

# Corporate governance

Alfa Laval intends to develop the existing routines for corporate governance in accordance with the Code group's proposal for "Swedish Code of Corporate Governance." Alfa Laval will monitor how the Stockholm Stock Exchange updates its regulations taking the Code into account and its goal is to comply with the new regulatory system well within the timetable established by the Exchange.

## Articles of Association

Alfa Laval AB (publ), in accordance with the Articles of Association, has as the objective of its operations, directly or through subsidiary and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, preferably within the areas of separation, heat exchange and flow technology, to administer fixed and movable property, and other related operations. The registered office of the Board of Directors of the company shall be in Lund municipality in Sweden. The Articles of Association are available in their entirety on the Alfa Laval website, [www.alfalaval.com](http://www.alfalaval.com)

## Annual General Meeting 2004

The Annual General Meeting (AGM) is the Alfa Laval Group's highest-level decision-maker. The AGM takes place at the end of April or beginning of May each year, and was held April 27, 2004 in Lund. Anders Narvinger was elected the meeting chairman. Following the President's report, the Board Chairman spoke about the Board's activities and the remuneration committee's work and function.

## Decisions

The AGM adopted the income state-

ment and balance sheet as well as the consolidated income statement and balance sheet, decided in favor of disposing of the company's profits in accordance with the Board's proposal in the Board of Directors' Report, that is, that the dividend shall be, as for 2003, SEK 4 per share and that the Board of Directors and President be discharged from liability.

The AGM decided in accordance with the nominating committee's proposal that the number of Board members shall be eight and that no deputies be appointed, and that the number of auditors shall be two, with two deputy auditors.

The AGM approved the nominating committee's proposal that remuneration to the Board shall be SEK 2,475,000, that it be distributed by the Board among the members chosen by the AGM, and decided that auditor remuneration shall be in accordance with invoices submitted.

Election of members was in accordance with the nominating committee's proposal of Lena Olving, Anders Narvinger, Finn Rausing, Jörn Rausing, Christian Salamon, Björn Savén and Waldemar Schmidt. The nominating committee recommended that Anders Narvinger be elected Board Chairman. Sigge Haraldsson declined reelection, announcing that he intended to resign with pension in autumn 2004. Gunilla Berg was newly elected.

As ordinary auditor, Ingvar Ganestam was reelected and Kerstin Mouchard was newly elected. As deputy auditors, Håkan Olsson was reelected and Thomas Swenson was newly elected. All are authorized public accountants with Ernst & Young AB. Ingvar Ganestam, born 1949, auditor for Alfa Laval

since 2000. Kerstin Mouchard, born 1952, auditor for Alfa Laval since 2004.

The AGM also decided, in accordance with a proposal from shareholders representing 48% of the total number of votes, that there be a nominating committee for preparing and presenting of proposals at the AGM pertaining to election of Board members and, as the case may arise, auditors and matters related to Board and audit fees.

## Nominating committee

The nominating committee shall consist of five members, who shall be representatives of the five largest shareholders at the close of the third quarter. The Board Chairman shall at the close of the third quarter contact the company's five largest shareholders. These can then appoint one member each of the nominating committee. In addition, the nominating committee can decide that the Board Chairman shall be part of the nominating committee. If any of the five shareholders abstains from the right to appoint a member, no more than eight of the largest shareholders need be consulted, if this is required in order that the nominating committee consists of at least three members. The nominating committee should be under the direction of a shareholder representative, but the Board Chairman can also be appointed as committee chairman. The Board Chairman, in line with the nominating committee's work, shall report on conditions pertaining to the Board's work, need for particular expertise, and other matters that can be relevant to nominating work. Individual shareholders shall be entitled to submit proposals on Board members to the nominating committee for further consideration within the framework of

its work. The nomination committee has the right to charge costs to the company for recruitment consultants if it is deemed necessary for achieving proper selection of candidates to the Board.

Information about the nominating committee's composition shall be made available in Alfa Laval's interim report for the third quarter. The nominating committee shall report on its activities at the AGM.

In accordance with Alfa Laval AB's decision at the AGM held April 27, 2004, Alfa Laval's major shareholders appointed the following members to the nominating committee prior to the 2005 AGM: Jörn Rausing, Tetra Laval; Björn Savén, Industri Kapital; Björn Lind, SEB; Pernilla Klein, Third AP Fund; and Björn Franzon, Fourth AP Fund. The nominating committee reached the decision that Board Chairman Anders Narvinger shall be included in the nominating committee. Anders Narvinger was appointed chairman of the nominating committee.

The nominating committee's responsibility is to prepare and present proposals for the AGM with respect to selection of Board members and, as the case may arise, auditors as well as Board and audit remuneration. The auditors are to be two authorized public accountants and the deputy auditors are to be authorized public accountants, which are selected at the AGM for a period of four years. Ernst & Young has the audit assignment until the 2008 AGM.

The nominating committee meets as often as required to reach a consensus on proposals for the AGM. In advance of the 2005 AGM, the nominating committee has met three times. As the basis for its work, information was provided regarding the company's operations, financial and strategic trend, the Board's work during the fiscal year, including the Board Chairman's evaluation of the Board members', the work of the Board's remuneration committee and the Board's sessions with the auditors.

The Board Chairman, in line with nominating committee's work, shall report the major conclusions from the annual evaluation of the Board's work that is to be carried out in accordance with the "Swedish Code of Corporate

Governance." The Board Chairman shall also report on other conditions affecting the Board's work, such as the need for particular expertise, which can be of importance for the nominating work.

### The Board and its work

#### General

The Board shall consist of eight members appointed by the AGM, and no deputies. These are selected annually for the time until the conclusion of the next AGM. Four members and four deputies are appointed by the employees. The Board members are presented on page 92. Key persons within the company are also invited to the Board meetings as consultants and experts. The President of the company participates in all meetings, with the Chief Financial Officer serving as Board secretary. Effective January 1, 2005, the company's chief counsel will serve as Board secretary.

The work of the Board is regulated by annually updated rules of procedure that set the Board's internal division of labor and meeting agenda. There

is a special set of instructions for the President that, among other things, describes the financial reports to be presented on an ongoing basis to the Board to enable the latter to properly judge the financial situation. The Board was assigned by the 2004 AGM to form a remuneration committee, within itself, and to act, in its entirety, as an audit committee (see page 98).

The Board appoints the President and exercises ongoing monitoring of operations during the year. It is responsible that the organization, management and guidelines for management of the company's assets are rationally established. The Board is also responsible for development and monitoring of the company's strategies through evaluating plans and establishing goals. It decides on acquisitions and divestments of operations and on major investments. It procures auditing services and maintains ongoing contact with the company's auditors. The Board also determines salaries and remuneration to the President and the company's senior executives.

#### Present at Board meetings and committee meetings

	Main Board	Remuneration committee	Audit committee		
	8 	4 	8 	Anders Narvinger	Elected at AGM
	8 	4 	8 	Björn Savén	
	5 	-	5 	Gunilla Berg *	
	7 	-	7 	Lena Olving	
	8 	-	8 	Finn Rausing	
	8	4	8	Jörn Rausing	
	7	-	7	Christian Salamon	
	7	-	7	Waldemar Schmidt	
	5	-	5	Per Olov Jacobsson	Employee representatives**
	7	-	7	Susanna Norrby	
	8	-	8	Arne Kastö	
	8	-	8	Jan Nilsson	
Average duration (No. of hours)	4	1	1		
No. of meetings	8	4	8		

\* Selected at April 27 AGM.

\*\* With deputy Board members Gunnar Karlsson, Magnus Christersson, Salvador Pay-Ortiz and Kalevi Houtari.

### Independent Board members

All Board members selected by the AGM (eight persons) are considered to be independent of the company. Two members, Finn Rausing and Jörn Rausing, are considered to have a relationship of dependence to the principal shareholder, Tetra Laval who, effective December 31, 2004, owned 17.68 percent of shares outstanding. The other members are independent of the main shareholders, defined as a shareholder with more than 10 percent of shares outstanding. Board members Björn Savén and Christian Salamon are considered to have a relationship of dependence to Industri Kapital who, effective December 31, 2004, owned 8.52 percent of shares outstanding. At the May 17, 2002 public listing, Industri Kapital owned 26.87 percent of shares outstanding and, effective December 31, 2003, owned 17.92 percent of shares outstanding.

### Chairman

At a Board meeting following election April 27, 2004, Anders Narvinger was elected Alfa Laval AB's Chairman, and Björn Savén Vice Chairman. The Board Chairman directs the work in a manner to ensure that it accords with the Swedish Companies Act and other relevant legislation. In dialog with the company's President, the Chairman monitors developments and is responsible for the other members receiving, on an ongoing basis, information necessary for Board work to be performed in the most effective manner. The Chairman directs the evaluation of the Board's work, and reports on it in the nominating committee and participates in evaluation and development matters with respect to the Group's senior executives. During the year, an evaluation was performed of the Board's work. The Board intends to initiate such an evaluation on an annual basis. The Chairman represents the company in ownership matters.

### Work during 2004

The Board normally meets at least six times annually and, in addition to scheduled meetings, may convene as the situation demands. During the

year, there were eight meetings, all of which were regularly scheduled.

During 2004, the Board, in addition to the regular agenda items such as trend of order intake, investments, earnings outcome, the acquisition situation and the trend among shareholders, was involved in matters such as overall financing, corporate governance, asbestos-related court cases in the U.S., reports from management's strategy meeting, audit planning and raw materials prices.

### Audit committee

During the whole of 2004, the Board acted as an audit committee.

The Board's monitoring is to safeguard the Group's assets and ensure that the systems are in compliance with laws and ordinances, thereby resulting in operational efficacy, to ensure that accurate accounting documents are prepared and that financial information is reliable. The Board examines the reporting routines and financial control, the auditors' work, their qualifications and their independence. The monitoring also encompasses other vital matters related to financial reporting. The Board assists management in identifying and evaluating the primary operational risks and ensures that management focuses on these matters.

The Board has, at four meetings during 2004, received reports from the company's external auditors. Internal audit, which is organized directly under the Board, issued reports to the Board on one occasion (see page 99).

### Remuneration to the Board

Compensation is fixed, with no variable element. There are no pension commitments for Board members elected by the AGM. There is no remuneration for Board members employed in the company.

	Main Board	Remuneration committee	Audit committee
Anders Narvinger (Chairman)	600,000	0	0
Björn Savén (Vice Chairman)	375,000	0	0
Gunilla Berg	250,000	0	0
Lena Olving	250,000	0	0
Finn Rausing	250,000	0	0
Jörn Rausing	250,000	0	0
Christian Salamon	250,000	0	0
Waldemar Schmidt	250,000	0	0

### Remuneration committee

Alfa Laval's remuneration committee is appointed on an annual basis within the Board. It is comprised of Anders Narvinger, Chairman, Björn Savén and Jörn Rausing. The remuneration committee's task is to establish remuneration and terms of employment for the President and senior executives reporting directly to the President. During the year, the committee met four times and also maintained ongoing contacts in connection with hirings and conditions of employment.

### Remuneration to the Board

Remuneration to Board members elected at the AGM is determined by the AGM from the proposals submitted by the nominating committee. No extra remuneration is paid for the work in the nominating committee and committees.

The table below summarizes the remuneration received from Alfa Laval by all Board members.

### Reporting

The Board monitors the financial reporting through instructions to the President. The latter has instituted a reporting committee consisting of the company's financial director, corporate communication director, senior attorney and the Group controller. The committee has the task of examining and approving all external financial reporting, including year-end reports, annual reports, press releases with financial content, as well as presentation material in connection with meetings with, for example, media, analysts and investors.

### Policy documents

As a governance instrument, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples include finance policy and information policy documents.

### Group management

The President of Alfa Laval AB, who is also CEO for the Alfa Laval Group, directs daily operations and is responsible for the Board receiving information and the necessary decision foundation. The President is responsible that the company's accounting complies with applicable legislation and agreements.

The Group management staff consists of the CEO and those individuals who, on recommendation by the CEO, have been appointed by the Board. The management staff consists at present of 11 persons (see pages 94–95).

The individuals on the management staff are responsible both for their own area of operation as well as the Group's as a whole. The management held 11 minuted meetings during 2004. In addition, quarterly reviews of operations are held with division- and geographically responsible individuals. These deal with the business situation, profit and loss, earnings projection for the upcoming 12 months and specific questions for the various operating components.

### Remuneration to Group management, SEK K

	Fixed	Variable	Pension commitment
Lars Renström, President	4,000	max. 50% *	page 65
Others** (during 2004)	16,900	2,200	page 65

\* of fixed remuneration

\*\*Other members of Group management are Thomas Thuresson, Ulf Granstrand, Svante Karlsson, Göran Mathiasson, Peter Leifland, Lars Henriksson, Ray Field, Nils-Olof Björk, Peter Torstensson and Jesper Bulskov.

### Internal audit

The internal audit consists of two auditors supplemented by specialist resources internal to the company and auditors from the KPMG organization for internal auditing.

During 2004, 16 internal audits were carried out. The audits encompass a

broad spectrum of functions and areas of inquiry. The scope is determined by the Board.

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

To ensure that concrete effects result from the internal audit, a routine for follow-up using agreed upon measures has been established.

### Security and Exchange Commission (SEC)/Sarbanes Oxley Act

In connection with the issuance of a high-yield bond loan in the autumn of 2000, Alfa Laval was registered with the SEC (Security and Exchange Commission) in the U.S. Through registration Alfa Laval becomes subject to legislation referred to as the Sarbanes Oxley Act, which is mainly intended to improve shareholder governance. Alfa Laval has during the year informed the financial market that the company intends to redeem outstanding elements of the bond loan per November 15, 2005, and then to initiate delisting from the SEC.