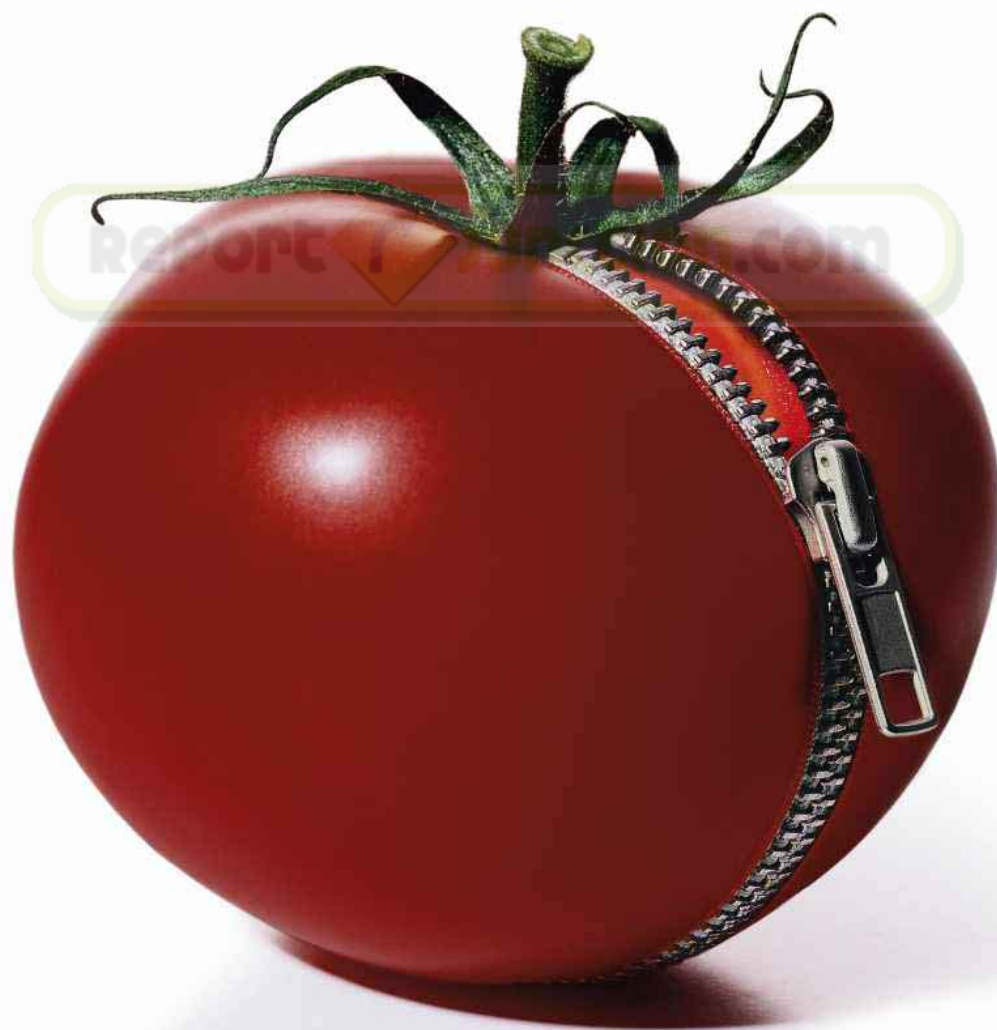




Annual Report 2003



Contents

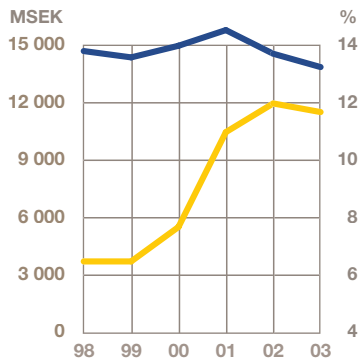
Highlights of the year
2003 in brief

Under the flap:
Alfa Laval in two minutes

2	A stable and positive trend President's comments	
4	Up 57 percent in 2003 The Alfa Laval share	
6	Business principles built on trust Business concept, business principles and goals	28 Board of Directors' Report
8	Six gears for profitable growth Growth strategy	34 Seven-year overview
10	The stable platform ... Our technologies	36 Consolidated cash-flow statement
12	... that is constantly developing Research & Development	38 Consolidated income statement
14	Better order intake in all customer segments The Equipment Division	42 Consolidated balance sheet
18	bioKinetics creates possibilities to develop Life Science segment The Process Technology Division	45 Changes in consolidated equity capital
22	Continued growth Parts & Service	47 Parent Company financial statements
24	Further improvement in delivery reliability The Operations Division	50 Comments to the accounts
26	Optimizing knowledge and skills Human Resources	55 Risk management
		60 Notes to the accounts
		86 Proposed disposition of earnings
		87 Audit Report
		88 Board of Directors and Group management
		90 Board of Directors
		92 Group Management
		94 Corporate governance
		96 Financial information in 2004
		97 Annual General Meeting
	Under the flap: Definitions	

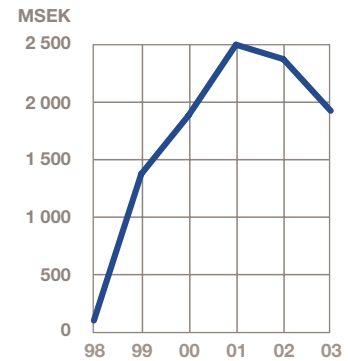
Cover:

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

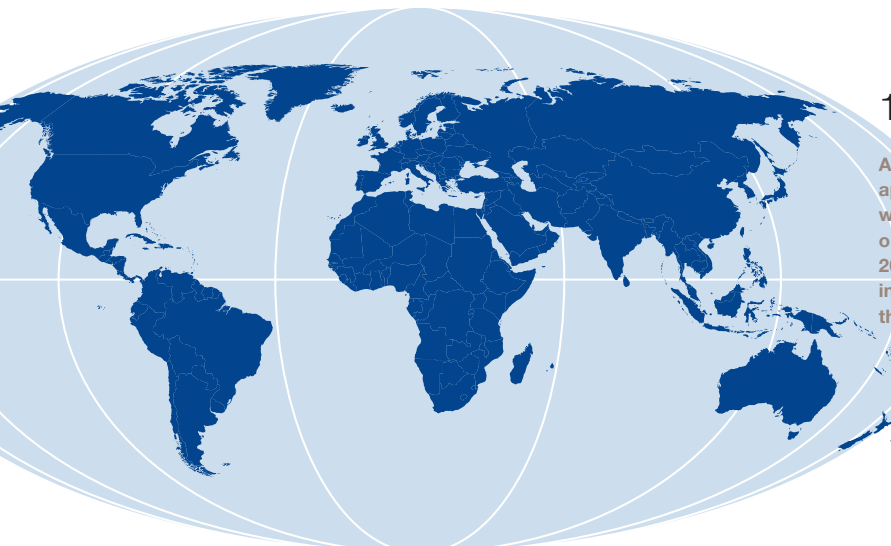
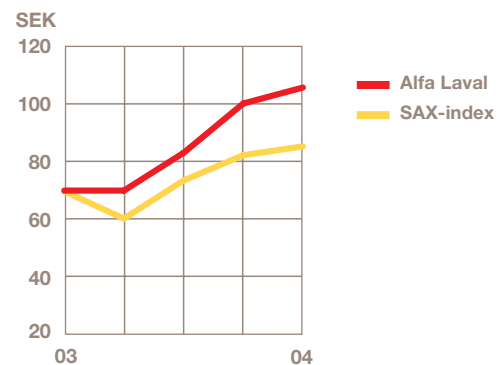
Gustaf de Laval was a great technical genius whose inventions include the centrifugal separator and the first functional steam turbine. During his lifetime, he registered 92 patents and started 37 companies. In 1883, he and his partner, Oscar Lamm Jr., established the company AB Separator, the forerunner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

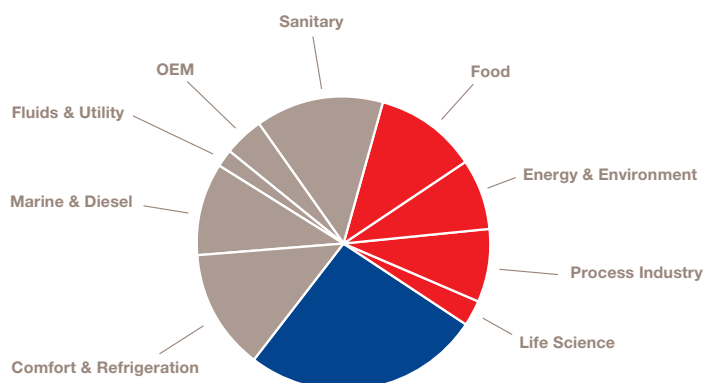
Alfa Laval currently has about 9,350 (9,125) employees worldwide. Most of these employees are in Sweden (1,941), Denmark (1,098), India (1,031), the US (742) and France (599).



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.



Process Technology Division Equipment Division Parts & Service aftermarket

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⁾ / Net sales, %	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 pack-

ages, 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.

Share price up 57 percent

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

“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.”



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.

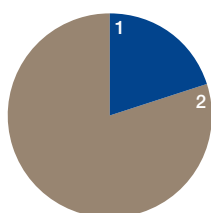
Lund, Sweden, March 2004

Sigge Haraldsson
President and Chief Executive Officer

The Alfa Laval share

up 57 percent in 2003

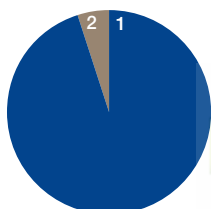
Owner categories



Legal entities

Percentage of total number of owners:

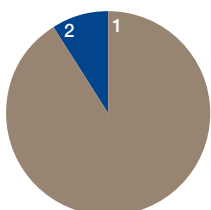
1 Legal entities	20	(1,436)
2 Individuals	80	(5,818)



Individuals

Percentage of holding:

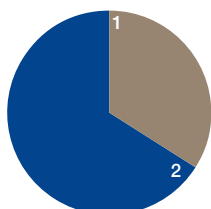
1 Legal entities	95
2 Individuals	5



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

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.

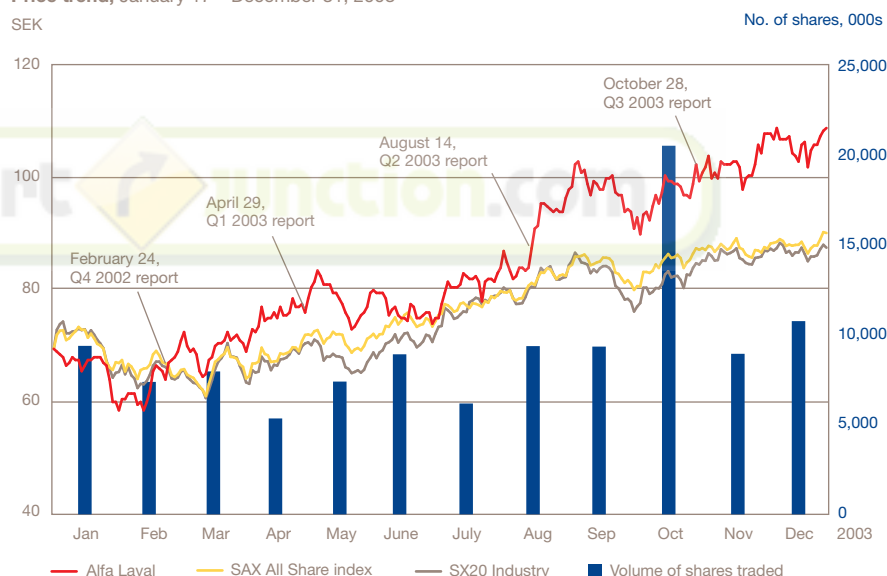
The Alfa Laval share is traded on the O-list and is part of the Attract 40

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.

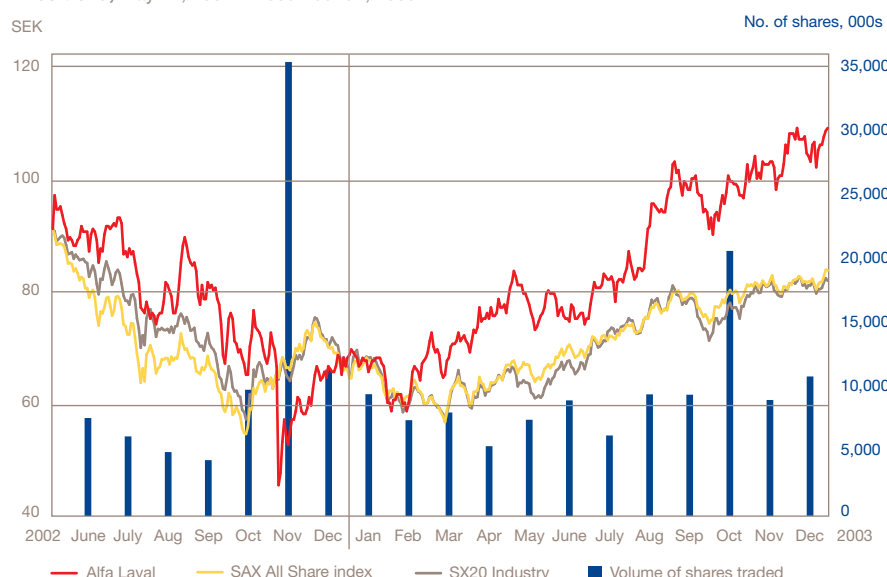
Share capital

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



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

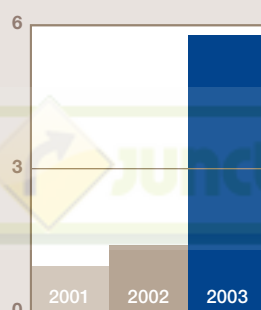
We provide regular updates on the company on our website, www.alfalaval.com. Here you can also find the latest information regarding Alfa Laval's performance on the stock market.

Ownership distribution by size at December 31, 2003

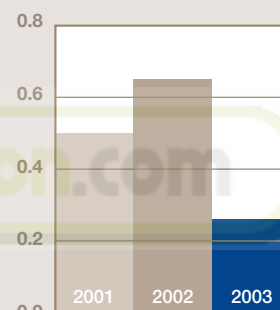
Holdings	Number of shareholders	Number of shares	Holdings, %
1 – 500	5,030	937,901	0.84
501 – 1,000	846	743,656	0.67
1,001 – 5,000	812	2,059,588	1.84
5,001 – 10,000	185	1,415,434	1.27
10,001 – 15,000	69	886,813	0.79
15,001 – 20,000	50	884,389	0.79
20,001 –	262	104,744,212	93.80
Total	7,254	111,671,993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

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

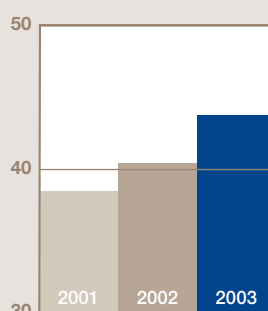
	Number of shares	Capital %
Industri Kapital 2000 Fund	20,015,628	17.92
Tetra Laval BV	19,744,014	17.68
Third AP Fund	5,072,407	4.54
State Street Bank and Trust (US)	4,577,164	4.09
Fourth AP Fund	4,291,700	3.84
Robur Funds	3,849,529	3.44
Fidelity Funds (Luxembourg)	2,819,800	2.52
Lannebo Funds	2,523,995	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



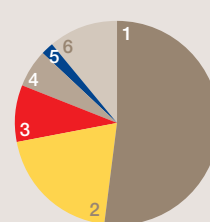
Earnings per share, SEK
2001: 0.96
2002: 1.41
2003: 5.78



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.

