

Corporate Governance Report 2007

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Increased openness yields increased trust

Alfa Laval has applied the “Swedish Code of Corporate Governance” since it first came into effect – that is, July 1, 2005. Among other requirements, this implies that a Corporate Governance Report must be appended to the Annual Report. Alfa Laval early published a Corporate Governance Report, and this is now the fourth consecutive year in which the company presents a detailed report on its governance. This is also well in line with the company’s efforts to be increasingly transparent, to make it easier for shareholders and other stakeholders to assess the degree to which the Board and company management have lived up to the responsibility implied by the trust shareholders have placed in them.

Alfa Laval applies the Code with the exception of Board member Finn Rausing being appointed Chairman of the Nomination Committee. The background is that the Nomination Committee viewed Finn Rausing as highly suitable for leading the Nomination Committee’s work in an effective manner to achieve the best results for the company’s shareholders.

The Corporate Governance Report is, as last year, reviewed by the company’s auditors.

In accordance with the “Swedish Code of Corporate Governance”, the Board is required to ensure that the requisite ethical guidelines for the company’s behavior are established. During the year, the Board pointed out the importance of conducting internal training concerning the company’s Business Principles. The Business Principles and information on compliance with them are extremely important for the entire company and favorably impact on relations with key stakeholders, which helps strengthen confidence in Alfa Laval.

The Swedish Corporate Governance Board is planning to revise the “Swedish Code of Corporate Governance,” with the aim that the revised code will come into effect on July 1, 2008. The Board intends to establish the new code during the first half of 2008, and Alfa Laval is monitoring the progress of the project to be able to position itself to changes in the new code as quickly as possible.

Alfa Laval aims for the highest quality as regards its management, governance and control functions – in both the daily operations of the company and in the work of the Nominating Committee and the Board.



Lund, March, 2008
Anders Narvinger
Chairman of the Board

Corporate governance at Alfa Laval



The Annual General Meeting is the highest decision-making body and annually appoints, among others, the members and Chairman of the Board of Directors, based on proposals from the Nominating Committee. The Board’s responsibilities are regulated by the Swedish Companies Act, the Swedish Code of Corporate Governance and the Board’s formal work plan. The Board is responsible for the company’s long-term goals and strategy. The president manages the company’s operations and draws his closest support from a management group and from the managements of the divisions, to which responsibility and authority have been delegated. Alfa Laval has developed a number of business principles and fundamental values and implemented them in its organization to support the sound governance of the organization. This is a way of ensuring that the necessary ethical guidelines for the company’s conduct are established, which is a duty required of the Board of Directors by the Swedish Code of Corporate Governance. Alfa Laval’s business principles and values are described on the Alfa Laval website, www.alfalaval.com.

The company’s external auditors scrutinize the company, including the Annual Report. They also make a statement concerning the discharge of the Board from liability. The internal audit involves examination of a broad range of procedures and issues. The Corporate Governance Report, in accordance with the “Swedish Code of Corporate Governance”, gives a detailed description of how the different units for corporate governance within Alfa Laval act and interact.

Articles of Association

In accordance with Alfa Laval's Articles of Association, the registered name of the company is Alfa Laval AB. The registered office of the Board of Directors of the company shall be in Lund municipality in Sweden. The company's share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The par value of each share shall be SEK 10. The fiscal year is the calendar year.

The objective of the company's operations is, directly or through subsidiaries and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, primarily within the areas of separation, heat transfer and flow technology, and to administer fixed and movable property, and other related operations.

Alfa Laval's Board of Directors shall comprise at least four and not more than ten members, with not more than four deputy members. The number of auditors shall be at least one and not more than two, with not more than two deputies. Auditors are appointed when necessary at the Annual General Meeting for the period until the close of the Annual General Meeting held during the fourth fiscal year after the election of auditors. Authorized public accountants or registered public accounting firms are appointed as auditors and, when applicable, deputy auditors.

In addition to the above information, the Articles of Association also contain rules concerning the procedures to be followed at Annual General Meetings. The Articles of Association are available in their entirety on the Alfa Laval website, www.alfalaval.com. Alfa Laval's current Articles of Association were adopted at the Annual General Meeting held on April 27, 2006.

Annual General Meeting

The Annual General Meeting (AGM) is the Alfa Laval Group's highest decision-making body. According to Alfa Laval's Articles of Association, the Annual General Meeting shall be held within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the AGM takes place at the end of April or beginning of May each year in Lund.

The AGM for fiscal year 2006 was held in Lund on April 23, 2007. Board Chairman Anders Narvinger was elected as the meeting chairman. Following the President's report, the Board Chairman spoke about the Board's activities and the Remuneration Committee's work. Finn Rausing, Chairman of the Board's Audit Committee, reported on the work of the Audit Committee. Jörn Rausing, Chairman of the Nominating Committee

and representative of Tetra Laval, reported on the work of the Nominating Committee. All the persons nominated to the Alfa Laval Board were present at the meeting. The company's two auditors were present.

Decisions made at the 2007 Annual General Meeting

The most important decisions made at the 2007 Annual General Meeting were as follows:

- The AGM adopted the income statement and balance sheet, decided in favor of utilizing the company's profits in accordance with the Board's proposal to the effect that a dividend of SEK 6.25 per share be paid for 2006 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. At the 2004 AGM, two auditors and two deputy auditors were appointed, with their assignments extending until the fourth fiscal year after the election of auditors – in other words, up to and including the 2008 AGM.
- The AGM approved the Nominating Committee's proposal that fees to the Board should be SEK 3,050,000.
- The AGM decided that remuneration of auditors shall be in accordance with invoices submitted.
- Election of members was in accordance with the Nominating Committee's proposal of Anders Narvinger, Gunilla Berg, Björn Häggglund, Ulla Litzén, Finn Rausing, Jörn Rausing, Lars Renström and Waldemar Schmidt. The AGM elected Anders Narvinger as Chairman of the Board.
- The AGM adopted principles for compensation to, and other employment conditions for, company management.
- In accordance with the proposal of the Nominating Committee, the AGM adopted criteria for appointing the Chairman and members of the Nominating Committee for the period until and including the 2008 AGM. A Nominating Committee must always be established to prepare and present proposals to the AGM pertaining to election of the Meeting Chairman, the Board Chairman, Board members and, when appropriate, the fees payable to Board members and auditors.
- The AGM approved the transfer of Alfa Laval Biokinetics Inc. to its corporate management.
- The AGM authorized the Board to repurchase up to 10 percent of the company's

own shares outstanding during the period up to the 2008 Annual General Meeting.

Nominating Committee for the 2007 AGM

The Nominating Committee for the 2007 AGM consisted of Jörn Rausing, Tetra Laval, Lars-Åke Bokenberger, AMF-Pension, Jan Andersson, Swedbank Robur Funds, Björn Franzon, Fourth AP Fund, Kjell Norling, Handelsbanken, and Board Chairman Anders Narvinger. Jörn Rausing was the Chairman.

The Nominating Committee proposed that the AGM approve the following measures:

that a Nominating Committee shall be appointed to prepare and present proposals to the shareholders at the AGM as regards the election of the chairman of the meeting, the Board Chairman, the members of the Board and, where necessary, the auditor and the fees to be paid to the Board and to the auditor.

that the Nominating Committee shall consist of not more than five members, who shall be representatives of the five largest shareholders at the close of the third quarter. The majority of the members of the Nominating Committee must not be Board members. The members of the Nominating Committee shall be appointed as follows: At the close of the third quarter, the Board Chairman shall contact the company's five largest shareholders. These are then entitled to appoint one member each to the Nominating Committee. In addition, the Nominating Committee can decide that the Board Chairman and one other Board member shall be part of the Nominating Committee. If any of the five shareholders abstains from the right to appoint a member, the next-largest shareholder shall be given the opportunity to appoint a member to the Nominating Committee. If several shareholders abstain from the right to appoint a member to the Nominating Committee, not more than eight of the largest shareholders need be consulted, unless required to ensure that the Nominating Committee consist of at least three members. If any of the shareholders resigns from the Nominating Committee before its work is completed, the shareholders that appointed the member shall be entitled to appoint a replacement. The chairman of the Nominating Committee shall be a shareholder representative who may also be a Board member. The chairman of the Nominating Committee shall not be the Board Chairman. The Board Chairman shall report to the Nominating Committee, on circumstances relating to the Board's work and requirement of spe-

cial expertise, etc., that may be relevant to the work of the Nominating Committee. Individual shareholders shall be entitled to submit proposals for Board members to the Nominating Committee for further consideration within the framework of its work.

that information about the Nominating Committee's composition shall be published in Alfa Laval's interim report for the third quarter and on the company's website not later than six months before the AGM.

that the Nomination Committee shall be entitled to charge costs to the company for engaging recruitment consultants, if this is deemed necessary to achieve a proper selection of candidates for the Board, and

that the Nominating Committee shall report on its activities at the AGM.

Nominations for the 2008 Annual General Meeting

In accordance with a decision made at Alfa Laval AB's AGM on April 23, 2007, the five major shareholders in Alfa Laval appointed the following members to the Nominating Committee prior to the AGM to be held on April 22, 2008: Finn Rausing, Tetra Laval, Lars-Åke Bokenberger, AMF Pension, Jan Andersson, Swedband, Robur Funds, Lars Öhrstedt, AFA Insurances, and Peter Rudman, Nordea Funds. The chairman of the Nominating Committee is Finn Rausing.

The Nominating Committee appointed the Board Chairman, Anders Narvinger, to be a member of the Nominating Committee and its secretary. Individual shareholders can submit proposals for Board members to any member of the Nominating Committee. For contact details, see Alfa Laval's website.

Nomination process

The Nominating Committee meets as often as required to reach a consensus on proposals for the AGM. In advance of the 2008 AGM, the Nominating Committee met two times. As the basis for its work, information was analyzed regarding the company's operations, financial and strategic development,

Composition of the Nominating Committee for the 2008 Annual General Meeting

Name	Representing	Shareholding in Alfa Laval ¹⁾ , %
Finn Rausing, Board Chairman	Tetra Laval	17.68
Lars-Åke Bokenberger	AMF Pension	5.68
Jan Andersson	Swedbank Robur Funds	3.79
Lars Öhrstedt	AFA Insurances	2.84
Peter Rudman	Nordea Funds	1.89
Anders Narvinger	Board Chairman	
Total		31.88

¹⁾ As at Sep. 30, 2007

Present at Board meetings and committee meetings

	Board	Remuneration Committee	Audit Committee
Elected at AGM			
Anders Narvinger	11 	1 	3 
Gunilla Berg	8 	-	3 
Björn Häggglund	10 	-	-
Ulla Litzén	11 	-	-
Finn Rausing	11 	-	3 
Jörn Rausing	10 	1 	-
Lars Renström	10 	-	-
Waldemar Schmidt	10 	-	-
Employee representatives			
Arne Kastö	10 	-	-
Jan Nilsson	10 	-	-
Susanna Norrby	10 	-	-
Number of meetings	11	1	3

the Board's work during the fiscal year and the work of the Board's Remuneration Committee. The evaluation of the Board's work, conducted in accordance with the Swedish Code of Corporate Governance, was performed and presented by an external consultant. The Chairman of the Board reported on other circumstances affecting the Board's work, such as the need for particular expertise that could be of importance for the nomination process.

Candidates for the Nominating Committee are sought through recommendations, recruitment consultants and nomination proposals from shareholders. The proposal presented to the AGM was based on the parameters governing the work of the Nominating Committee, as defined above.

The Board of Directors

The Board shall consist of eight members elected by the AGM, and no deputy mem-

bers. The members are elected annually for the time until the conclusion of the next AGM. Three members and three deputies are appointed by the employees. Salaried employees within the company are invited to Board meetings as presenters and experts. The company's chief financial officer participate in all meetings. The company's chief legal counsel serves as Board secretary. The work of the Board is regulated by an annually updated formal work plan that sets 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 to the Board to enable the latter to properly assess the financial situation on an ongoing basis. For further information about the Board's members, see pages 118-119.

The Board's responsibilities

According to the Swedish Companies Act and the Board's formal work plan, the Board is responsible for preparing and evaluating Alfa Laval's overall, long-term strategies and objectives, adopting budgets and business plans, checking and approving financial statements, adopting key guidelines, making decisions on issues relating to acquisitions and divestments of operations and deciding on major investments and significant changes in Alfa Laval's organization and operations.

The Board (through its Audit Committee) also procures auditing services and maintains ongoing contact with the

company's auditors. The Board appoints the president and define the instructions the president must follow. The Board (through the Remuneration Committee) also determines salaries and remuneration to the president and members of executive management.

The Board's formal work plan

The Board's formal work plan is determined annually in a statutory meeting following the AGM. The formal work plan describes the Board's work assignments and the division of responsibility between the Board and the president. The formal work plan also prescribes that the Board shall have a Remuneration Committee and an Audit Committee, as well as defining the role of the Board Chairman. The company president prepares an agenda for each meeting in consultation with the Board Chairman. Board members who wish to discuss a particular matter must inform the Board Chairman well in advance, so that the requisite information or documentation on which to base decisions can be prepared.

Notices of meetings, with the meeting agenda and the requisite information or documentation on which to base decisions, shall reach Board members not later than seven days prior to the date of the meeting. Minutes from Board meetings shall be numbered, and all Board members shall receive copies. The original shall be stored in a safe manner by the company. This is the responsibility of the company president. Matters discussed by the Board are by definition confidential, and every Board member is subject to a duty of confidentiality regarding matters that could harm the company.

Board Chairman

The Board Chairman directs the work in a manner that ensures compliance with the Swedish Companies Act. The Chairman is also responsible for ensuring that the Board's work is well organized and efficiently conducted, so that the Board fulfills its tasks. In dialogue 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 is responsible for evaluating the Board's work and participates in evaluation and development matters with respect to the Group's senior executives. The Chairman represents the company in ownership issues.

Independent Board members

All members of the Alfa Laval Board selected by the AGM are considered to be independent of the company, except Lars Renström,

who is President and CEO of the company. Two members, Finn Rausing and Jörn Rausing, are considered not to be independent of Tetra Laval, which, as at December 31, 2007, owned 17.68 percent of the shares. The other members are independent of the company's largest shareholders. Board members have a duty to devote the necessary time and attention to their Board work and to possess the knowledge this requires, in order to further the company's and its shareholders' interests in the best possible manner.

Board work during 2007

Eleven Board meetings were held during 2007, of which six were regularly scheduled meetings. The meetings normally lasted four hours. Board meetings normally take place in Lund. In five cases, meetings were held by circular.

The normal agenda items for Board meetings include earnings results, order trends, investments, acquisitions and shareholder developments.

In addition to the normal agenda items, the Board meetings held during 2007 addressed the following matters:

- the company's ongoing strategic direction
- review and revision of the company's financial objectives
- asbestos-related lawsuits
- pension issues concerning senior executives
- audit planning
- overall funding
- share repurchasing
- Alfa Laval's business principles
- Environmental considerations
- Staffing

Board decisions are made based on open discussion led by the Chairman. During the year, no dissenting opinion on any issue was entered in the minutes.

Audit Committee

Alfa Laval has had a special Audit Committee since 2006. Members of the Audit Committee are appointed annually within the Board. During 2007, the committee comprised Finn Rausing (chairman), Gunilla Berg and Anders Narvinger. Alfa Laval's General Counsel is the Committee secretary.

During the year, the Audit Committee held three meetings averaging approximately three hours in length. Minutes are kept at all meetings of the Audit Committee and are distributed to Board members. The Audit Committee has the right to make decisions regarding the focus of the internal audit and the formulation of guidelines for financial reporting and follow-up. The Audit

Committee also makes decisions, in consultation with the external auditors, regarding the focus of the external audit. The Audit Committee's work also includes continually monitoring the effectiveness of internal controls. The Audit Committee's duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting.

The Audit Committee examines the procedures for reporting and financial controls, the auditors' work, their qualifications and their independence. Its supervision also encompasses other key matters related to financial reporting. The Audit Committee assists management in identifying and evaluating the primary operational risks and ensures that management directs its efforts to addressing these matters.

Remuneration Committee

Alfa Laval's Remuneration Committee is appointed on an annual basis within the Board. During 2007, it comprised Anders Narvinger (Chairman) and Jörn Rausing. The Remuneration Committee held one meeting during 2007. In addition, the committee acts in conjunction with recruitment and is involved when other conditions of employment relating to the president or other members of Group Management require discussion. Minutes are kept at all meetings of the Remuneration Committee and the contents are distributed to Board members.

The Remuneration Committee's assignment is to handle matters relating to salary and employment conditions for the president and senior executives who report directly to the president and to propose principles regarding employment conditions for the executive management to be submitted to the AGM for approval.

Evaluation of the Board's work

The Board Chairman ensures that the work of the Board is evaluated annually. This is made on an ongoing basis through open discussions and interviews between the Board Chairman and individual Board members. The evaluation of the Board's work focuses on the forms in which the work is carried out, the work climate and the availability of and the need for special Board expertise. The purposes of the evaluation include assisting the Nominating Committee in its task of nominating Board members and proposing remuneration levels.

Remuneration to the Board

Remuneration to Board members elected at the AGM is determined by the AGM based on the proposals submitted by the Nominating Committee. Supplements are paid to the chairman of the Audit

Remuneration to the Board

Remuneration is fixed. No variable portion exists. No remuneration to elected Board members who are employees of the company is paid.

	Board of Directors	Remuneration Committee	Audit Committee
Anders Narvinger (Chairman)	800,000	50,000	50,000
Gunilla Berg	325,000	0	50,000
Björn Hågglund	325,000	0	0
Ulla Litzén	325,000	0	0
Finn Rausing	325,000	0	100,000
Jörn Rausing	325,000	50,000	0
Lars Renström	0	0	0
Waldemar Schmidt	325,000	0	0
Total	2,750,000	100,000	200,000

Committee and to members of the Audit Committee and the Remuneration Committee. No Board member is entitled to pension payments from the company.

The table above summarizes the remuneration received by all Board members from Alfa Laval for the period from the 2007 AGM until the 2008 AGM.

Group Management

Alfa Laval's executive management comprises 11 persons led by President Lars Renström, who is also CEO of the Alfa Laval Group. The president directs daily operations and is responsible for the Board receiving information and the necessary decision-making foundation. The president is responsible for ensuring that the company's accounting complies with applicable laws and provisions.

Alfa Laval's management group consists of the CEO and those individuals who, on the CEO's recommendation, have been appointed by the Board. For further information about Group Management, see pages 120-121.

The persons in the management group are responsible both for their own areas of operation and, collectively, for the Group as a whole. The management group held six minuted meetings during 2006. In addition to minuted meetings of the management group, quarterly reviews of operations are held with the heads of divisions and geographical regions. These deal with the business situation, earnings, earnings projections for the upcoming 12 months and specific questions for the various components of operations.

Fixed and variable remuneration

The principles of remuneration to the president and other members of senior management are decided by the AGM. The principle used when deciding the remunerations to senior executives is that the remuneration is mainly based on a fixed monthly salary, with the option of a company car and corporate healthcare services. In special cases, Alfa Laval may also provide a residence. The variable remuneration takes the form of a

yearly bonus of between 15 and 60 percent of the fixed salary, depending on the position held. The size of the variable remuneration depends on the degree to which outcomes fulfill a number of established financial targets, and to a limited extent on qualitative objectives.

Compensation paid to Group Management in 2007 and 2006 is shown in the table below (SEK 000s).

	2007		2006	
	Fixed	Variable	Fixed	Variable
Lars Renström, President	6,497	3,000	5,214	1,456
Other	22,000	5,000	18,700	3,200

For further information, see Note 3, page 86.

CEO and President Lars Renström currently has a base salary of SEK 6 M per year. He has a variable salary of a maximum of 60 percent. The fixed salary in the table above also contains the value of car benefit, taxable per diem, vacation pay and vacation benefit paid in cash.

Other senior executives comprise the ten members of Group Management other than the president. Their remuneration totals SEK 27 M (22), of which bonuses amounted to SEK 5 M (3). The bonus figure relates to bonuses paid during the year.

Pensions

Company President Lars Renström does not have an agreement on early retirement. The ordinary ITP up to a salary of 30 base amounts is funded *preto* achieve full ITP benefits at the age of 60. If Lars Renström continues to work for Alfa Laval after the age of 60, he will not receive any pension during the time he is still receiving salary. On top of the ordinary ITP, he has a defined-contribution benefit comprising 50 percent of the base salary.

The other members of Group Management will receive, depending on their position, a premium-based pension commitment based on a retirement age of 62. Under this premium-based solution, premiums are paid from age 50 to age 62, corresponding to 15 percent of the base salary.

During the year, Alfa Laval's expenses for pension premiums totaled SEK 427 M (387).

Severance pay/Termination of employment

Alfa Laval has made commitments for severance pay to a limited group of senior executives. The commitments are restricted to a maximum amount corresponding to two annual salaries. The commitments define the conditions that must be fulfilled in order for a severance payment to be made.

Lars Renström will receive severance pay corresponding to two years' salary in the event of notice of termination from the company prior to 58 years of age, which successively declines to six months' salary at 60 years of age.

GOVERNANCE AND CONTROL

Financial reporting

The Board oversees financial reporting through instructions to the president. The Audit Committee prepares all the financial reports issued by the company, while the Board as a whole prepares the company's quarterly reports and year-end report. The Audit Committee also handles quarterly risk reporting and information about risk assessments, legal disputes and any irregularities that may occur.

Policy documents

As governance instruments, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples of such documents include the Board's procedural rules, the president's instructions, reporting instructions, business principles, investment policy, financial policy and communications policy. The Board annually checks that these instructions and policies remain relevant and up to date.

Internal controls

The Board is responsible for the company's internal controls, the overall purpose of which is to protect shareholders' investments and the company's assets. The Board as a whole received reports from the company's external auditors at one Board meeting during 2007. In addition, the Board's Audit Committee received reports from the company's external auditors on three occasions.

On one occasion, the Board received reported from the company's external auditors without the president or any other representative of executive management being present.

The internal audit team took part in all meetings with the Audit Committee

For further information about internal controls, see the Board's report on internal controls provided below in the Corporate Governance Report. It describes the control environment, risk assessment, control activities, information and communication, and the supervision of the internal control system.

Internal audit

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

During 2007, 19 internal audits were carried out. The audits encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining, for example:

- efficiency within the current units
- the processes that ensure that the principles for best practice are applied and that the controls that have been systematically built in are relevant
- the existence of systems to ensure that financial transactions are implemented, archived and reported in an accurate and lawful manner

- the systems and processes established by the management group to ensure that business operations are conducted in accordance with the policies and procedures that management has established

Opportunities to improve management control, the company's profitability and the organization's image may be identified during audits.

The internal audit team reports to the Audit Committee on the results of the audits performed. On these occasions, the planning parameters for the next six to eight months are also established. The internal audit team also distributes reports from individual audits to the Group Management members concerned. To ensure that concrete effects result from the internal audits, a procedure for continuous follow-up of agreed measures has been established.

Risk management

Alfa Laval's risk management processes are explained in the Risk management section on pages 78-82 of the Annual Report.

Audits and auditors

The 2004 AGM gave a renewed mandate to auditor Ingvar Ganestam and newly elected auditor Kerstin Mouchard. Both are elected until the 2008 AGM. As deputy auditors, the 2004 AGM reelected Håkan Olsson and

newly elected Thomas Swenson, who are both elected until the 2008 AGM. All are authorized public accountants with Ernst & Young AB. Ingvar Ganestam, born in 1949, has been an auditor for Alfa Laval since 2000. Kerstin Mouchard, born in 1952, has been an auditor for Alfa Laval since 2004. Håkan Olsson, born in 1961, has been a deputy auditor for Alfa Laval since 2000. Thomas Swenson, born in 1957, has been a deputy auditor for Alfa Laval since 2004.

In Alfa Laval's judgment, none of these auditors has any relationship to Alfa Laval, or a company close to Alfa Laval, that could affect their independent status in relation to the company. All of the auditors also possess the requisite competence to be able to execute their assignment as auditors for Alfa Laval.

Remuneration of auditors (see Note 4 on page 87)

An audit assignment involves examining the Annual Report, evaluating the accounting principles employed, making significant judgments concerning corporate management, evaluating the general presentation in the Annual Report and conducting an overall review of the interim report for the third quarter. It also involves a review on which to base a decision on discharging the Board from liability. Any other tasks performed are defined as other assignments.

As an extension of our auditing assignment, which has now been completed as a result of our Audit Report dated March 3, 2008, we have reviewed the Corporate Governance Report (pages 110-121) for Alfa Laval AB for 2007. Based on our review, nothing has come to our attention that causes us to believe that the Corporate Governance Report does not comply with the guidelines contained in the Swedish Code of Corporate Governance.

Lund, March 3, 2008

Ingvar Ganestam
Authorized Public Accountant

Kerstin Mouchard
Authorized Public Accountant

Board of Directors' report on internal control for fiscal year 2007

The Board's description of the internal control.

Control environment

Effective work by the Board forms the foundation for good internal control. The Board has established clearly defined processes and priorities for its work and the Board's committees. An important part of the Board's work is to formulate and approve fundamental rules and guidelines. These include Finance Policy, Business Principles, Rules for Investment Decisions, Financial Reporting Requirements and Communications Policy. These rules and guidelines are intended to create the foundation for good internal control. They are revised and updated continuously as the need arises. The Board has also ensured that the organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes that facilitate effective management of operational risks and enable the company to fulfill its goals. The responsibility structure includes evaluations by the Board of business performance and results through a purpose-adapted package of reports that contains results, forecasts and analyses of important key factors. The Audit Committee has meetings with the internal audit team, the external auditors and various specialists in senior management and support functions. The Board receives reports on these meetings. The Audit Committee's work also includes continually monitoring the effectiveness of internal controls. The Audit Committee's duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting. Group Management maintains and manages the system of internal controls needed to manage significant risks in ongoing business operations.

This work includes ensuring that there are appropriate rules and guidelines for such areas as HR matters, staffing and skills development.

Management's responsibility also includes a commitment to active efforts to

ensure that all employees understand the requirement for, and the individual's role in, maintaining effective internal control.

Risk assessment

The framework for ongoing business operations and follow-up includes procedures for risk assessment and thus also for ensuring the production of accurate financial reporting. These procedures include, for example, the following areas:

- Risk assessments related to strategic planning, forecasts and acquisition activities that are intended to identify events in the market or in business operations that could, for example, lead to changes in valuations of assets and currency exchange-rate effects on earnings.
- Processes to track changes in accounting regulations that ensure that these changes are implemented correctly in the financial reporting.

Control structures

The control structures have been designed to manage risks that the Board and management consider to be significant for business operations, internal control and financial reporting.

The control structures consist, firstly, of an organization with clearly defined roles that support an effective, and from an internal control perspective, appropriate division of responsibility, and secondly, specific control activities that are intended to discover or prevent the risk of errors in the reports.

Examples of control activities include clearly defined decision-making processes and priorities for important decisions (investments, agreements, acquisitions, divestments, etc.) earnings analyses and other forms of analytical follow-up, reconciliations, inventory-taking and automatic controls in the key IT systems related to financial reporting.

Information and communication

The company's main control documents in terms of regulations, guidelines and manuals, to the extent they are related to financial reporting, are updated continuously

and communicated via the intranet, memorandums, internal meetings, etc. The effectiveness of this communication is monitored continuously to ensure reception of the information.

There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors.

A clearly defined policy has been formulated for communication with external interests, including guidelines for modes of communication. The policy is intended to ensure accurate and complete compliance by all persons responsible for the dissemination of information.

Follow-up

The internal control process is monitored mainly by three entities outside the line organization: the Audit Committee, External Audit and Internal Audit.

The Audit Committee established the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations.

The Audit Committee meets with the external auditors regularly to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits. The Committee also establishes the direction, extent and time schedules for the internal audit team's work. The internal audit team reports the results of its audits to the Audit Committee at the latter's meetings. Results of the audit reviews are also reported continuously to Group Management so that any necessary measures may be taken.

The extent of the internal audit includes operational efficiency, compliance with regulations and guidelines and the quality of financial reporting from the subsidiaries.

This report comprises only a description of how internal control is organized without expressing an opinion on how well it functions.

Lund, March 2008

Board of Directors

Elected by the Annual General Meeting



Anders Narvinger
Chairman since 2003.

Born: 1948.
President of Teknikföretagen and formerly President and CEO of ABB Sweden.
Chairman of Trelleborg AB, V&S Vin & Sprit AB, Invest in Sweden Agency and the Swedish Trade Council.
Board member of Volvo Car Corporation.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 10,000* (10,000**).



Gunilla Berg
Board member since 2004.

Born: 1960.
CFO SAS Group, formerly Executive Vice President and CFO of KF Group.
Education: BSc. Econ.
Board member of LE Lundbergföretagen AB.
Independent of company and major shareholders.



Björn Hägglund
Board member since 2005.

Born: 1945.
Former positions include Deputy CEO of Stora Enso.
Education: PhD. (For.)
Board Chairman of Swedish Industrial Institute for Economics and Social Research and World Wildlife Fund, Sweden.
Board member of among others Bergvik Skog AB and Mistra.
Vice Chairman at IVA (Royal Academy of Engineering Sciences).
Independent of company and major shareholders.



Ulla Litzén
Board member since 2006.

Born: 1956.
Previously President of W Capital Management and held various positions at Investor.
Education: BSc. Econ from the Stockholm School of Economics, MBA from the Massachusetts Institute of Technology.
Board member of among others Atlas Copco AB, Boliden AB, Karo Bio AB, Posten AB and SKF AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 2,400* (2,400**).



Finn Rausing
Board member since 2000.

Born: 1955.
Education: B.L., MBA (Insead).
Chairman of R.R. Institute of Applied Economics AB.
Board member of Tetra Laval Group, De Laval Holding AB and Swedeship Marine AB.
Independent of company.



Jörn Rausing
Board member since 2000.

Born: 1960.
Head of Mergers and Acquisitions (M&A) in the Tetra Laval Group.
Education: BSc. Econ.
Board member of the Tetra Laval Group, Ocado Ltd. and De Laval Holding AB.
Independent of company.



Lars Renström
Board member since 2005.

Born: 1951.
President and CEO of Alfa Laval.
Education: BSc. Eng., BSc. Econ.
Board member of Profilgruppen AB.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 10,100* (10,100**).



Waldemar Schmidt
Board member since 2000.

Born: 1940.
Former President and CEO of ISS Group.
Education: BSc. Eng.
Chairman of Superfos Industries A/S and Thrane & Thrane A/S. Vice Chairman of Majid Al Futtaim Group LLC, Dubai.
Board member of Enodis plc and Welzorg Group BV.
Independent of company and major shareholders.
Number of shares in Alfa Laval: 15 000* (21 749**).

*Holdings as at December 31, 2007. **Holdings as at December 31, 2006.

Employee representatives



Arne Kastö
Employee representative since 2000.
Born: 1948.
Employed by Alfa Laval since 1980.
Employee representative for the Swedish Union of Clerical and Technical Employees in Industry (SIF).



Jan Nilsson
Employee representative since 2000.
Born: 1952.
Employed by Alfa Laval since 1974.
Employee representative for the Swedish Metal Workers' Union (Metall).



Susanna Norrby
Employee representative since 2003.
Born: 1967.
Employed by Alfa Laval since 1992.
Employee representative for the Swedish Association of Graduate Engineers (CF).

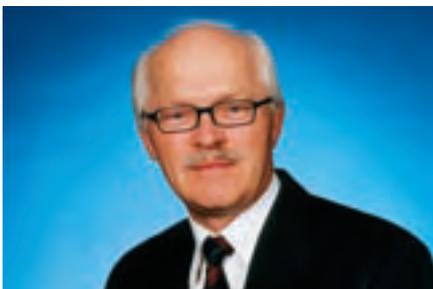
Deputy employee representatives

Maria Fröberg
Deputy member since 2005.
Born: 1973.
Employed by Alfa Laval since 2001.
Deputy employee representative for the Swedish Union of Clerical and Technical Employees in Industry (SIF).

Henrik Nilsson
Deputy member since 2007.
Born: 1971.
Employed by Alfa Laval since 1995.
Deputy employee representative for the Swedish Metal Workers' Union (Metall).

Stefan Sandell
Deputy member since 2005.
Born: 1971.
Employed by Alfa Laval since 1989.
Deputy employee representative for the Swedish Organisation for Managers (Ledarna).

Auditors



Ingvar Ganestam
Authorized Public Accountant, Ernst & Young AB, Malmö.
Born: 1949.
Auditor for Alfa Laval since 2000.
Reelected auditor at 2004 Annual General Meeting. Ingvar Ganestam has years of experience in auditing exchange-listed companies and among other assignments is auditor for Tetra Pak AB, Lindab AB and the IKEA Group.



Kerstin Mouchard
Authorized Public Accountant, Ernst & Young AB, Malmö.
Born: 1952.
Auditor for Alfa Laval since 2004.
Elected auditor at 2004 Annual General Meeting. Kerstin Mouchard has years of experience in auditing exchange-listed companies and among other assignments is auditor for Cardo AB and Strålfors AB.

Deputy auditors

Håkan Olsson
Authorized Public Accountant Ernst & Young AB, Malmö.
Born: 1961.
Deputy auditor for Alfa Laval since 2000.

Thomas Swensson
Authorized Public Accountant, Ernst & Young AB, Malmö.
Born: 1957.
Deputy auditor for Alfa Laval since 2004.

Lars Renström
President and CEO.

Born: 1951.
CEO since October 1, 2004.
Joined Alfa Laval from Seco Tools AB, where he was President and CEO from 2000 to 2004. Previously served as a division manager at Ericsson AB and Atlas Copco AB. Board member of Profilgruppen AB.
Education: BSc. Eng., BSc. Econ.
Number of shares in Alfa Laval: 10,100* (10,100**).



Lars Renström

Thomas Thuresson
Executive Vice President, Chief Financial Officer.

Born: 1957.
Employed by Alfa Laval since 1988.
CFO since 1995.
Previous assignments include Controller of the Flow business area and Group Controller of the Alfa Laval Group.
Education: BSc. Econ.
Number of shares in Alfa Laval: 35,300* (40,000**).



Thomas Thuresson

Göran Mathiasson
President, Operations Division.

Born: 1953.
Employed by Alfa Laval since 1979.
President of the Operations Division since April 2003.
Previously in charge of Alfa Laval Manufacturing and Thermal Technology, including research and development, production development, system development and purchasing.
Education: BSc. Eng.
Number of shares in Alfa Laval: 1,647* (5,647**).



Göran Mathiasson

Svante Karlsson
President, Equipment Division.

Born: 1955.
Employed by Alfa Laval since 1984.
President of the Equipment Division since 2001.
Former head of the Thermal business area and President of Marine & Power.
Education: BSc. Econ.
Number of shares in Alfa Laval: 20,686* (30,686**).



Svante Karlsson

Ulf Granstrand
President, Process Technology Division.

Born: 1947.
Employed by Alfa Laval since 1975.
President of the Process Technology Division since 2003. Previously responsible, among other roles, for the Operations Division, parts of the regional sales operations and the Thermal business area.
Education: BSc. Eng.
Number of shares in Alfa Laval: 45,672* (59,672**).



Ulf Granstrand

Peter Leifland
Executive Vice President in charge of the Western Europe and North America Region.

Born: 1954.
Employed by Alfa Laval since 1985.
Peter Leifland has been a regional manager since 1999. Formerly President of Alfa Laval International Engineering AB.
Board member of Observer AB.
Education: B.L., lic.spec. IMD (PED).
Number of shares in Alfa Laval: 116,716* (116,716**).



Peter Leifland

*Holdings as at December 31, 2007. **Holdings as at December 31, 2006.

Lars Henriksson



Ray Field



Lars Henriksson
Executive Vice President in charge of the Central and Eastern Europe and Latin America Region.

Born: 1950.
Employed by Alfa Laval since 1977.
Responsible for the Central and Eastern Europe and Latin America Region since September 1, 2004. Prior to this he was President of Alfa Laval Inc. in Canada and held executive positions for Alfa Laval in Sweden, Spain and Brazil.
Education: BSc. Eng.
Number of shares in Alfa Laval: 9,000* (9,000**).

Ray Field
Executive Vice President in charge of the Asia, Oceania and Middle East Region.

Born: 1954.
Employed by Alfa Laval since 1985.
Responsible for the Asia, Oceania and Middle East Region since September 1, 2004. Prior to this, he served as President of Alfa Laval China for slightly more than 10 years.
Education: BSc. Eng.
Number of shares in Alfa Laval: 13,647* (13,647**).

Peter Bailliére



Peter Bailliére
Senior Vice President, Human Resources.

Born: 1963.
Employed by Alfa Laval since 2007.
Senior Vice President, Human Resources, since July 1, 2007.
Many years of experience with Volvo Cars, most recently as head of Group Human Resources
Education: Master of Sociology.

Peter Torstensson



Nils Olof Björk

Nils Olof Björk
Senior Vice President, Corporate Development.

Born: 1947.
Employed by Alfa Laval since 1975.
Responsible for Corporate Development since 2002.
Previous positions include head of Thermal in Canada, Marketing Director of Alfa Laval in Lund, head of Alfa Laval in Asia, Hong Kong, and President of Alfa Laval, Japan.
Board member of Österlens Kraft AB.
Education: PhD. (Chemistry).
Number of shares in Alfa Laval: 3,944* (9,944**).

Peter Torstensson
Senior Vice President, Corporate Communications.

Born: 1955.
Employed by Alfa Laval since 1999.
Senior Vice President, Corporate Communications since 1999. Formerly President of Borstahusen Informationsdesign.
Member of Advisory Board for Bona Kemi AB.
Number of shares in Alfa Laval: 19,000* (19,000**).