand total of 70 lawsuits that have been resolved.

Based on current information and Alfa Laval's understanding of these lawsuits, Alfa Laval continues to believe that these lawsuits will not have a material adverse effect on the company's financial condition or results of operation.

Risk for technically related damages

This risk refers to the costs Alfa Laval may incur in connection with a product delivered by the Group breaking down and causing damages to life and property. The main risk in this context concerns high-speed separators, due to the large forces that are involved when the bowl in the separator spins with a very high number of revolutions. In a breakdown the damages can be extensive. Alfa Laval addresses these risks through extensive testing and an ISO certified quality assurance. The Group has product liability insurance. The number of damages is low and few damages have occurred historically.

Insurance risks

These risks refer to the costs that Alfa Laval may incur due to an inadequate insurance coverage for property, business interruption, liability, transport, life and pensions. The Group strives to maintain an insurance coverage that keeps the risk level at an acceptable level for a Group of Alfa Laval's size and is still cost efficient. At the same time a continuous work is going on to minimise the risks in the operations through proactive measures.

Risks connected to credit terms

This risk is referring to the limited freedom of action that can be imposed on the Group through restrictions connected to credit terms in loan agreements. The loan agreement with the new banking syndicate does not contain any such restrictions.

Notes

Note 1. Segment reporting

Alfa Laval's primary segments are the two divisions "Equipment" and "Process Technology". The divisions are based on a split into a number of customer segments. The 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. The Equipment division consists of six customer segments: Comfort & Refrigeration, Fluids & Utility, Equipment, Marine & Diesel, OEM (Original Equipment Manufacturers), Sanitary Equipment and the aftermarket segment Parts & Service. The Process Technology division consists of five customer segments: Energy & Environment, Food Technology, Life Science, Process Industry and the aftermarket segment Parts & Service.

Operations are responsible for procurement, production and logistics. Other is referring to corporate overhead and non-core businesses.

Divisional reporting

Consolidated, Orders received

SEK in millions	2003	2002	2001
Equipment	8,069.9	8,092.6	8,557.9
Process Technology	5,990.6	6,488.1	7,026.9
Operations and other	84.8	94.1	96.1
Subtotal	14,145.3	14,674.8	15,680.9
Divested	-	-	213.0
Total	**14,145.3**	**14,674.8**	**15,893.9**

Consolidated, Net sales

SEK in millions	2003	2002	2001
Equipment	7,841.8	8,129.6	8,576.2
Process Technology	5,993.6	6,377.1	6,872.0
Operations and other	73.9	88.2	169.4
Subtotal	13,909.3	14,594.9	15,617.6
Divested	-	-	212.0
Total	**13,909.3**	**14,594.9**	**15,829.6**

Consolidated, Order backlog

SEK in millions	2003	2002	2001
Equipment	1,598.9	1,564.5	1,648.3
Process Technology	2,398.0	2,752.6	2,654.7
Operations and other	24.2	23.0	9.5
Subtotal	4,021.1	4,340.1	4,312.5
Divested	-	-	1.0
Total	**4,021.1**	**4,340.1**	**4,313.5**

Consolidated, Operating income

SEK in millions	2003	2002	2001
Equipment	1,010.9	1,098.8	1,083.6
Process Technology	351.5	537.5	472.7
Operations and other	-229.5	-387.6	-321.0
Subtotal	1,132.9	1,248.7	1,235.3
Comparison distortion items	5.6	-29.2	5.3
Divested	-	-	-9.2
Total	**1,138.5**	**1,219.5**	**1,231.4**

Consolidated	**Assets**		**Liabilities**	
SEK in millions	2003	2002	2003	2002
Equipment	4,529.7	4,392.6	1,318.3	1,085.6
Process Technology	3,791.4	4,160.3	1,019.9	1,142.3
Operations and other	4,130.1	4,738.0	1,689.8	1,983.9
Subtotal	12,451.2	13,290.9	4,028.0	4,211.8
Divested	-	-	-	-
Subtotal	12,451.2	13,290.9	4,028.0	4,211.8
Corporate	2,238.3	2,136.4	5,660.3	6,595.1
Total	**14,689.5**	**15,427.3**	**9,688.3**	**10,806.9**

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

Consolidated	**Investments**			**Depreciation**		
SEK in millions	2003	2002	2001	2003	2002	2001
Equipment	25.1	24.8	31.5	236.6	250.5	261.9
Process Technology	33.4	33.7	38.0	224.0	236.2	248.6
Operations and other	200.0	218.2	205.4	326.6	351.3	395.2
Subtotal	258.5	276.7	274.9	787.2	838.0	905.8
Divested	-	-	-	-	-	6.4
Total	**258.5**	**276.7**	**274.9**	**787.2**	**838.0**	**912.2**

Reporting by geographical markets

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

Net sales	2003		2002		2001	
Consolidated	SEK in millions	%	SEK in millions	%	SEK in millions	%
Customers in:						
Sweden	893.2	6.4	835.1	5.7	770.0	4.9
Other EU	4,727.2	33.9	4,953.0	33.9	5,448.5	34.4
Other Europe	1,567.8	11.3	1,497.8	10.3	1,426.0	9.0
US	2,159.0	15.5	2,638.7	18.1	2,815.7	17.8
Other North America	315.0	2.3	423.5	2.9	347.3	2.2
Latin America	553.6	4.0	626.7	4.3	728.0	4.6
Africa	182.7	1.3	69.6	0.5	151.7	1.0
Asia	3,252.7	23.4	3,296.6	22.6	3,835.3	24.2
Oceania	258.1	1.9	253.8	1.7	307.2	1.9
Total	**13,909.3**	**100.0**	**14,594.9**	**100.0**	**15,829.6**	**100.0**

Assets	2003		2002		2001	
Consolidated	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	2,252.2	15.3	2,202.4	14.3	2,303.1	13.1
Denmark	1,578.8	10.7	1,627.0	10.5	1,516.4	8.6
Other EU	3,931.6	26.8	4,209.9	27.3	4,764.6	27.0
Other Europa	379.9	2.6	440.3	2.9	478.8	2.7
US	1,877.2	12.8	2,208.7	14.3	2,960.9	16.8
Other Nordamerika	323.6	2.2	247.2	1.6	280.4	1.6
Latin America	220.4	1.5	237.4	1.5	374.0	2.1
Africa	14.2	0.1	25.8	0.2	14.5	0.1
Asia	1,687.9	11.5	1,924.9	12.5	2,235.1	12.7
Oceanien	185.4	1.3	167.3	1.1	184.0	1.0
Subtotal	12,451.2	84.8	13,290.9	86.2	15,111.8	85.7
Corporate	2,238.3	15.2	2,136.4	13.8	2,520.0	14.3
Total	**14,689.5**	**100.0**	**15,427.3**	**100.0**	**17,631.8**	**100.0**

Investments	2003		2002		2001	
Consolidated	SEK in millions	%	SEK in millions	%	SEK in millions	%
Sweden	85.4	32.9	62.8	22.7	76.5	27.8
Denmark	39.0	15.1	34.0	12.3	35.6	13.0
Other EU	57.2	22.1	52.0	18.8	58.6	21.3
Other Europe	5.1	2.0	11.5	4.2	22.7	8.3
US	36.2	14.0	84.8	30.6	37.5	13.6
Other North America	1.2	0.5	1.9	0.7	2.4	0.9
Latin America	3.0	1.2	2.2	0.8	3.8	1.4
Africa	0.7	0.3	0.6	0.2	0.6	0.2
Asia	29.9	11.6	26.0	9.4	35.7	13.0
Oceania	0.8	0.3	0.9	0.3	1.5	0.5
Total	**258.5**	**100.0**	**276.7**	**100.0**	**274.9**	**100.0**

Note 2. Average number of employees – total

Consolidated	Number of female employees 2003	2002	2001	Total number of employees 2003	2002	2001
Parent company	-	-	-	-	-	-
Subsidiaries in Sweden (8)	392	347	306	1,941	1,891	1,793
Total in Sweden (8)	392	347	306	1,941	1,891	1,793
Total abroad (80)	1,434	1,444	1,544	7,253	7,401	7,900
Total for the group (88)	**1,826**	**1,791**	**1,850**	**9,194**	**9,292**	**9,693**

The figures in brackets in the text column state how many companies had employees as well as salaries and remunerations in 2003.

Average number of employees – in Sweden by municipality

Employees in Sweden	2003	2002	2001
Botkyrka	482	483	476
Eskilstuna	179	175	181
Göteborg	13	2	2
Lund	965	951	873
Malmö	3	3	3
Ronneby	234	240	215
Stockholm	3	3	10
Other municipalities*	62	34	33
Total	**1,941**	**1,891**	**1,793**

* Municipalities with less than 10 employees and employees at branch offices abroad.

Sick leave among Swedish employees

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

Consolidated	2003
Sick leave for:	
all employees	4.5
all employees during 60 consecutive days or more	2.8
female employees	6.0
male employees	4.2
employees at the age of 29 or younger	2.3
employees between 30 and 49 years of age	4.1
employees at the age of 50 or more	6.0

Distribution of men/women among managers

Consolidated	Number	2003 Male	Female
Board members (excluding deputies)	12	83.3%	16.7%
President and other executive officers	10	100.0%	0.0%
Managers in Sweden	226	85.8%	14.2%
Managers outside Sweden	724	86.9%	13.1%
Managers total	950	86.6%	13.4%
Employees in Sweden	1,941	79.8%	20.2%
Employees outside Sweden	7,253	80.2%	19.8%
Employees total	9,194	80.1%	19.9%

After the Annual General Meeting in April 2004, the percentage of female members of the Board is expected to reach 25.0 percent.

Average number of employees – by country

Consolidated	Number of female employees 2003	2002	2001	Total number of employees 2003	2002	2001
Argentina	8	6	20	35	31	37
Australia	19	21	22	66	72	84
Belgium	28	23	30	128	134	140
Brazil	21	23	27	104	111	122
Bulgaria	4	4	6	14	14	15
Canada	59	28	27	150	111	121
Chile	5	4	4	22	21	19
Colombia	5	2	2	12	10	10
Denmark	269	253	227	1,098	1,054	978
Estonia	2	2	2	4	4	5
Philippines	3	3	4	21	21	21
Finland	28	28	32	111	111	117
France	119	120	121	599	610	620
United Arab Emirates	7	7	8	50	49	48
Greece	5	12	13	11	34	37
Hong Kong	7	15	14	18	44	61
India	32	29	29	1,031	1,042	1,101
Indonesia	13	13	15	68	73	73
Iran	2	2	1	9	9	7
Italy	69	63	69	484	488	506
Japan	31	41	47	158	165	184
China	88	75	90	411	378	353
Korea	15	15	16	75	77	68
Latvia	5	4	4	8	7	7
Lithuania	4	4	3	4	4	4
Malaysia	25	24	19	70	68	72
Mexico	5	9	13	40	50	62
Netherlands	17	32	19	107	108	110
Norway	15	16	17	54	60	74
New Zeeland	4	6	7	27	32	34
Peru	6	6	6	23	26	30
Poland	24	25	29	117	123	122
Portugal	3	3	3	13	14	14
Romania	5	5	7	12	16	19
Russia	98	112	100	235	244	244
Switzerland	2	2	2	15	15	15
Singapore	21	21	21	48	46	49
Slovakia	1	1	1	9	11	9
Spain	31	33	32	202	210	218
UK*	53	55	80	334	344	519
Sweden	392	347	306	1,941	1,891	1,793
South Africa	9	9	9	37	38	39
Taiwan	12	12	12	32	32	32
Thailand	13	13	13	38	37	36
Czech Republic	14	13	14	59	58	54
Turkey	8	7	8	30	28	29
Germany	51	56	64	256	256	347
Hungary	5	5	5	24	26	28
US	154	172	222	742	849	966
Venezuela	4	4	4	17	15	17
Austria	6	6	4	21	21	23
Total for the group	**1,826**	**1,791**	**1,850**	**9,194**	**9,292**	**9,693**
* of which employed by the joint venture Rolls Laval				0	1	21

Note 3. Salaries and remunerations – total

Consolidated, SEK in millions	2003	2002	2001
Board of Directors, Presidents and Vice Presidents	120.8	133.8	141.0
of which, bonus	20.7	18.3	23.8
Other	2,887.3	2,815.9	3,062.7
Total salaries and remunerations	3,008.1	2,949.7	3,203.7
Social security costs	609.6	548.5	550.9
Pension costs, defined benefit plans	157.9	161.9	85.9
Pension costs, defined premium plans	206.1	222.8	267.7
Total costs of personnel	**3,981.7**	**3,883.0**	**4,108.2**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 33.8 (46.8) (31.2) million and SEK 339.0 (346.9) (376.4) million respectively. SEK 201.3 (223.0) (246.1) million of the pension liabilities 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 5,076,417 (5,098,854) (5,352,173), of which bonus was SEK - (-) (200,000) .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. In a press release on January 27, 2004 Sigge Haraldsson communicated his intention to retire in accordance with the agreement in connection with his sixtieth birthday in October 2004. 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 38,600), 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 SEK 4.9 (7.2) (7.3) million, of which SEK 1.7 (3.4) (3.4) million 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 receives a remuneration of SEK 600,000 (500,000) (500,000) per year. He does not have any agreement on future retirement or severance pay with Alfa Laval.

For 2003, the Board of Directors receive a total fee of SEK 2,225,000 (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 SEK 20.8 (21.3) (22.1) million, of which bonuses were SEK 4.5 (4.1) (2.7) million. 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.

Salaries and remunerations – by country

Consolidated,	Board of Directors, Presidents and Vice Presidents			Other employees		
SEK in millions	2003	2002	2001	2003	2002	2001
Argentina	0.6	0.5	1.1	2.8	3.6	10.1
Australia	2.7	2.6	2.4	20.2	19.9	21.6
Belgium	3.1	3.3	3.7	52.3	48.8	46.4
Brazil	1.3	1.1	1.4	13.0	16.4	22.2
Bulgaria	0.3	0.2	0.2	1.4	1.1	1.1
Canada	3.5	3.3	4.0	59.0	41.5	43.8
Chile	0.0	0.0	0.0	2.7	3.2	5.5
Colombia	0.5	0.4	0.5	0.9	0.9	1.0
Denmark	11.9	9.1	8.3	527.9	409.0	431.9
Estonia	0.0	0.0	0.0	0.2	0.5	0.7
Philippines	0.4	0.4	0.3	1.5	1.8	1.8
Finland	2.5	2.6	2.2	38.7	38.8	40.0
France	2.8	3.4	4.2	180.5	178.0	173.9
United Arab Emirates	1.2	1.7	1.4	10.5	14.5	13.6
Greece	0.0	0.0	0.0	3.8	10.6	10.6
Hong Kong	2.8	3.4	3.5	14.2	22.7	25.5
India	1.5	1.2	1.2	36.4	39.7	39.7
Indonesia	0.6	0.5	0.5	4.3	4.6	4.5
Iran	0.0	0.0	0.0	6.5	4.1	3.6
Italy	3.1	4.5	4.1	133.4	125.2	134.3
Japan	6.9	8.8	8.4	77.3	84.9	115.2
China	0.0	0.0	0.0	28.7	21.6	19.9
Korea	1.3	1.0	0.8	19.4	19.9	18.9
Latvia	0.5	0.4	0.4	1.0	1.0	0.9
Lithuania	0.0	0.0	0.0	0.7	0.7	0.7
Malaysia	1.4	1.5	1.4	9.3	10.5	11.9
Mexico	1.5	1.7	5.4	8.8	11.1	13.0
Netherlands	2.6	2.3	2.1	45.9	46.4	46.0
Norway	1.6	1.3	1.3	29.3	36.4	37.3
New Zeeland	0.6	0.4	0.0	6.6	7.7	8.4
Peru	0.6	1.1	1.1	2.9	3.7	6.1
Poland	2.4	4.0	3.7	11.9	14.1	15.0
Portugal	0.4	1.8	1.8	3.3	3.2	3.0
Romania	0.0	0.0	0.0	1.6	2.3	2.5
Russia	0.0	1.4	1.3	24.3	25.8	27.6
Switzerland	1.5	1.9	1.7	10.3	10.5	9.9
Singapore	1.4	1.4	1.8	10.3	11.8	11.2
Slovakia	0.0	0.1	0.0	1.1	1.2	1.4
Spain	1.8	1.8	1.1	67.4	64.0	69.5
UK	0.0	4.8	6.0	114.9	124.7	176.8
Sweden	22.5	21.6	27.6	715.7	676.4	629.6
South Africa	1.6	0.6	0.6	7.4	6.0	6.7
Taiwan	0.7	0.9	0.9	6.6	7.9	8.9
Thailand	1.1	1.3	1.1	3.9	4.4	4.5
Czech Republic	0.7	0.8	0.7	7.1	7.0	5.9
Turkey	1.4	1.1	0.9	6.6	5.1	4.7
Germany	7.3	13.9	11.8	136.3	133.7	168.5
Hungary	0.8	0.7	0.5	2.9	3.4	3.2
US	20.4	17.0	17.5	404.0	475.6	591.8
Venezuela	0.0	0.0	0.0	2.5	2.0	2.3
Austria	1.0	1.7	1.7	9.1	8.2	9.2
Total for the group	**120.8**	**133.8**	**141.0**	**2,887.3**	**2,815.9**	**3,062.7**

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 exercised 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 exercised. 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 remaining part was held by employees.

At the IPO on May 17, 2002 all warrants could be exercised. No warrants were 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 realised 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 SEK 3.6 million received for the warrants as a deposit from the shareholders at the end of 2001. When the warrants were exercised, the corresponding credit was transferred to equity capital.

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.

Name	Member since	Born	Function
Anders Narvinger	May 2003	1948	Chairman
Björn Savén	August 2000	1950	Deputy Chairman
Per Olov Jakobsson	December 2000	1942	Member
Arne Kastö	December 2000	1948	Member
Susanna Holmqvist Norrby	May 2003	1967	Member
Jan Nilsson	December 2000	1952	Member
Finn Rausing	August 2000	1955	Member
Jörn Rausing	August 2000	1960	Member
Christian Salamon	August 2000	1961	Member
Waldemar Schmidt	August 2000	1940	Member
Lena Olving Öhberg	May 2002	1956	Member
Sigge Haraldsson	August 2000	1944	Member, Managing Director
Magnus Christersson	May 2003	1973	Deputy member
Gunnar Karlsson	December 2000	1941	Deputy member
Kalevi Houtari	December 2000	1951	Deputy member
Salvador Pay Ortiz	May 2002	1940	Deputy member

Thomas Oldér has left the Board in March 2003 and has been replaced at the Annual General Meeting in May 2003 by Anders Narvinger as Chairman of the Board. Linda Karlsson has left as member during the year and has been replaced by Susanna Holmqvist Norrby as representative for CF. Åke Klintin, representative for SIF, has left as deputy member during the year and has been replaced by Magnus Christersson as representative for CF.

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

Work procedures of the Board

The Board has held twelve (thirteen) (eight) meetings during 2003. The Board has issued rules of procedures for the Board of Directors 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 organised.

During 2001 the Board appointed a remuneration committee, consisting of the Chairman, 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 discussing during the year include liquidity and funding, share and ownership developments, dividends, asbestos litigations, larger capacity investments and development projects, acquisition of businesses, purchase and divestment of real estate, internal audit, external audit planning 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 2003 the Board has received reports from and met the external auditors of the Group. At one Board meeting during 2003, the Board has received reports from and met the internal auditor of the Group.

Section 407 of the “Sarbanes-Oxley Act” requires the company to disclose whether it has a financial expert on the audit committee. The Board has decided not to elect a financial expert. The Board has approved a pre-approval policy for all auditing and non-auditing services provided by audit firms in accordance with Section 202 of the “Sarbanes-Oxley Act”. The Board has also established a code of ethics for senior financial officers based on the requirements in section 406 of the “Sarbanes-Oxley Act”.

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.

At the beginning of 2004, new quotations were taken in from four of the large international audit firms. The purpose with the selection process is to assign the auditors for the Group for the coming four years.

Fees and expense compensation, Consolidated, SEK in millions	2003	2002	2001
Audit			
Ernst & Young	10.9	12.7	10.2
Other audit firms	1.1	1.1	2.7
Total	**12.0**	**13.8**	**12.9**

Fees and expense compensation, Consolidated, SEK in millions	2003	2002	2001
Other projects			
Ernst & Young	2.7	2.8	7.2
Other audit firms	4.8	6.6	5.3
Total	**7.5**	**9.4**	**12.5**

An audit includes examining the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an examination in order to give an opinion on the Board’s discharge from liability. All other assignments are defined as other projects.

Note 7. Advertising costs

Advertising costs have amounted to SEK 47.3 (40.0) (53.9) million. 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, SEK in millions	2003	2002	2001
Sale of real estate	5.6	-43.2	-4.7
Sale of Industrial Flow	-	14.0	10.0
Total	**5.6**	**-29.2**	**5.3**

On February 26, 2003 the property in Newmarket in Canada was sold for SEK 20.0 million, with a realised gain of SEK 3.6 million. In connection with the construction of a new headquarter building in Lund a piece of land was sold to the new landlord for SEK 3.8 million with a realised gain of SEK 2.0 million.

The sale of the property in Warminster, the United States was completed in March 2002 at a price of SEK 62.1 million and with a realised loss of SEK -43.2 million.

During 2001 the following properties were sold. The real estate in Johannesburg in South Africa was divested in May. The sales price was SEK 13.6 million resulting in a realised loss of SEK -0.3 million. The sale of the real estate in Glinde in Germany was completed in October for a price of SEK 196.4 million, with a realised loss of SEK -8.3 million. In addition, some smaller properties in Spain and Sweden and one condominium in Sweden were sold for a total of SEK 14.2 million, with a realised gain of SEK 3.9 million.

The divestment of the operation called Industrial Flow was made on April 2, 2001. The sales price was SEK 330.6 million. In the annual report for 2001, a realised gain of SEK 10.0 million was recognised. A few activities remained before the divestment could be completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million.

Note 9. Depreciation by function

Consolidated, SEK in millions	2003	2002	2001
Cost of goods sold	-455.9	-478.0	-499.8
Sales	-50.8	-60.1	-68.7
Administration	-72.8	-97.9	-145.3
Research and development	-7.2	-7.5	-8.6
Other income and costs	-9.2	-6.8	-11.8
Goodwill	-191.3	-187.7	-178.0
Total	**-787.2**	**-838.0**	**-912.2**

Note 10. Depreciation by type of assets

Consolidated, SEK in millions	2003	2002	2001
Goodwill	-191.3	-187.7	-178.0
Patents, trademarks, etc.	-204.7	-208.3	-214.6
Machinery and equipment	-316.1	-351.4	-403.6
Financial leasing machinery and equipment	-4.7	-7.8	-10.9
Buildings and ground installations	-70.4	-82.8	-105.1
Total	**-787.2**	**-838.0**	**-912.2**

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

Consolidated, SEK in millions	2003	2002	2001
Dividends from other	6.9	7.8	9.6
Total	**6.9**	**7.8**	**9.6**

Note 12. Interest income/costs and similar result items

Consolidated, SEK in millions	2003	2002	2001
Interest income			
Financial leasing			
External companies	0.8	0.1	0.0
Other interest			
External companies	132.9	143.4	108.0
Exchange gains			
Unrealised	42.6	46.6	76.9
Realised	91.2	161.3	53.0
Total	**267.5**	**351.4**	**238.0**
Interest costs			
Financial leasing			
External companies	-1.4	-2.7	-1.7
Other interest			
External companies	-398.8	-742.5	-1,075.9
Exchange loss			
Unrealised	-101.9	-26.0	-329.2
Realised	-93.4	-130.6	-30.4
Total	**-595.5**	**-901.8**	**-1,437.2**

In the Group, reported net exchange differences of SEK 194.8 (164.9) (-105.5) million 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. Since 2003 the amount is charged with tax, due to the estimated absorption of tax losses in Sweden, resulting in a net after tax equity impact of SEK 140.3 million. In the parent company, the exchange differences are taken to the income statement.

Parent company, SEK in millions	2003	2002	2001
Interest income			
Other interest			
External companies	0.0	-	0.1
Subsidiaries	6.0	4.0	0.0
Exchange gains			
Unrealised	-	0.3	-
Realised	-	24.4	0.0
Total	**6.0**	**28.7**	**0.1**
Interest costs			
Other interest			
External companies	0.0	-98.2	-244.5
Exchange loss			
Unrealised	-	-	-84.4
Realised	-0.1	0.0	0.0
Total	**-0.1**	**-98.2**	**-328.9**

Note 13. Minority interest

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

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

Consolidated, SEK in millions	2003	2002	2001
The major components of the Group's tax costs:			
Current tax cost	-341.6	-336.0	-396.9
Adjustment for current taxes on prior periods	38.1	72.1	84.8
Deferred tax costs/income on changes in temporary differences	153.3	95.0	374.6
Deferred tax costs/income on changes in tax rates or new taxes	-14.0	3.4	12.0
Tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	40.4	6.0	1.3
Deferred tax income from previously unrecognised tax losses or tax credits on temporary differences of prior periods	30.6	0.3	0.7
Deferred tax cost from the write down or reversal of a previous write down of a deferred tax asset	-17.0	-26.5	-15.6
Other taxes	-19.8	-32.6	-34.6
Total tax cost	**-130.0**	**-218.3**	**26.3**
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	817.4	372.1	41.8
Tax according to applicable tax rates	-194.9	-133.6	-14.6
Tax effect of:			
Non-deductible effect of depreciation of goodwill	-63.1	-61.9	-58.7
Equity hedge (tax effect not booked prior to 2003)	-	-46.2	29.5
Non-deductible costs	-26.8	-127.1	-198.7
Non-taxable income	44.2	131.4	119.8
Differences between reported official depreciation and depreciation according to tax rules	-16.0	-7.2	-7.4
Differences between reported other official appropriations and other appropriations according to tax rules	-50.8	-40.7	12.1
Tax losses and tax credits	159.1	2.8	42.5
Other	-19.8	-7.9	17.0
Adjustment for current tax on prior periods	38.1	72.1	84.8
Total tax costs	**-130.0**	**-218.3**	**26.3**

Since 2003 the equity hedge is charged with tax, due to the estimated absorption of tax losses in Sweden. For 2002 and earlier this means that the tax effect calculated on result before minority interests and tax has been adjusted. Tax losses and tax credits for 2003 are referring to used tax losses in Sweden.

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:

	2003		2002	
Consolidated, SEK in millions	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Intangible assets	51.3	338.3	71.5	422.3
Tangible assets	45.8	404.9	10.0	471.1
Inventory	79.5	18.0	44.4	27.7
Other current assets	3.7	1.2	11.3	2.5
Financial assets	-	-	4.5	-
Short term liabilities	332.8	65.4	373.9	40.8
Tax losses and tax credits *	12.5	-	19.3	-
Other	2.9	40.8	11.5	38.2
Subtotal	528.5	868.6	546.4	1,002.6
Possible to net	-51.6	-51.6	-12.3	-12.3
Total	**476.9**	**817.0**	**534.1**	**990.3**

* The Group has reported a deferred tax asset on unused tax losses and tax grants of SEK 41.0 (61.4) million. These unused tax losses and tax grants are essentially not restricted in time.

In the Group there are temporary differences and unused tax losses and tax credits of SEK 1,317.4 (2,197.1) million that have not resulted in corresponding deferred tax assets, since these are not likely to be used.

The Group's normal effective tax rate is approximately 33 (33) percent based on taxable result, and it is calculated as a weighted average based on each subsidiary's part of the result before tax. Due to the large tax losses the actual tax rate was 13.5 percent during 2003.

The nominal tax rate has changed in the following countries during 2003 to 2001.

	Tax rates in percentage				Tax rates in percentage		
Consolidated	2003	2002	2001	Consolidated	2003	2002	2001
India	37	37	36	Turkey	30	28	33
Iran	40	40	12	Russia	24	24	35
Singapore	22	22	25	Latvia	22	22	25
France	35	35	34	Lithuania	15	15	24
Greece	35	35	38	Canada	37	39	35
Italy	38	38	40	Peru	27	25	25
Chile	16	16	15	Belgium	34	40	40
China	11	11	3	Bulgaria	24	20	20
Korea	29	29	28	Slovakia	25	29	29
United Arab Emirates	0	7	4	Czech Republic	28	31	31
Switzerland	24	24	28	Poland	19	28	28

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

When Industri Kapital acquired the Alfa Laval Group from Tetra Laval on August 24, 2000, the acquisition value for the shares was SEK 8,213.8 million. Below is shown a summary of the goodwill and the group step-up or step down values that the acquisition resulted in per type of asset at August 24, 2000 and at December 31, 2003. The goodwill is amortised over 20 years. The corresponding presentation by asset type is found in Notes 16 and 17.

		Alfa Laval 2003					
SEK in millions	Allocated August 24, 2000	Opening balance	Acquired	Realised	Planned amortisation	Translation-difference	Closing balance
Buildings	1,058.5	604.8	0.9	-0.1	-26.0	-25.8	553.8
Land and land improvements	-228.4	-129.9	-	-0.7	-	20.4	-110.2
Machinery	548.3	443.7	-	-	-56.7	-17.2	369.8
Equipment	452.1	361.2	-	-	-29.3	-21.0	310.9
Construction in progress	15.9	-	-	-	-	-	-
Inventory	340.2	-	-	-	-	-	-
Patent and trademarks	461.3	408.3	22.3	-	-22.3	-30.1	378.2
Technology	1,279.8	891.9	-	-	-168.5	-40.3	683.1
Research and development	53.6	-	-	-	-	-	-
Capital gain (Industrial Flow)	41.8	-	-	-	-	-	-
Subtotal step-up values	4,023.1	2,580.0	23.2	-0.8	-302.8	-114.0	2,185.6
Goodwill	3,276.6	3,369.0	7.6	-	-184.8	-234.0	2,957.8
Goodwill related to the acquisition of							
Toftejorg		-	33.0	-	-3.3	-0.4	29.3
bioKinetics		-	121.3	-	-3.2	-6.7	111.4
Subtotal goodwill		3,369,0	161.9	-	-191.3	-241.1	3,098.5
Total	**7,299.7**	**5,949.0**	**185.1**	**-0,8**	**-494.1**	**-355.1**	**5,284.1**

For assets sold, net gains or losses are recognised on the costs basis including any related step-up value. Construction in process was transferred to machinery in 2001.

In connection with the IPO in 2002 an additional purchase price of EUR 40.0 million, corresponding to SEK 367.5 million, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Holding AB Group. This has been reported entirely as goodwill in the Group and is amortised over the same period as the original acquisition. As the acquisition of 13,1 percent of Alfa Laval (India) Ltd was contingent on the change of ownership on August 24, 2000, the resulting goodwill is presented together with the goodwill that appeared at the acquisition on August 24, 2000.

The difference between the purchase price paid and the net assets acquired in Toftejorg is SEK 33.9 million. SEK 0.9 million of this has been allocated to a property in the US, while the residual SEK 33.0 million has been allocated to goodwill. The goodwill is amortised over 10 years.

The difference between the purchase price paid and the net assets acquired in bioKinetics is SEK 143.6 million. SEK 22.3 million of this has been allocated to patents and un-patented know-how, while the residual SEK 121.3 million has been allocated to goodwill. The goodwill is amortised over 10 years.

The remaining increase of SEK 7.6 million in goodwill is related to the acquisition of Danish Separation Systems A/S in 2002.

There is no deferred tax liability calculated on the goodwill. The deferred tax liability on the other step-up values is SEK 686.3 (826.7) million.

Note 16. Intangible fixed assets

Consolidated, SEK in millions	2003	2002
Concessions, patents, licenses, trademarks and similar rights		
Opening balance, accumulated acquisition values	2,132.8	1,993.8
Purchases	5.0	0.6
Acquisition of businesses	22.3	0.0
Sales/disposals	0.0	-2.4
Reclassifications	-	-13.5
Step-up values, patents and trademarks	21.0	-
Translation difference for the year	-104.4	154.3
Closing balance, accumulated acquisition values	**2,076.7**	**2,132.8**
Opening balance, accumulated depreciation	-799.2	-353.8
Sales/disposals	-	2.4
Reclassifications	0.0	10.8
Depreciation of step-up value, patent & trademarks	-22.3	-24.1
Depreciation of step-up value, technology	-168.5	-177.2
Depreciation for the year	-13.8	-6.9
Translation difference for the year	27.9	-250.4
Closing balance, accumulated depreciation	**-975.9**	**-799.2**
Closing balance, net book value	**1,100.8**	**1,333.6**
Goodwill		
Opening balance, accumulated acquisition values	3,768.6	3,611.7
Goodwill in connection with acquisition of businesses	161.9	102.4
Additional purchase price	-	367.5
Translation difference for the year	-276.7	-313.0
Closing balance, accumulated acquisition values	**3,653.8**	**3,768.6**
Opening balance, accumulated depreciation	-399.6	-238.8
Depreciation for the year	-191.3	-187.7
Translation difference for the year	35.6	26.9
Closing balance, accumulated depreciation	**-555.3**	**-399.6**
Closing balance, net book value	**3,098.5**	**3,369.0**
Renting rights and similar rights		
Opening balance, accumulated acquisition values	1.1	0.6
Purchases	0.1	0.1
Reclassifications	-	0.4
Translation difference for the year	0.0	0.0
Closing balance, accumulated acquisition values	**1.2**	**1.1**
Opening balance, accumulated depreciation	-0.4	-0.2
Reclassifications	-	-0.2
Depreciation for the year	-0.1	-0.1
Translation difference for the year	0.0	0.1
Closing balance, accumulated depreciation	**-0.5**	**-0.4**
Closing balance, net book value	**0.7**	**0.7**

Note 17. Property, plant and equipment

Consolidated, SEK in millions	2003	2002
Real estate		
Opening balance, accumulated acquisition values	1,971.2	2,305.0
Purchases	13.6	12.0
Acquisition of businesses	9.0	17.9
Sales/disposal	-46.3	-158.5
Reclassifications	29.8	29.1
Realisation of step-up values due to sale	-0.8	8.5
Translation difference for the year	-147.9	-242.8
Closing balance, accumulated acquisition values	**1,828.6**	**1,971.2**
Opening balance, accumulated depreciation	-750.7	-916.0
Sales/disposals	6.6	75.6
Acquisition of businesses	-2.3	-1.3
Reclassifications	-3.9	47.7
Depreciation of step-up value	-26.0	-27.5
Depreciation for the year	-43.6	-54.6
Translation difference for the year	74.5	125.4
Closing balance, accumulated depreciation	**-745.4**	**-750.7**
Opening balance, accumulated revaluations, net	89.4	90.0
Reclassifications	-0.6	0.0
Revaluation for the year	0.0	0.1
Depreciation for the year on revaluations	-0.8	-0.7
Closing balance, accumulated revaluations, net	**88.0**	**89.4**
Closing balance, net book value	**1,171.2**	**1,309.9**
Machinery and other technical installations		
Opening balance, accumulated acquisition values	2,611.6	2,828.1
Purchases	85.1	97.6
Acquisition of businesses	14.1	6.6
Sales/disposal	-40.4	-157.0
Reclassifications	-10.4	56.9
Translation difference for the year	-159.2	-220.6
Closing balance, accumulated acquisition values	**2,500.8**	**2,611.6**
Opening balance, accumulated depreciation	-1,628.5	-1,690.3
Sales/disposals	37.4	132.2
Acquisition of businesses	-	-2.5
Reclassifications	8.2	-27.6
Depreciation of step-up value	-56.7	-59.0
Depreciation for the year	-116.1	-130.2
Translation difference for the year	110.4	148.9
Closing balance, accumulated depreciation	**-1,645.3**	**-1,628.5**
Closing balance, net book value	**855.5**	**983.1**
Equipment, tools and installations		
Opening balance, accumulated acquisition values	2,024.6	2,288.1
Purchases	71.9	71.6
Acquisition of businesses	25.2	3.9
Sales/disposal	-71.6	-150.3
Reclassifications	26.2	-59.6
Translation difference for the year	-107.2	-129.1
Closing balance, accumulated acquisition values	**1,969.1**	**2,024.6**
Opening balance, accumulated depreciation	-1,317.3	-1,411.4
Sales/disposals	67.2	127.4
Acquisition of businesses	-11.7	-2.1
Reclassifications	5.8	47.6
Depreciation of step-up value	-29.3	-31.3
Depreciation for the year	-113.7	-130.5
Translation difference for the year	74.0	83.0
Closing balance, accumulated depreciation	**-1,325.0**	**-1,317.3**

Consolidated, SEK in millions	2003	2002
Equipment, tools and installations (continued)		
Opening balance, accumulated revaluations, net	15.9	16.9
Sales/disposals	-1.3	-0.2
Reclassifications	-0.2	-0.5
Revaluation for the year	0.1	0.1
Depreciation for the year on revaluations	-0.3	-0.4
Closing balance, accumulated revaluations, net	**14.2**	**15.9**
Closing balance, net book value	**658.3**	**723.2**
Construction in progress and advances to suppliers concerning property, plant and equipment		
Opening balance, accumulated acquisition values	40.8	57.9
Purchases	76.1	93.7
Sales/disposal	-0.2	-1.2
Reclassifications	-52.5	-103.9
Translation difference for the year	-6.0	-5.7
Closing balance, accumulated acquisition values	**58.2**	**40.8**
Closing balance, net book value	**58.2**	**40.8**
Leased machinery		
Opening balance, accumulated acquisition values	14.1	13.2
Purchases	-	0.2
Acquisition of businesses	-	7.2
Sales/disposal	-5.6	-6.2
Translation difference for the year	-0.2	-0.3
Closing balance, accumulated acquisition values	**8,3**	**14,1**
Opening balance, accumulated depreciation	-7.1	-4.4
Sales/disposals	3.1	3.3
Acquisition of businesses	-	-3.1
Depreciation for the year	-1.4	-3.0
Translation difference for the year	0.1	0.1
Closing balance, accumulated depreciation	**-5.3**	**-7.1**
Closing balance, net book value	**3.0**	**7.0**
Leased equipment, tools and installations		
Opening balance, accumulated acquisition values	44.7	58.8
Purchases	6.7	0.9
Acquisition of businesses	0.6	0.0
Sales/disposal	-10.5	-11.2
Reclassifications	-15.3	0.2
Translation difference for the year	-3.6	-4.0
Closing balance, accumulated acquisition values	**22.6**	**44.7**
Opening balance, accumulated depreciation	-25.9	-37.1
Sales/disposals	9.1	8.8
Acquisition of businesses	-0.2	0.0
Reclassifications	6.5	4.4
Depreciation for the year	-3.3	-4.8
Translation difference for the year	1.5	2.8
Closing balance, accumulated depreciation	**-12.3**	**-25.9**
Closing balance, net book value	**10.3**	**18.8**

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

The tax assessment value of the Swedish real estate at December 31, 2003 amounted to SEK 124.5 (122.6) million, out of which SEK 47.2 (47.2) million referred to land and land improvements and SEK 77.3 (75.4) million buildings. The book values of the Swedish real estate amounted to SEK 72.6 (57.2) million, out of which land and land improvements were SEK 18.7 (9.1) million and buildings were SEK 53.9 (48.1) million.

Note 18. Financial long-term assets

SEK in millions	Consolidated 2003	Consolidated 2002	Parent company 2003	Parent company 2002
Shares in subsidiaries	-	-	4,460.9	4,460.9
Shares in other companies	22.5	53.1	-	-
Total	**22.5**	**53.1**	**4,460.9**	**4,460.9**

Specification of shares in subsidiaries

Company name	Registration number	Domicile	Number of shares	Share of capital, %	Book value, SEK in millions
Alfa Laval AB	556587-8054	Lund			
Alfa Laval Special Finance AB	556587-8062	Lund		100	4,460.9
Alfa Laval Holding AB	556025-2792	Lund		100	0.0
Alfa Laval Holding AB	556025-2792	Lund	12,500,000	100	0.0
Alfa Laval NV		Maarssen	227,754	100	0.0
Alfa Laval Inc		Newmarket	1,000,000	67	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 Ltda		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 Ltd		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 Benelux 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 Kolding 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 Tank Equipment A/S		Ishoej	1	100	0.0
Alfa Laval Tank Equipment AB		Gothenburg	100,000	100	0.0
Gunclean Toftejorg Pte Ltd		Singapore	300,000	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 Benelux 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
Alfa Laval Tank Equipment AS		Billingstad	7,500	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 (India) Ltd		Poona	9,261,889	64	0.0
Skansen Engineering & Consultancy Co Ltd		Poona	50,000	64	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	Lund	500	100	0.0
Alfa Laval Lund AB	556016-8642	Lund	100	100	0.0
Alfa Laval International Engineering AB	556039-8934	Lund	4,500	100	0.0

Specification of shares in subsidiaries (continued)

Company name	Registration number	Domicile	Number of shares	Share of capital, %	Book value, SEK in millions
Alfa Laval Tumba AB	556021-3893	Tumba	1,000	100	0.0
Bitec Enterprise AG		Volketswil	97,900	100	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		Riga	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 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	33	0.0
SCI du Companil		Grenoble	32,165	100	0.0
Cetetherm SA		Lyon	150,000	100	0.0
Alfa Laval Holding GmbH		Glinde		100	0.0
Alfa Laval Mid Europe GmbH		Wiener Neudorf		100	0.0
Alfa Laval Mid Europe GmbH		Glinde	1	100	0.0
Alfa Laval Tank Equipment GmbH		Glinde	1	100	0.0
Cetetherm Wärmetauschersysteme GmbH		Glinde	1	100	0.0
Alfa Laval Mid Europe 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	99	0.0
Alfa Laval Polska Sp.z.o.o.		Warsaw	6,862	100	0.0
Cetetherm Polska Sp.z.o.o.		Warsaw		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	1	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
Toftejorg Ltd		Camberley	50,000	100	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
bioKinetics Inc		Philadelphia	100	100	0.0
Kinetics Modular Systems Inc		Toronto	1,800	100	0.0
Kinetics Engineering P C		Durham	100	100	0.0
Hynetics Inc		Logan		50	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
Gigantissimo 2444 AB				50	0.0
Alfa Laval SpA		Monza		1	0.0
Total					**4,460.9**

Specification of shares in other companies

Company name	Domicile	Number of shares	Share of capital, %	Book value, SEK in thousands
Alfa Laval (India) Ltd				
Mutual funds Investment	India	9,747,743		16,719.3
Alfa Laval KK				
Namura Zosen	Japan	5,000		47.5
Cyugairo	Japan	5,250		33.9
Orugano	Japan	769		6.8
Sasebo Heavy Ind.	Japan	10,000		47.5
Asahi Denka	Japan	8,618		406.9
Alfa Laval Philippines Inc				
Philippine Long Distance Telephone	Philippines	820		10.7
Alfa Laval Copenhagen A/S				
Green City Denmark A/S	Denmark	1		19.5
Alfa Laval France SAS				
SEMACLA	France	10		9.1
Alfa Laval Vicarb SAS				
SAEM SMD	France	17	0.85	27.2
Cetetherm SA				
Credit Mutuel	France	2		9.1
Thermothec	France	9,130		1,260.1
Point Piscine	France	210		27.2
Alfa Laval Nordic A/S				
Storebrand	Norway	7,629		0.0
Alfa Laval NV				
DeSmet Engineering & Contractors S.A.	Netherlands	9,999	10.00	3,045.9
Dalian Haven Automation Co Ltd	Hong Kong	102	42.50	806.9
Cetetherm AB				
Stiftelsen VTC Syd	Sweden	-		10.0
VVS-Fabrikanternas Råd	Sweden	-		1.5
AO Alfa Laval Potok				
Unicombank	Russia	800	1.60	14.6
MAX	Russia	100	0.25	7.3
Alfa Laval Corporate AB				
European Development Capital Corporation (EDCC) N.V.	Curacao	36,129		
Multiprogress	Hungary	100	3.18	
Kurose Chemical Equipment Ltd	Japan	180,000	11.25	
Poljopriveda	Yugoslavia			
Tecnica Argo-Industrial S.A.	Mexico	490	49.00	
Adela Investment Co S.A. (preference)	Luxembourg	1,911	0.30	
Adela Investment Co S.A.	Luxembourg	1,911	0.30	
Mas Dairies Ltd	Pakistan	125,000	5.00	
Total				**22,511.0**

Note 19. Inventories

Consolidated, SEK in millions	2003	2002
Raw materials and consumables	654.5	694.4
Work in progress	592.3	655.2
Finished goods & goods for resale, new sales	622.7	570.3
Finished goods & goods for resale, spare parts	307.5	330.7
Advance payments to suppliers	40.8	28.4
Total	**2,217.8**	**2,279.0**

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

Obsolescence

Consolidated, SEK in millions Year	January 1	Translation-difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2002	570.4	-56.8	112.0	-103.7	-22.9	0.0	499.0
2003	499.0	-36.4	104.3	-87.9	-10.1	0.0	468.9

The Group's inventories have been accounted for after deduction for inter-company gains in inventory due to internal sales within the Group. The inter-company profit reserve at the end of 2003 amounts to SEK 135.8 (136.7) million.

Note 20. Accounts receivable

Accounts receivable with a maturity exceeding one year of SEK 120.9 (127.7) million have not been accounted for as fixed assets as they are not intended for permanent use. Accounts receivable are reported net of provisions for bad debts. The provision for bad debts amounts to and has changed as follows:

Bad Debts

Consolidated, SEK in millions Year	January 1	Translation-difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
2002	301.6	-17.3	71.8	-73.5	-39.6	-0.7	242.3
2003	242.3	-15.6	72.3	-72.5	-30.1	0.0	196.4

Note 21. Other short-term receivables

Consolidated, SEK in millions	2003	2002
Notes receivable	263.2	283.2
Tax receivable	336.8	334.9
Financial leasing receivables	0.0	0.0
Other receivables	470.4	355.8
Total	**1,070.4**	**973.9**
Of which, receivables not due within one year		
Notes receivable	44.3	7.1
Other receivables	18.8	13.6
Total	**63.1**	**20.7**

Note 22. Other current deposits

Consolidated, SEK in millions	2003	2002
Loan receivables	573.9	253.4
Bonds and other securities	78.0	88.6
Other deposits	6.7	72.3
	658.6	**414.3**
Of which, deposits not due within one year		
Loans receivable	35.9	8.4
Other deposits	5.2	5.3

Note 23. Cash and bank

The item cash and bank in the balance sheet and in the cash-flow statement is mainly relating to bank deposits. Cash and bank includes a bank deposit in the publicly listed subsidiary Alfa Laval (India) Ltd of about SEK 30.8 (55.2) million. The company is not a wholly owned subsidiary of the Alfa Laval Group. It is owned to 64.1 percent.

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

Additional purchase price

In connection with the IPO in 2002 an additional purchase price of EUR 40.0 million, corresponding to SEK 367.5 million, was paid to Tetra Laval BV for the original acquisition on August 24, 2000 of the Alfa Laval Holding AB Group. This has entirely been reported as goodwill in the Group and is amortised over the same period as the original acquisition.

Acquisitions

On October 2, 2003, Alfa Laval acquired the Life Science division, bioKinetics, from Kinetics Group Inc. in the US for SEK 215 million corresponding to approximately six times expected EBIT for 2003. The Kinetics Group Inc. was taken private in August 2000 in an investor led buy-out from United States Filter Corporation.

bioKinetics is a North American leader in technology-driven integrated process solutions for the biotech and pharmaceutical industries. bioKinetics' main products are modular designs that mainly focus on mammalian cell cultures. These modules are predominantly bioreactor modules, but also modules for cell harvesting, purification and bio-deactivation. In the bioKinetics customer base leading pharmaceutical and biotech companies such as Amgen, IDEC, Lonza and Merck can be found.

Life Science, defined as pharmaceutical and biotech, is a market where Alfa Laval already today is active with all core products. However, as the Life Science market shows a very high growth Alfa Laval has to secure that the potential is captured. The operations are reported as a part of the Process Technology division.

bioKinetics is headquartered in Philadelphia, PA with additional operations in North Carolina and California in the US and Toronto in Canada. The difference between the purchase price paid and the net assets acquired is SEK 143.6 million. SEK 22.3 million of this has been allocated to patents and un-patented know-how, while the residual SEK 121.3 million has been allocated to goodwill. The goodwill is amortised over 10 years. bioKinetics has approx 400 employees and net sales of approximately SEK 550 million.

On January 31, 2003, the Danish Toftejorg A/S Group was acquired, with effect from January 1, 2003. The operations cover R&D, assembly and sales of advanced tank cleaning equipment, targeting the Food and Marine industries. In addition to the operations in Denmark, the Toftejorg Group had sales companies in Sweden, Norway, Germany, the UK, France, Singapore, the United States and its own representation in South Korea. The operations are integrated into the Equipment Division. The difference between the purchase price paid and the net assets acquired is SEK 33.9 million. SEK 0.9 million of this has been allocated to a property in the US, while the residual SEK 33.0 million has been allocated to goodwill. The goodwill is amortised over 10 years. Toftejorg has annual sales of about SEK 210 million and approximately 100 employees.

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 SEK 110.1 million. This has entirely been allocated to goodwill. The goodwill is amortised over 20 years. The company has annual sales of about SEK 90 million 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, 2001 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. The purchase of the additional shares resulted in a cash payment of SEK 87.3 million. The difference between the purchase price paid and the net assets acquired was SEK 39.2 million. This has in whole been allocated to goodwill.

The total value of the acquired assets and liabilities is presented in the table below, which also shows the cash flow impact of the acquisitions.

Consolidated, SEK in millions	2003	2002	2001
Property, plant and equipment	51.4	22.6	10.1
Inventory	49.9	21.6	21.0
Accounts receivable	175.3	11.9	19.5
Other receivables	73.2	30.2	3.8
Liquid assets	5.9	7.4	28.8
Long-term liabilities	-23.3	-8.5	-2.6
Accounts payable	-107.9	-6.2	-10.7
Other liabilities	-130.7	-38.3	-22.3
Goodwill	161.9	102.4	39.7
Other surplus values	23.2	-	-
Deferred tax	16.5	-	-
Purchase price	-295.4	-143.1	-87.3
Liquid assets in the acquired business	5.9	7.4	28.8
Effect on the Group's liquid assets	**-289.5**	**-135.7**	**-58.5**

Purchase price reimbursement

During the year the Alfa Laval Group has received SEK - (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 SEK 330.6 million 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 completed. During September 2002 a final settlement was made with the buyer, resulting in an increase of the realised gain by SEK 14.0 million. This result item had however no cash flow impact during 2002.

The total value of the divested assets and liabilities is presented in the table below, which also shows the cash flow impact of the divestments.

Consolidated, SEK in millions	2003	2002	2001
Property, plant and equipment	-	-	101.4
Inventory	-	-	219.8
Accounts receivable	-	-	134.9
Other receivables	-	-	35.9
Liquid assets	-	-	49.1
Long-term liabilities	-	-	-28.1
Accounts payable	-	-	-32.8
Other liabilities	-	-	-144.5
Realised result	-	-	-5.0
Purchase price	-	-	330.7
Liquid assets in the sold business	-	-	-49.1
Effect on the Group's liquid assets	**-**	**-**	**281.6**

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.

Defined benefit plans are in place in Austria, Belgium, Canada, France, Germany, Japan, Norway, South Africa, Sweden, Taiwan, the United Kingdom and the United States. Some plans have been closed for new participants and replaced by defined contribution plans for new employees.

Consolidated, SEK in millions	2003	2002	2001
(-) liability/(+) asset			
Present value of the defined benefit obligation, unfunded	-808.3	-833.2	-721.2
Present value of the defined benefit obligation, funded	-2,552.7	-2,196.1	-2,462.3
Present value of the defined benefit obligation at year end	-3,361.0	-3,029.3	-3,183.5
Unrecognised actuarial losses	971.5	567.6	204.3
Unrecognised past service cost	5.1	0.9	47.9
Fair value of plan assets	1,761.5	1,853.1	2,338.2
Defined benefit liability	-622.9	-607.7	-593.1
Less amount disallowed	-5.2	-6.1	-6.4
Net defined benefit liability	**-628.1**	**-613.8**	**-599.5**
(-) cost/(+) income			
Current service cost	-31.0	-49.0	-59.6
Interest cost	-145.8	-171.0	-178.3
Expected return on plan assets	144.2	90.3	146.4
Recognised actuarial losses	-80.6	-82.4	-109.3
Recognised past service cost	-52.0	-8.2	-
Effect of any curtailments or settlements	-1.3	67.7	42.1
Net plan cost	**-166.5**	**-152.6**	**-158.7**
(-) liability/(+) asset			
Change in present value of the defined benefit liability:			
Present value of defined benefit liability at January 1	-3,029.3	-3,183.5	-2,742.7
Translation difference	410.3	226.3	-290.6
Current service cost	-31.0	-49.0	-59.6
Interest cost	-145.8	-171.0	-178.3
Employee contributions	-8.0	-5.9	-9.0
Current year change in actuarial losses	-677.8	-82.4	-109.3
Recognised past service cost	-52.0	-8.2	-
Effect of any curtailments or settlements	-1.3	67.7	42.1
Benefit payments	173.9	176.7	163.9
Present value of defined benefit liability at December 31	**-3,361.0**	**-3,029.3**	**-3,183.5**
(-) liability/(+) asset			
Change in plan assets:			
Fair value of plan assets at January 1	1,853.1	2,338.2	2,168.7
Translation difference	-229.3	-222.6	259.8
Employer contributions	67.6	71.4	44.7
Employee contributions	8.0	5.9	9.0
Actual return on plan assets	236.0	-163.1	19.9
Benefit payments	-173.9	-176.7	-163.9
Fair value at December 31	**1,761.5**	**1,853.1**	**2,338.2**
(-) liability/(+) asset			
Change in defined benefit liability/asset			
Defined benefit liability/asset at January 1	-613.8	-599.5	-493.7
Translation difference	104.5	71.9	-37.4
Net plan cost	-166.5	-152.6	-158.7
Employer contributions	67.6	71.4	44.7
Change in unrecognised actuarial gains/losses	-18.5	-7.3	46.2
Change in unrecognised past service cost	0.0	0.6	0.6
Change in disallowed asset amount	-1.4	1.7	-1.2
Defined benefit liability/asset at December 31	**-628.1**	**-613.8**	**-599.5**

Note 25. (Continued) Defined benefit obligations

Consolidated, SEK in millions	2003	2002	2001
(-) liability/(+) asset			
Assets			
Fair value of plan assets	1,761.5	1,853.1	2,338.2
Less amount disallowed	-5.2	-6.1	-6.4
	1,756.3	1,847.0	2,331.8
Netting	-1,629.6	-1,740.2	-2,156.4
Assets in balance sheet	**126.7**	**106.8**	**175.4**
Liabilities			
Present value of the defined benefit obligation at year end	-3,361.0	-3,029.3	-3,183.5
Unrecognised actuarial gains (less losses)	971.5	567.6	204.3
Unrecognised past service costs	5.1	0.9	47.9
	-2,384.4	-2,460.8	-2,931.3
Netting	1,629.6	1,740.2	2,156.4
Provision in balance sheet	**-754.8**	**-720.6**	**-774.9**

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

Consolidated	2003	2002	2001
Discount rate	6	7	7
Expected return on investment	8	8	8
Expected wage increase	4	4	4
Change in health care costs	9	9	9
Change of index for future increase of remunerations	4	4	4

Changes in the health care costs have a significant impact on the costs and the level of the obligations for defined benefit obligations. If the health care costs change by one percent, it gives the following profit and loss effect calculated on the conditions as of the end of 2003:

	2003		2002	
Consolidated, SEK in millions	1 % increase	1 % decrease	1 % increase	1 % decrease
Effect on:				
Current service costs and interest costs	-12.8	10.6	-11.9	10.1
Present value of the defined benefit obligation	-159.0	127.9	-131.2	108.7

Note 26. Other provisions

Consolidated, SEK in millions	January 1	Translation-difference	New provisions and increase of existing provisions	Amounts used	Unused amounts reversed	Change due to discounting	December 31
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	-	104.0
Restructuring	293.8	-13.7	56.6	-117.3	-12.3	-	207.1
Onerous contracts	23.9	-0.4	-	-11.2	-2.8	-	9.5
Environmental	7.3	-1.2	-	-2.9	-	-	3.2
Litigations	109.8	-0.4	36.5	-27.9	-2.0	-	116.0
Other	102.6	-6.2	84.3	-34.9	-10.0	-	135.8
	1,063.2	**-48.3**	**445.6**	**-380.1**	**-85.4**	**-5.7**	**989.3**
2003							
Claims & warranty	413.7	-19.8	181.1	-149.1	-29.6	-	396.3
Deferred costs	104.0	-1.3	22.2	-18.2	-15.3	-	91.4
Restructuring	207.1	-5.5	61.1	-100.8	-6.2	-	155.7
Onerous contracts	9.5	-	4.0	-3.5	-	-	10.0
Environmental	3.2	-0.6	-	-1.3	-	-	1.3
Litigations	116.0	-0.4	17.8	-17.2	-1.3	-	114.9
Other	135.8	-9.5	63.9	-61.1	-7.5	-	121.6
	989.3	**-37.1**	**350.1**	**-351.2**	**-59.9**	**-**	**891.2**

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 SEK 407.9 million was established. This pertained to such restructuring measures that were 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 close down of manufacturing sites, rationalisation of the logistics function and introduction of a customer segment based organisation with changed order processes. At the end of 2003, SEK - (50.9) million remains of this acquisition provision.

The provisions for restructuring are affecting slightly less than 160 (175) employees.

Note 27. Loans

Consolidated, SEK in millions	2003	2002	2001
Subordinated loan from Tetra Laval Finance Ltd	-	-	2,085.6
Credit institutions	2,530.7	3,360.2	4,573.1
Bond loan	1,064.8	1,127.6	2,045.3
Capitalised financial leases	13.6	24.7	26.9
Interest-bearing pension liabilities	5.2	6.1	6.4
Total debt	**3,614.3**	**4,518.7**	**8,737.2**
Cash, bank and current deposits	1,213.2	1,020.2	959.7
Net debt	**2,401.1**	**3,498.5**	**7,777.5**

As a consequence of the IPO of Alfa Laval in 2002, the structure of the financial debt changed considerably. The costs for the change of the structure were 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, capitalised financing costs of totally SEK - (219.6) million were reversed. This cost was reported as a comparison distortion financial cost.

Total bank borrowings amount to SEK 2,530.7 (3,360.2) (4,573.1) million at the end of the year. The total financial indebtedness including leasing and interest bearing pension liabilities amounts to SEK 3,614.3 (4,518.7) (8,737.2) million.

Net financial debt amounts to SEK 2,401.1 (3,498.5) (7,777.5) million at the end of the year.

Subordinated loan from Tetra Laval Finance Ltd

On May 23, 2002, the loan from Tetra Laval Finance Ltd was repaid.

Tetra Laval BV granted a subordinated loan on August 24, 2000 of SEK - (-) (1,859.4) million. 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 was meanwhile capitalised every year on August 24 together with the principal amount. On May 23, 2002 the capitalised interest was SEK 226.2 million and the accrued interest was SEK 186.9 million. Transaction costs of totally SEK - (-) (16.7) million were capitalised and amortised over the maturity of the loan. The cost for the fee amortisation was SEK - (-0.4) (-1.6) million. An additional cost of SEK - (-14.1) (-) million was reported as comparison distorting as a part of the SEK - (-219.6) (-) million.

Loan from credit institutions

On January 27 and December 30, 2003 a voluntary amortisation of SEK 223.1 million and SEK 23.9 million respectively was made on the syndicated loan.

On May 28, 2002, 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, 2002, the old loans were amortised by SEK 323.4 million. After May 28, 2002 the new loans have been amortised by SEK 551.3 million during 2002.

The loan facility with the banking syndicate consists of two parts. The first part is an amortisation free loan of originally EUR 423.9 million. This has been reduced to EUR 263.7 million through voluntary amortisation of EUR 87.4 million and reduction through exchange rate movements of EUR 72.8 million. The other part is a revolving working capital facility of EUR 150 million, which was unutilised as of December 31, 2003. Alfa Laval has initiated negotiations with the banking syndicate in order to convert the whole loan to a revolving facility potentially combined with a SEK based short-term commercial paper programme. A commercial paper programme requires an official credit rating and generally means lower interest rates but without any guarantees for sustained financing. This is then covered by the extended revolving facility.

The syndicated loans amounted to SEK 2,390.2 (3,064.7) (4,064.7) million. The maturity of the new loan is five years. The average interest and currency duration including derivatives is 3.5 months at the end of 2003. 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 65 (80) interest points. At the end of 2003 the loans are accruing interest in the range of 0.72 – 4.60 percent (0.86 – 4.82 percent) (1.59 – 7.92 percent). The average interest rate at the end of 2003 was 1.96 (5.58) (6.49) percent. The large decrease in average interest rates between 2003 and 2002 is due the cancellation of the previous interest rate swaps that were requested by the previous banking syndicate.

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 there is no such obligation. As per the end of December 2003, 22 (64) (69) percent is, however, hedged.

Transaction costs totalling SEK 27.3 (35.1) (194.4) million have been capitalised and are being amortised over the maturity of the loan. The current year's cost for the fee amortisation is SEK -7.8 (-16.8) (-29.2) million. An additional cost of SEK - (-182.2) (-) million is reported as comparison distorting as a part of the SEK - (-219.6) (-) million.

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 August 24, 2000, Alfa Laval Special Finance AB borrowed EUR 220 million from Donaldsson, Lufkin & Jenrette and UBS Warburg. On November 9, 2000, this loan was replaced by a bond loan placed with institutional investors of EUR 220 million. 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. Interest payments are due May 15 and November 15 each year. Since the bond is denominated in EUR all payments are made in EUR. Transaction costs totalling SEK 29.2 (35.1) (70.7) million have been capitalised and are being amortised over the maturity of the loan. The current year's cost for the fee amortisation is SEK -5.9 (-12.3) (-8.0) million. An additional cost of SEK - (-23.3) (-) million is reported as comparison distorting as a part of the SEK - (-219.6) (-) million.

During 2003, Alfa Laval has re-purchased bonds at the prevailing market rate for a total face value of SEK 50.6 (181.5) million. The difference between the higher market value and the face value was SEK 9.7 (23.3) million, which has been reported as an interest cost. The bond loan accrues interest at 12.125 percent, which is considerably more than the Group's current cost for other external financing.

Before November 15, 2003 up to 35 percent of the principal amount could be redeemed with the proceeds of a public equity offering. A corresponding post IPO-redemption was made on June 24, 2002, where 35 percent of the bond loan of EUR 220 million was amortised. This corresponded to EUR 77.0 million or SEK 703.6 million. This was made at a premium of 12.125 percent corresponding to one year's interest, which amounted to SEK 85.2 million. The cost was reported as a comparison distortion financial cost.

Prior to November 15, 2005 all, but not part of, the notes may be redeemed at a premium plus accrued and unpaid interest. At any time on or after November 15, 2005 all or part of the notes are redeemable at the following redemption prices plus accrued and unpaid interest:

Year starting	Percentage
November 15, 2005	106.063
November 15, 2006	104.042
November 15, 2007	102.021
November 15, 2008 and thereafter	100.000

The loans are distributed among currencies as follows:

Consolidated, SEK in millions	Short-term		Long-term	
Currency	2003	2002	2003	2002
CAD	3.7	12.4	-	-
DKK	2.1	69.3	13.7	398.7
EUR	55.3	78.7	1,074.1	1,472.0
GBP	1.8	14.3	216.3	164.9
INR	-	-	10.5	-
JPY	1.0	14.8	248.6	173.1
PLN	17.1	30.5	-	-
SEK	5.4	6.0	-	175.1
USD	12.2	27.8	1,925.3	1,838.0
Other	5.1	0.6	3.3	11.6
Total	**103.7**	**254.4**	**3,491.8**	**4,233.4**
Of which, not due within five years:			1,064.8	1,127.7

Note 28. Other liabilities

Consolidated, SEK in millions	2003	2002
Financial lessee payable	13.6	24.7
Other non-interest bearing liabilities	635.1	607.8
Total	**648.7**	**632.5**

Note 29. Accrued costs and prepaid income

Consolidated, SEK in millions	2003	2002
Accruals for social security	146.9	130.4
Reserve for severance pay	212.2	208.9
Accrued interest expenses	27.7	22.2
Other accrued expenses and prepaid income	431.1	422.8
Total	**817.9**	**784.3**
Of which, accrued costs and prepaid income not due within one year		
Accruals for social security	21.0	18.0
Reserve for severance pay	119.8	119.1
Other accrued expenses and prepaid income	7.7	6.1
Total	**148.5**	**143.2**

Note 30. Pledged assets and contingent liabilities

Consolidated, SEK in millions	2003	2002
Pledged assets		
Other pledges and similar commitments	45.4	78.3
Total	**45.4**	**78.3**
Contingent Liabilities		
Discounted bills	113.7	164.5
Performance guarantees	688.4	798.0
Other contingent liabilities	669.0	735.5
Total	**1,471.1**	**1,698.0**

In the new syndicate loan there are no pledges or restrictions. Other contingent liabilities are among other items referring to leased assets.

Note 31. Transactions with related party

Tetra Pak within the Tetra Laval Group is Alfa Laval's single largest customer with 5.7 (5.7) (4.9) 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, 2003. 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.

Alfa Laval has purchased services from Tetra Laval Group Transport & Travel to optimise forwarding, freight and delivery terms and purchase forwarding, freight and person transportation until March 31, 2003 for SEK 0.3 (2.2) (1.6) million. In addition, Alfa Laval purchases facilities management services relating to the real estate in Lund in Sweden from Tetra Pak Business Support AB for SEK 3.3 (3.3) (3.0) million. Alfa Laval rents premises to Tetra Pak and DeLaval in Russia and in Germany for SEK 13.6 (13.8) (4.8) million.

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

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

Consolidated, SEK in millions	2003	2002
Assets:		
Accounts receivable	47.3	48.8
Other receivables	78.9	79.1
Liabilities:		
Accounts payable	11.3	3.8
Other liabilities	2.5	0.4

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

Consolidated, SEK in millions	2003	2002	2001
Income statement:			
Net sales	789.8	830.0	777.9
Other operating income	13.6	13.8	4.8
Other operating costs	-3.6	-5.5	-4.6
Interest costs	-	-97.1	-242.9
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, SEK in millions	2003	2002	2001
Gross amount of project sales revenue recognised in the period	467.6	357.4	635.8
Aggregated amount of costs incurred and recognised profits (including deduction for reported losses)	599.0	390.5	692.0
Advances received	219.9	179.4	145.2
Retentions	42.4	11.4	10.4
Gross amount due from customers for plant projects	175.2	80.8	77.7
Gross amount due to customers for plant projects	0.7	0.7	0.0

Note 33. Leasing

Alfa Laval has entered into non-cancellable operating leases mainly relating to premises and finance lease agreements regarding machinery and equipment with leasing periods of 1–20 years. The leasing fees for non-cancellable operating leases for premises were SEK 207.4 (232.9) (258.8) million. During the year, the Group has entered into finance leases with a capitalised value of SEK 6.7 (1.1) million. See Note 17 for information on the capitalised value of finance leases.

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

Consolidated, SEK in millions	Operating leases		
Year	2003	2002	2001
2001	N/A	N/A	N/A
2002	N/A	N/A	82.5
2003	N/A	96.0	62.1
2004	77.3	75.5	41.5
2005	64.7	58.4	29.7
2006	47.0	31.1	16.7
2007	29.2	18.7	0.0
2008	20.2	0.0	0.0
Senare	35.8	48.5	46.7
Total	**274.2**	**328.2**	**279.2**

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

Consolidated, SEK in millions	**Financial leases**			**Present value of financial leases**		
Year	2003	2002	2001	2003	2002	2001
2001	N/A	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	17.4	N/A	N/A	16.5
2003	N/A	11.3	6.2	N/A	10.6	5.2
2004	7.1	6.0	2.9	6.8	5.5	2.1
2005	3.2	4.0	0.3	3.0	3.5	0.2
2006	2.0	2.5	0.0	1.8	2.1	-
2007	0.9	0.9	-	0.8	0.8	-
2008	0.4	-	-	0.3	-	-
Later	-	-	-	-	-	-
Total	**13.6**	**24.7**	**26.8**	**12.7**	**22.5**	**24.0**

Note 34. 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 average interest and currency duration including derivatives is 3.5 months for the syndicated loans at the end of 2003. The majority of the syndicated loans were rolled with new interest rates during December. In total, this means that the carrying value approximates the fair value. The fair value of the bond loan is arrived at by applying the market rate at the last trading date in December.

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

	2003		2002	
Consolidated, SEK in millions	Carrying value	Fair value	Carrying value	Fair value
Syndicated bank loans	2,390.2	2,390.2	3,064.7	3,064.7
Bond loan	1,064.8	1,283.2	1,127.6	1,268.6

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 were:

	2003		2002	
Consolidated, SEK in millions	Nominal amount	Fair value	Nominal amount	Fair value
Forward exchange contracts	8,286.0	127.6	9,033.7	151.3
Currency options	90.7	0.2	-	-
Interest-rate swaps	-	-	1,951.8	-61.1

Note 35. Reconciliation to US GAAP

Consolidated, SEK in millions	*Note*	2003	2002	2001
Net income/(loss) under Swedish GAAP		645.8	120.2	36.1
US GAAP adjustments:				
Goodwill and other intangibles with indefinite useful lives	*a*	191.3	187.7	-
Leveraged buy-out accounting	*b*	7.1	2.1	15.0
Derivative instruments and hedge accounting	*c*	266.7	271.2	-49.5
Tooling costs	*d*	-4.4	11.0	15.3
Capitalised software	*e*	-16.7	-20.2	-6.4
Provisions	*f*	-	-	-0.1
Other	*g*	-0.3	-0.3	-0.3
Deferred taxes				
Tax effect of US GAAP adjustments	*h*	-67.6	-26.7	14.3
Sum of adjustments		**376.1**	**424.8**	**-11.7**
Net income under US GAAP before change in accounting principles		**1,021.9**	**545.0**	**24.4**
Presented as:				
Net income from continuing operations before change in accounting principles		1,021.9	545.0	24.4
Net income under US GAAP before change in accounting principles		1,021.9	545.0	24.4
Effect of change in accounting principles, net of tax	*c*	-	-	-61.9
Net income under US GAAP		1,021.9	545.0	-37.5
Earnings per share (SEK)		9.15	6.38	-1.00
Average number of shares		111,671,993	85,482,322	37,496,325

Consolidated, SEK in millions	*Note*	2003	2002
Equity capital under Swedish GAAP		4,897.0	4,512.3
US GAAP adjustments:			
Goodwill and other intangibles with indefinite useful lives	*a*	365.3	187.7
Leveraged buy-out accounting	*b*	403.8	444.2
Derivative instruments and hedge accounting	*c*	98.1	26.3
Tooling costs	*d*	91.4	95.7
Capitalised software	*e*	5.8	22.5
Provisions	*f*	-	-
Other	*g*	4.8	5.1
Deferred taxes -			
Tax effect of US GAAP adjustments	*i*	-67.6	-26.7
Sum of adjustments		901.6	754.8
Shareholder's equity under US GAAP		**5,798.6**	**5,267.1**

Change in consolidated equity capital according to US GAAP

Consolidated, SEK in millions	
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**
2003	
Dividend	-223.3
Translation difference	-267.1
Net income for 2003 according to US GAAP	1,021.9
As per balance sheet on December 31, 2003	**5,798.6**

Comments to the US GAAP reconciliation

a) Goodwill and other intangibles

Goodwill and other intangibles with indefinite useful lives

"The Financial Accounting Standards Board" issued "Statement of Financial Accounting Standards" No. 142, "Goodwill and Other Intangible Assets" (FAS 142) in July 2001. The Statement is effective for fiscal years beginning after December 15, 2001. FAS 142 requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives not be amortised; these assets should be tested for impairment annually. Goodwill and intangible assets with indefinite useful lives are no longer tested for impairment under FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Company has adopted the provisions of FAS 142 as of January 1 2002.

Upon adoption of the new standard, goodwill of SEK 3,217.4 million (calculated in accordance with US GAAP as of December 31, 2001) ceased to be amortised, but is instead tested for impairment. In addition, intangible assets totalling approximately SEK 594 million relating to in-place workforce calculated for US GAAP purposes, as well as approximately SEK 208 million of related deferred tax liabilities, have been reclassified as goodwill.

An impairment test has been performed at the end of 2003 indicating that there is not any need to write down the goodwill.

b) Leveraged buy-out accounting

In August 2000 Alfa Laval Holding AB and its subsidiaries (the predecessor) was acquired by a newly formed entity, resulting in a change in control. Prior to the transaction, the predecessor was owned 100 percent by Tetra Laval BV, part of the Tetra Laval Group. Subsequent to the transaction, the predecessor ceased to exist and the newly formed company, Alfa Laval AB, was owned 36.8 percent by Tetra Laval BV, 62.5 percent by Industri Kapital and 0.7 percent by management. For US GAAP purposes, this transaction as described in the Board of Directors' report must be accounted for as a leveraged buy-out transaction in accordance with Emerging Issues Task Force (EITF) Abstract 88-16 because the transaction was carried out via a series of highly leveraged transactions through the creation of a newly formed entity that acquired 100 percent of the predecessor and resulting in the former shareholder maintaining a minority interest in the newly formed entity.

For US GAAP purposes, Alfa Laval'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:

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

Consolidated, SEK in millions

Fair value of Alfa Laval Holding on August 23, 2000	10,087.0
Predecessor basis of Alfa Laval Holding on August 23, 2000	5,592.0
63.2 percent interest in fair value of Alfa Laval Holding of new investors in Alfa Laval AB	6,374.0
36.8 percent interest in predecessor basis of Alfa Laval Holding of old investors in Alfa Laval AB	2,058.0
	8,432.0
Percentage	83.6

For US GAAP purposes, the 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 acquisition of Alfa Laval Holding as a purchase for cash consideration of SEK 8,214 million plus other consideration and transaction costs for an aggregate purchase price of SEK 8,286 million in exchange for 100 percent of Alfa Laval Holding. This purchase price excludes the value of the Alfa Laval AB shares issued to Tetra Laval BV because this was considered to be a transaction between shareholders which should not be reflected in the issuer's consolidated financial statements in accordance with Swedish GAAP. For US GAAP purposes, Tetra Laval BV's 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 SEK 1,800 million value of the Alfa Laval AB shares issued to Tetra Laval BV as part of the overall consideration paid in exchange for 100 percent of Alfa Laval Holding.

The result of applying leveraged buy-out accounting to the transaction in accordance with US GAAP is that the step-up in the value the net assets acquired to fair value has been limited to the extent of the new owners' interest in Alfa Laval AB. In addition to the differences related to leveraged buy-out accounting, the values of the net assets acquired differ for US GAAP purposes because certain intangible assets including workforce and customer relationships must be valued separately in accordance with US GAAP, but such items do not meet the definition of intangible assets in accordance with Swedish GAAP and such value is thus recorded as goodwill under Swedish GAAP.

The combined effect of the SEK 1,800 million higher purchase price for US GAAP purposes and the limitation of the fair value step-up in accordance

with EITF 88-16 results in a net increase to equity on the acquisition date for US GAAP as compared to Swedish GAAP because the credit to equity related to the higher purchase price more than offsets the debit to equity related to the EITF 88-16 limitations of the fair value step-up.

During 2001 the Group completed the exercise 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) Derivative instruments and hedge accounting

Under Swedish GAAP, unrealised 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 must be recognised in the balance sheet as either assets or liabilities and measured at fair value. In addition, all hedging relationships must be reassessed and documented pursuant to the provisions of FAS 133.

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 unrealised 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 recognises all derivative financial instruments, such as interest-rate swap contracts and foreign exchange contracts, in the consolidated financial statements at fair values regardless of the purpose or intent for holding the instrument. Upon initial adoption of FAS 133 the Group recognised a cumulative effect of accounting change of SEK 61.9 million (net of tax benefit of SEK 33.0 million) in the income statement related to the fair value of interest-rate swap contracts in existence as of January 1, 2001. Gains and losses recognised on derivative financial instruments subsequent to initial adoption of FAS 133 are recognised in financial income or expense for purposes of presentation under US GAAP.

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 susidiaries. 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.

The US GAAP reconciliation items can be summarized as follows.

The US GAAP reconciliation items can be summarized as follows:

Consolidated SEK in millions	2003	2002	2001
Hedges of net investments in foreign subsidiaries under Swedish GAAP not qualifying for hedging under FAS 133	194.8	164.9	-105.5
Change in fair market value of interest-rate swaps not recognized under Swedish GAAP	61.1	50.0	-15.8
Change in fair market value of foreign exchange derivatives not recognized under Swedish GAAP	10.8	56.3	71.8
Total	266.7	271.2	-49.5

d) Tooling costs

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

e) Capitalised software

Under prior Swedish GAAP, the cost to develop computer software for internal use is expensed as incurred. The Accounting Standards Executive Committee issued Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP No. 98-1 is effective for financial statements for fiscal years beginning after December 15, 1998; however, early adoption is encouraged. For US GAAP purposes, the Group has adopted SOP 98-1 with effect from January 1, 1995 and has capitalised direct costs of developing software for internal use. Amortisation of these assets is calculated on the straight-line method over their estimated economic lives of three years.

f) Provisions

As of December 31, 2001, the US GAAP differences for provisions relate primarily to different methods used to calculate reserves for inventory, receivables and compensated absences.

g) Other

Under Swedish GAAP, certain real estate assets are stated at estimated fair value. The revalued amounts of depreciable assets are depreciated over their estimated useful lives. The revaluation of assets is not permitted under US GAAP. Upon the transaction described in b, the fixed assets were adjusted to their fair values, eliminating the effect of past revaluations. For US GAAP purposes, fixed asset values that have been revalued after the transaction have been restated at historical cost based on the purchase accounting adjustments, net of corresponding adjustments for accumulated depreciation. Adjustments to periodic depreciation charges have also been reflected.

Under Swedish GAAP, research and development expenses related to projects that are funded by a government affiliated body are deferred and recorded as an intangible asset. Under US GAAP, research and development costs are expensed as and when incurred.

Under prior Swedish GAAP interest related to long-term construction projects was not required to be capitalised. US GAAP requires that interest incurred during long-term construction projects must be capitalised and included as part of the cost of the asset.

Under 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, 2003 the Group had sold receivables with recourse totalling SEK 113.7 (164.5) million. 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 properties in the United States, Spain, Brazil, Canada, Denmark, Wales and Peru are also planned for sale. 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

Consolidated	2003		2002	
SEK in millions	Carrying value	Fair value	Carrying value	Fair value
Real estate for sale	169.1	403.2	78.1	125.5

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 recognised when the liability is incurred. Under Issue 94-3 a liability for an exit cost was recognised 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. Alfa Laval has not been involved in any exit or disposal activities during 2003 that affects the provisions at year-end.

i) Deferred taxes

As of January 1, 2000 the Group adopted IAS 12 with a view toward meeting both IAS and US GAAP requirements. Accordingly, the Group has applied the liability method and has recorded deferred taxes in accordance with both IAS 12 and FAS 109.

The components of income (loss) before taxes under US GAAP are as follows:

Consolidated, SEK in millions	2003	2002	2001
Swedish	744.0	228.8	161.5
Foreign	474.8	564.6	-291.9
Total	**1,218.8**	**793.4**	**-130.4**

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

Consolidated, SEK in millions	2003	2002	2001
Current:			
Swedish	-7.0	-4.2	-24.4
Foreign	-276.0	-282.3	-319.6
Deferred:			
Swedish	5.3	-20.4	77.4
Foreign	80.8	58.6	359.4
Total	**-196.9**	**-248.3**	**92.8**

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.

Comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	2003	2002	2001
According to US GAAP:			
Net income	1,021.9	545.0	-37.5
Foreign currency translation	-267.1	-329.6	268.3
Comprehensive income	**754.8**	**215.4**	**230.8**

Accumulated comprehensive income under US GAAP is presented as follows:

Consolidated, SEK in millions	2003	2002	2001
According to US GAAP:			
Accumulated net income	909.8	-112.1	-657.1
Foreign currency translation	-583.5	-316.4	13.2
Accumulated comprehensive income	**326.3**	**-428.5**	**-643.9**

Recently issued accounting pronouncements

EITF 00-21

In November 2002, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables." The scope provisions of EITF 00-21 were slightly modified in May 2003. EITF 00-21 addresses certain aspects of the accounting for revenue arrangements with multiple deliverables by a vendor. EITF 00-21 outlines an approach to determine when a revenue arrangement that contains multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the arrangement consideration should be allocated to the identified accounting units. The Company is required and plans to adopt the provisions of EITF 00-21, effective for fiscal periods beginning after June 15, 2003. To accomplish this, the Company must identify and determine the fair value of the component deliverables. Alfa Laval does not expect the adoption of EITF 00-21 to have a material impact on its results of operations, financial position and cash flows.

FIN 46

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51," which clarifies the application of the consolidation rules to certain variable interest entities. FIN 46 established a new multi-step model for the consolidation of variable interest entities when a Company has a controlling financial interest based either on voting interests or variable interests. Consolidation based on variable interests is required by the primary beneficiary if the equity investors lack essential characteristics of a controlling financial interest or if the equity investment at risk is not sufficient for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 also provides disclosure requirements related to significant investments in variable interest entities, whether or not those entities are consolidated. On October 9, 2003, the FASB issued FASB Staff Position FIN 46-6 ("FSP FIN 46-6"), "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities." FSP FIN 46-6 defers the effective date for applying the provisions of FIN 46 for interests held by public entities in variable interest entities or potential variable interest entities created before February 1, 2003. Alfa Laval does not have any variable interest entities and is thus not affected by FIN 46.

FAS 149

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). This Statement codifies certain decisions made by the FASB as part of the Derivatives Implementation Group process by amending and clarifying the scope and implementation guidance of FASB Statement No. 133, for similar accounting treatment of contracts with comparable characteristics. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the results of operations, financial position and cash flows.

Proposed disposition of earnings

The unrestricted equity in Alfa Laval AB (publ) is SEK:	
Unrestricted equity capital	450,348,031
Received Group contribution, net after tax	441,637,891
Net income for 2003	177,013,332
	1,068,999,254

The income available for disposition by the shareholders at the Annual General Meeting is restricted by the consolidated net available for distribution of SEK 836.9 million.

The Board of Directors propose a dividend of SEK 4.00 (2.00) per share corresponding to SEK 446,687,972 (223,343,986) and that the remaining income of SEK 622,311,282 (450,348,031) be carried forward.

Lund, March 1, 2004

Anders Narvinger
Chairman

Björn Savén
Deputy Chairman

Per Olov Jakobsson

Arne Kastö

Susanna Holmqvist Norrby

Jan Nilsson

Finn Rausing

Jörn Rausing

Christian Salamon

Waldemar Schmidt

Lena Olving Öhberg

Sigge Haraldsson
Managing Director

Audit Report

To the general meeting of the shareholders of Alfa Laval AB (publ.) Corporate identity number 556587-8054.

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors of Alfa Laval AB (publ.) for the year 2003. These accounts and the administration of the company are the responsibility of the board of directors. 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 significant estimates made by the board of directors, 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. We also examined whether any board member has, in any other way, acted in contravention of the Companies Act, the Annual Account 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 Account 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 general meeting of the shareholders that the income statement and the balance sheet of the parent company and the group be adopted, that the profit for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors be discharged from liability for the financial year.

Malmö, March 1, 2004

Anders Scherman
Authorized Public Accountant

Ingvar Ganestam
Authorized Public Accountant

Springtime for a new medical era

Biotech. The key behind developing a new generation of medicines. Now there's a better hope that we will be able to cure diseases that up till now have been considered incurable. These new therapeutics are derived from mammalian cell cultures. This puts extreme demands on precision, safety and cleanliness in the production process. Alfa Laval is working hand in hand with the biopharm industry to develop techniques and equipment to satisfy this sensitive task, and it's a gigantic challenge. During the next few years some 500 new drugs will move from clinical trials to commercialisation.

Board of Directors and Group Management

Board of Directors

Anders Narvinger (1)
Chairman since 2003.
Born: 1948. President of Teknikföretagen. Chairman of Trelleborg AB, Exportrådet, the Lund University of Technology and Ireco Holding AB. Board member of the Volvo Car Corporation. Number of shares: 4,000*.

Björn Savén (2)
Deputy chairman since 2000.
Born: 1950. President of Industri Kapital. Chairman of KCI Konecranes International Oy. Deputy chairman of Dynea Oy, Sydsvenska Kemi AB and the German-Swedish Chamber of Commerce. Board member of Gardena AG.

Lena Olving (3)
Board member since 2002.
Born: 1956. Senior Vice President of Volvo Car Corporation, responsible for Quality.

Finn Rausing (4)
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 (5)
Board member since 2000.
Born: 1960. Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group. Board member of the Tetra Laval Group, DeLaval Holding AB and Ocado Ltd.

Christian Salamon (6)
Board member since 2000.
Born: 1961. Director of Industri Kapital. Board member of Oriflame Cosmetics SA, Arca Systems International AB, Intrum Justitia AB and Telefos AB.

Waldemar Schmidt (7)
Board member since 2000.
Born: 1940. Former president and chief executive officer of the ISS Group. Chairman of Superfos Industries A/S, Thrane & Thrane A/S and Tholstrup Cheese Holding. Board Member of Group 4 Falck A/S and F Group A/S, Enodis plc and Welzorg n.v. Number of shares: 16,749*.

Sigge Haraldsson (8)
Board member since 2000.
Born: 1944. Employed by Alfa Laval 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: 153,874*.

Per Olov Jacobsson (9)
Union representative since 2003.
Born: 1942. Alfa Laval employee since 1959. Union representative of the Association of Management and Professional Staff (Ledarna).

Arne Kastö (11)
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 (12)
Union representative since 2000.
Born: 1952. Employed by Alfa Laval since 1974. Union representative of the Swedish Metal Workers Union (Metall).

Susanna Norrby (10)
Union representative since 2003.
Born: 1967. Alfa Laval employee since 1992. Union representative of the Swedish Association of Graduate Engineers (CF).

Deputy members

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).

Magnus Christersson
Deputy union representative since 2003.
Born: 1973. Employed by Alfa Laval since 1999. Deputy union representative of the Swedish Association of Graduate Engineers (CF).

Salvador Pay-Ortiz
Deputy union representative since 2002
Born: 1940. Employed at Alfa Laval since 1965. Deputy union representative of the Swedish Union of Clerical and Technical Employees in Industry (Sif).

* As of December 31, 2003.

Group Management

Sigge Haraldsson (1)
President and Chief Executive Officer
Born: 1944. Employed by Alfa Laval 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: 153,874*.

Sigge Haraldsson has a contract that provides him the possibility to retire from Alfa Laval with pension at age 60, that is, in October 2004. On January 27 Sigge Haraldsson announced that he will retire in accordance with this contract.

Thomas Thuresson (2)
Executive Vice President, Chief Financial Officer
Born: 1957. Employed by Alfa Laval since 1988 and has served in his current role since 1995. Former controller of Flow business area and Group controller of the Alfa Laval Group. Number of shares: 56,094*.

Göran Mathiasson (3)
President, the Operations Division
Born: 1953. Employed by Alfa Laval since 1979. Göran Mathiasson has been president of the Operations Division since April 2003. Previously in charge of Alfa Laval manufacturing and prior to that, of thermal technology, including research and development, production development, system development and purchasing. Number of shares: 13,648*.

Svante Karlsson (4)
President, the Equipment Division
Born: 1955. Employed by Alfa Laval since 1984. Svante Karlsson has been President of the Equipment Division since 2001. Former head of the Thermal business area. Before that was President of the Marine and Power business segment. Number of shares: 53,986*.

Ulf Granstrand (5)
President, the Process Technology Division
Born: 1947. Employed by Alfa Laval since 1975. Ulf Granstrand has been responsible for the Process Technology Division since 2003. Previously in charge of the Operations Division, parts of the regional sales operations and head of the Thermal business area. Number of shares: 91,572*.

Peter Leifland (6)
Executive Vice President in charge of the Asia, Oceania and South America Region
Born: 1954. Employed by Alfa Laval since 1985. Peter Leifland has been in charge of the region since 1999. Formerly president of Alfa Laval International Engineering AB. Number of shares: 114,716*.

Per-Erik Lindquist (7)
Executive Vice President in charge of the Europe Region
Born: 1960. Employed by Alfa Laval since 2001. Per-Erik Lindquist has been in charge of the Europe region since 2001. Previously president of Scania in Belgium. Number of shares: 58,261*.

David Ford (8)
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 human resources manager of Tetra Pak in the UK. Number of shares: 58,711*.

Peter Torstensson (9)
Vice President, Corporate Communications
Born: 1955. Employed by Alfa Laval since 1999. Peter Torstensson has served in his current position since joining Alfa Laval in 1999. Formerly president of Borstahusen Informationsdesign. Number of shares: 31,555*.

Nils Olof Björk (10)
Senior Vice President, Corporate Development
Born: 1947. Employed by Alfa Laval since 1975. Nils Olof Björk has served in his current position since 2002. Previously head of Thermal in Canada, marketing director of Alfa Laval in Lund and head of Alfa Laval Thermal in Asia. Number of shares: 15,944*.

* As of December 31, 2003.

Corporate governance

As stipulated by the company's Articles of Association, the object of Alfa Laval's (publ) operations is to carry out the development, manufacture and sale of equipment and plants, primarily in the areas of separation, heat transfer and flow technology, manage real estate and chattels and carry on related operations, either directly or through subsidiaries or joint-venture companies, in Sweden and abroad.

Annual General Meeting 2003

The Annual General Meeting of 2003 took place on May 8, 2003 in Lund, Sweden. The Meeting appointed a Board of Directors based on proposals from the nominations committee. Sigge Haraldsson, Lena Olving, Christian Salamon, Björn Savén, Waldemar Schmidt, Finn Rausing and Jörn Rausing were re-elected to the Board. Anders Narvinger was elected as a new member of the Board (see page 90–91 for presentation of Board members).

The Annual General Meeting voted to accept the Board proposal of a dividend of SEK 2.00 per share for the 2002 fiscal year.

The Annual General Meeting also decided that the fee paid to Board members shall be SEK 2,225,000, to be distributed by the Board among its members. The auditors fee will be paid in accordance with the contract between Alfa Laval AB and Ernst & Young AB (see also Note 6, page 64).

Independent Board members

Both Anders Narvinger, Lena Olving and Waldemar Schmidt are independent of the company's largest owners. Moreover, all Board members, apart from Sigge Haraldsson, who is the President and CEO of Alfa Laval, are independent in relation to the company.

Nominations committee

The task of the nominations committee is to prepare and present proposals for the Annual General Meeting regarding the election of Board members and, where applicable, auditors, as well as the fees to be paid to members of the Board and to the auditors.

By decision of the Annual General Meeting of 2003, every year during the fourth quarter, the Chairman of the Board must summon company's largest owners, who are then entitled to appoint the members of the nominations committee. Should any of these shareholders refrain from exercising this right, the next shareholder in decreasing order shall be asked, until five members have been appointed. The names of the nominations committee members shall be announced as soon as they have been appointed. The Board Chairman shall be eligible to be appointed as a member of the committee and as its chairman.

In accordance with the above procedure, Alfa Laval's largest owners have formed the following nominations committee for the 2004 Annual General Meeting: Björn Fransson, the Fourth AP Fund, Anders Narvinger, Chairman of Alfa Laval, Tomas Nicolin, the Third AP Fund, Marianne Nilsson, Robur AB, Finn Rausing, Tetra Laval, and Christian Salamon, Industri Kapital.

Anders Narvinger was appointed chairman of the nominations committee.

The Board of Directors and its duties

To the extent that it is appointed by the Annual General Meeting, the Board of Directors shall consist of not fewer than four and not more than ten Board members, and have not more than four deputy Board members. Board members

and,where applicable, deputy Board members, are elected annually at the Annual General Meeting for the period up to the close of the next Annual General Meeting.

In 2003, the Board held twelve (thirteen) meetings. In 2003, the Board established procedure to govern its own activities and instructions regarding the allocation of duties between the Board and the president. The procedure stipulates how often the Board should convene and how Board work should be organized.

The instructions specify what financial reports must be provided to the Board to enable it to assess the Group's financial situation.

The Board appoints the President and convenes General Meetings. The Board holds at least four regular meetings annually and extra meetings may be held in addition to these.

Among other actions during the year, the Board established a number of rules and policies for improved corporate governance as a consequence of registration with the SEC (Securities and Exchange Commission), including a Code of Ethics for certain senior executives, a disclosure control and procedures policy as well as an audit and non-audit services pre-approval policy. The Board also held an extra strategy meeting.

The Group's Executive Vice President and CFO Thomas Thuresson was co-opted to the Board during the year.

The Board established a finance policy to provide distinct limits for the company's financing and financial risk management. Among other points, the policy defines the scope of currency hedging, interest-rate management and the distribution of responsibility for management of financial issues.

The Chairman

At a statutory meeting of the Board of Directors of Alfa Laval, held on May 8, 2003, Anders Narvinger was appointed Chairman of the Board and Björn Savén Vice Chairman. The Board Chairman monitors the development of the operations and ensures that the other members regularly receive the necessary information to perform the work of the Board at a consistent level of quality and in compliance with the Swedish Companies Act. In 2003, the Chairman completed and evaluation of the work of the Board and presented this evaluation to the nominations committee.

In cooperation with the company's Board of Directors, nominations committee and management, the Chairman also initiated the procurement of audit services for the next four-year period (2004–2007).
An evaluation of the company's/Group's senior excutives and succession planning has also been launched upon the initiative of the Chairman.

Compensation committee

Alfa Laval's compensation committee, which is appointed within the Board, currently consists of Anders Narvinger, Chairman, Björn Savén and Jörn Rausing. The committee's task is to establish the level of compensation to be paid to the president and senior executives.

Audit committee

The entire Board of Directors of Alfa Laval comprises the company's audit committee. Due to the nature of the Group's financial reporting and follow-up routines, guidelines for internal control, external and internal audit and reporting to the Board on such issues, it is believed that a special audit committee within the Board would not increase the Board's insight into and control over the operations. The company's external auditors have reported to the Board at three Board meetings in 2003. The internal audit function was re-established in 2003 in cooperation with the KPMG audit company, and has submitted reports to the Board on two occasions during the year. The internal audit function reports directly to the Board.

The President and senior management of the Group

The President of Alfa Laval AB, who is also the CEO of the Alfa Laval Group, leads the Group in its daily operations and ensures that the Board receives necessary background and decision-making information. It is the President's responsibility to ensure that the company's accounting complies with applicable legislation and regulations.

The Group management team consists of the CEO and the individuals appointed, as proposed by the chief executive officer, by the Board. The management team currently consists of ten individuals, who are presented on pages 92–93.

The members of the management team are in charge of the daily operations in their respective areas and for the Alfa Laval Group as a whole. Unrecorded meetings with all or parts of the Group management team take place at regular intervals throughout the year. In 2003, the management team also held nine recorded meetings.

In addition to the above, operational reviews are held on a quarterly basis with divisional or regional management. These reviews deals with the company's business position, earnings, earnings forecast for the next 12 months and issues specific to the various operational sectors.

Auditors

No fewer than one and no more than two auditors, and not more than two deputy auditors, are appointed where relevant at the Annual General Meeting for the period extending until the close of the Annual General Meeting held in the fourth fiscal year after the election of auditors. Auditors, and where applicable deputy auditors, appointed shall be Authorized Public Auditors or registered auditing companies.

At a Special General Meeting in 2000, the auditors Ingvar Ganestam, Anders Scherman, Håkan Olsson and Kerstin Mouchard as deputy auditors, all employed at Ernst & Young AB, were appointed for a mandate period extending to the close of the Annual General Meeting in the spring of 2004.

Security and Exchange Commission (SEC)/Sarbanes Oxley Act

In conjunction with the issuance of a high-yield bond in autumn 2000, Alfa Laval registered with SEC in the US. Alfa Laval has thus agreed to comply with legislation known as the Sarbanes Oxley Act, the primary intent of which is to improve corporate governance.

Financial information in 2004

Alfa Laval will publish financial reports during 2004 on the following dates:

First-quarter report 2004	April 27
Annual General Meeting in Lund	April 27
Second-quarter report 2004	August 16
Capital Market Day	During September
Third-quarter report 2004	October 22

Analysts tracking Alfa Laval

ABG Sundahl Collier	Anders Jegers
Alfred Berg	Gustaf Lindskog
Carnegie	Oscar Stjerngren
CAI-Chevreux	Patrik Sjöblom
Credit Suisse First Boston	Patrick Marshall
Danske Securities	Søren Samsøe
Deutsche Bank	Kenneth Toll
Enskilda Securities	Anders Eriksson
Evli Bank	Michael Andersson
Hagströmer & Qviberg	Lars Glemstedt
Handelsbanken Capital Markets	Mikael Sens
Human Securities	Mattias Eriksson
JP Morgan	Julia Varesko
Kaupthing Bank	Peder Frölén
Lehman Brothers	Brian Hall
Nordea Securities	Johan Wettergren
Swedbank	Mats Liss
UBS Warburg	Mikael Jäfs
Öhmans	Anders Roslund

Shareholder information

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Annual General Meeting

The Annual General Meeting of Alfa Laval AB (publ) will be held on Tuesday, April 27, at 4:00 p.m at the Scandic Star Hotel, Glimmervägen 5, Lund, Sweden. Light refreshments will be offered after the Meeting.

AGM program

1:30 p.m.	Bus departs Star Hotel to Alfa Laval's production facility in Lund
3:00 p.m.	Refreshments served prior to Annual General Meeting
3:30 p.m.	Registration begins
4:00 p.m.	Meeting opens

Notification of participation

Shareholders who wish to participate in the Meeting and obtain voting rights must be entered in the share register maintained by the Swedish Securities Register Center (VPC AB) not later than Friday, April 16, 2004, and register their intention to participate – possibly along with an assistant – not later than Wednesday, April 21, 2004 at 12:00 p.m.

Shareholders whose shares are held in trust have to temporarily re-register their shares in their own names not later than April 16. The shareholder must inform the trustee about this in good time before the deadline.

Notification of participation shall be made to:

- Alfa Laval AB, Group staff Legal, Box 73, SE-221 00 Lund, Sweden
- By e-mail to bolagsstamma.lund@alfalaval.com
- By fax to +46-46-37 71 87
- On the website: www.alfalaval.com
- By phone, No. +46-46-36 72 22, 36 65 26, or 36 65 00.

Shareholders shall state their name, personal ID number and telephone number on their notice of participation. If participation is by proxy, this power of attorney or authorization shall be submitted to the company prior to the Meeting.

Dividend

The Board of Directors and the President propose to the Annual General Meeting that a dividend of SEK 4.00 per share be paid and that the record date for this dividend should be Friday April 30, 2003. If the Meeting approves the proposal, the dividend will be distributed by VPC on Wednesday May 5, 2004.

However, the record date and dividend payment date may be postponed due to the technical procedures required for executing the payment.

Tour of production facility in Lund

Prior to the Annual General Meeting there will be an opportunity to view production of plate heat exchangers at the plant in Lund. The tour begins with a gathering at the Star Hotel in Lund not later than 1:30 p.m. Buses will transport visitors to the production facility and then back to the Annual General Meeting.

Registration to participate in the tour must be made in conjunction with notification to participate in the Meeting. The number of participants in the tour is limited.

Production: Alfa Laval AB, Investor Relations/Corporate Communications / Ehrenstråhle & Co **Prepress:** Reptil **Print:** Trosa Tryckeri

Definitions

Net sales
Revenues from goods sold and services performed that are part of the ordinary operations of the Group, after deduction for given discounts, value added tax and other tax directly linked to the sales.

Comparison distortion items
Items that do not have any link to the normal operations of the Group or that are of a non-recurring nature, where a reporting together with other items in the income statement would have given a comparison distortion effect that would have made it difficult to judge the development of the ordinary operations from an outside viewer.

Orders received
Incoming orders during the year, calculated in the same way as net sales. The orders received give an indication of the current demand for the Group's products and services, that with a varying delay appear in net sales.

Order backlog at year-end
Incoming orders that not yet have been invoiced. The order backlog at the end of the year is equal to the sum of the order backlog at the beginning of the year plus the orders received during the year less the net sales for the year. It gives an indication of how the net sales can be expected to develop in the future.

EBITA
"Earnings Before Interest, Taxes and Amortisation" or operating income before amortisation of goodwill and other step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of goodwill and other step-up values that from time to time burden the Group.

EBITDA
"Earnings Before Interest, Taxes, Depreciation and Amortisation" or operating income before depreciation and amortisation of goodwill and other step-up values. This measure of result is fully comparable over time independent of the financing costs and the amortisation of goodwill and other step-up values that from time to time burden the Group.

EBITA-margin %
Operating income before amortisation of goodwill and other step-up values (EBITA) in relation to net sales, expressed in percent.

EBITDA-margin %
Operating income before depreciation and amortisation of goodwill and other step-up values (EBITDA) in relation to net sales, expressed in percent.

Adjusted EBITA
Same as EBITA, but adjusted for comparison distortion items.

Adjusted EBITDA
Same as EBITDA, but adjusted for comparison distortion items.

Adjusted EBITA-margin %
Same as EBITA-margin, but adjusted for comparison distortion items.

Adjusted EBITDA-margin %
Same as EBITDA-margin, but adjusted for comparison distortion items.

Profit margin %
Result after financial items in relation to net sales, expressed in percent.

Capital turnover rate, times
Net sales in relation to average capital employed, expressed as a multiple of capital employed. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability.

Capital employed
Total assets less liquid funds, capitalised financing costs, other long-term securities, accrued interest income, operating liabilities and other non-interest bearing liabilities, including tax and deferred tax, but excluding accrued interest costs. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability. Shows the capital that is used in the operations. The capital employed for the Group differs from the net capital for the segments concerning taxes, deferred taxes and pensions.

Return on capital employed %
EBITA in relation to average capital employed, expressed in percent. Shown excluding and including goodwill and step-up values and the corresponding deferred tax liability.

Return on equity capital %
Net income for the year in relation to equity capital, expressed in percent. Due to the change of ownership during 2000, a calculation of the return in relation to average equity capital will not be representative.

Solidity %
Equity capital in relation to total assets, expressed in percent.

Net debt
Interest-bearing liabilities including interest-bearing pension liabilities and capitalised finance leases less liquid funds.

Debt ratio, times
Net debt in relation to equity capital, expressed as a multiple of equity capital.

Interest coverage ratio, times
EBITDA plus financial net increased by interest costs in relation to interest costs. Expressed as a multiple of interest costs. Gives an expression for the Group's ability to pay interest. The reason EBITDA is used as the starting point is that this forms the starting point for a cash flow perspective on the ability to pay interest.

Cash flow from operating activities
Shows the Group's cash flow from operating activities, that is the cash flow generated in the daily operational activities.

Cash flow from investing activities
Shows the Group's cash flow from investing activities, that is the cash flow generated by mainly the Group's divestments and acquisitions of businesses and divestments of real estate.

Cash flow from financing activities
Shows the Group's cash flow from financing activities, that is mainly the cash flow impact of the Group's loans in terms of interest payments and amortisation.

Investments
Investments represent an important component in the cash flow for the Group. The level of investments during a couple of years gives a picture of the capacity build up in the Group. In connection with the Group's change programme, a number of factories have been closed and fixed assets have been possible to redistribute, which has resulted in a relatively lower level of investments.

Average number of employees
The costs that are related to the number of employees represent a large part of the total costs for the Group. The development of the average number of employees over time in relation to the development of the net sales therefore gives and indication of the cost rationalisation that is taking place.

Earnings per share, SEK
Net income for the year divided by the average number of shares.

Cash earnings per share, SEK
Total net increase/decrease in cash and bank for the year divided by the average number of shares. The reason why this cash flow measure is used is that it represents the cash flow that can be used for dividend payments. The cash flows from operating, investing and financing activities are only sub totals of the total cash flow and are thus less interesting from a shareholders' perspective.

Alfa Laval in brief

Alfa Laval is a leading global provider of specialized products and engineered solutions.

Our equipment, systems and services are dedicated to helping customers to optimize the performance of their processes. Time and time again.

We help our customers to heat, cool, separate and transport products such as oil, water, chemicals, beverages, foodstuffs, starch and pharmaceuticals.

Our worldwide organization works closely with customers in almost 100 countries to help them stay ahead.

How to contact Alfa Laval

Contact details for all countries are continually updated on our website.

Please visit www.alfalaval.com to access the information.

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