

Note 6. Salaries and remunerations

Salaries and remunerations – total

Consolidated		
SEK millions	2015	2014
Board of Directors, Presidents and Vice Presidents	272	245
– out of which, variable	42	44
Other	7,315	6,426
Total salaries and remunerations	7,587	6,671
Social security costs	1,216	1,100
Pension costs, defined benefit plans	144	110
Pension costs, defined contribution plans	530	480
Total personnel costs	9,477	8,361

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 45 (43) million and SEK 317 (314) million respectively. SEK 113 (116) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2014 to 2015 no equity related benefits existed within Alfa Laval.

Variable remunerations

All employees have either a fixed salary or a fixed base salary. For certain personnel categories the remuneration package also includes a variable element. This relates to personnel categories where it is customary or part of a market offer to pay a variable part. Variable remunerations are most common in sales related jobs and on higher managerial positions. Normally the variable part constitutes a minor part of the total remuneration package.

Cash based long term incentive programme

The Annual General Meetings 2012 to 2015 decided to implement step two to five of a cash-based long term incentive programme. The long term incentive programme is targeting maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers.

Each of the steps runs over three years and with an individual award for each year. The award for each year is set independently from the other two years. Since each step runs over three years, three steps of the programme will always run in parallel. In 2015 step three, four and five of the programme were running in parallel.

The final award for each step is calculated on the employee's yearly base salary at the end of the three year period. The maximum award is linked to the employee's annual maximum variable remuneration and is set to a percentage of the base salary according to the following:

Maximum long term incentive

Maximum variable remuneration per year in percent of base salary	Maximum long term incentive in percent of base salary	
	Per annum per step	In total per step over the three year period
60%	15%	45%
40%	10%	30%
30%	8.3%	25%
25%	6.7%	20%
15%	4%	12%

The column "Per annum per step" shows the maximum award per step and year. Since three steps are running in parallel during each year the maximum award in percent during a certain year can be as large as the maximum award in percent for a certain step during the whole three year period.

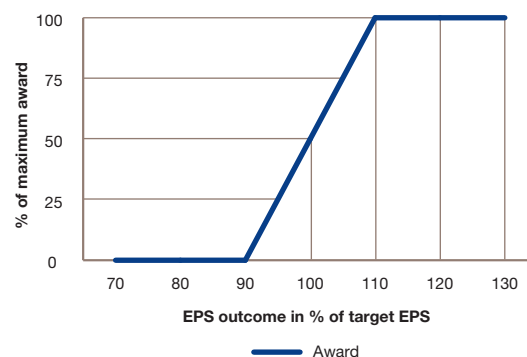
The outcome of the programme is linked to the development of earnings per share (EPS) for Alfa Laval. The EPS targets for the individual years within each step are set by the Board of Directors at the inception of the three year period and are presented in the below table for the steps that were paid out during 2015 (two) or are running (three -five). In the table the EPS outcome for each year is also presented.

Earnings per share

Consolidated				
SEK	Target and outcome			
	2015	2014	2013	2012
Target EPS for step:				
Two	N/A	8.32	7.62	6.93
Three	7.80	7.15	6.50	N/A
Four	7.94	7.22	N/A	N/A
Five	8.45	N/A	N/A	N/A
EPS outcome	9.15	7.39*	7.22	7.61

* Adjusted for Frank Mohn acquisition.

The award is calculated in the following way. When the EPS outcome is within the range of 90 percent to 110 percent of the target EPS, the employee gets the share of the maximum award that is shown in the below graph. An EPS outcome of 90 percent or less of the EPS target gives no award and an EPS outcome of 110 or more gives the maximum award.



To be eligible for payout the employees must be in service on the award date and the vesting date (except in case of termination of employment due to retirement, death or disability). If the employee resigns or is dismissed before the end of the three year period, the awards will lapse and the employee will not be entitled to any payout. If the employee moves to a position that is not eligible for this programme the tranches that already have been earned are paid out upon the change of position. Paid remunerations from the long term incentive programme do not affect the pensionable income or the holiday pay.

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Based on the reported EPS during the period 2012 to 2015, the different steps have resulted in the following awards:

Cash based long term incentive plan

Consolidated											
SEK millions, unless otherwise stated											
Step	Decided by Annual General Meeting	Covering period		Payable in April	Per year					Accumulated	
					Actual outcome in % of maximum outcome					Payable in percent of base salary based on 15% in variable remuneration	Awards
		January 1	– December 31		2015	2014	2013	2012	To date		
Two	2012	2012	2014	2015	N/A	0.00%	23.57%	99.06%	40.88%	4.91%	12 N/A
Three	2013	2013	2015	2016	100.00%	66.78%	100.00%	N/A	88.93%	10.67%	N/A 28
Four	2014	2014	2016	2017	100.00%	61.77%	N/A	N/A	80.89%	6.47%	N/A 21
Five	2015	2015	2017	2018	91.42%	N/A	N/A	N/A	91.42%	3.66%	N/A 13
Awards per year					36	15	13	10	Totalt		12 62

The costs for the awards per step and per year are based on estimated base salaries at the future time of payment.

Guidelines for remunerations to executive officers

The remunerations to the Chief Executive Officer/Managing Director are decided by the Board of Directors based on proposals from the Remuneration Committee according to the guidelines established by the Annual General Meeting. The remunerations to the other members of Group Management are decided by the Remuneration Committee according to the same guidelines. The principle used when deciding the remunerations to executive officers is to offer a competitive remuneration where the remuneration package is mainly based on a fixed monthly salary, with an option for a company car and in addition to that a variable remuneration of up to 40 percent of the salary (managing director up to 60 percent of the salary). The size of the variable remuneration 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. The guidelines for pension, termination and severance pay differ between the Chief Executive Officer/Managing Director and the other executive officers, see the below table.

The Annual General Meetings 2012 to 2015 decided to implement step two to five of a cash-based long term incentive programme for maximum 85 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The Board of Directors will propose the Annual General Meeting 2016 to implement step six of the cash-based long term incentive programme for the period January 1, 2016 – December 31, 2018. No other changes of these guidelines are proposed by the Board of Directors.

Salaries and remunerations to Group Management

Consolidated					Group Management			
					Chief Executive Officer/ Managing Director		Other executive officers	
SEK thousands					2015	2014	2015	2014
Salary and remunerations								
Base salary					10,815	10,300	31,485	28,823
Variable salary ¹⁾					4,020	5,160	7,180	8,639
Cash-based long term incentive programme ¹⁾					1,895	3,253	3,445	5,742
Other benefits ²⁾					719	898	3,248	3,037
Total salary and remuneration					17,449	19,611	45,358	46,241
Pension costs								
Retirement and survivors' pension					6,689	6,364	19,995	18,284
Life, disability and health care insurance					50	49	239	215
Total pension costs					6,739	6,413	20,234	18,499
Sum including pensions					24,188	26,024	65,592	64,740
Number of other executive officers							10	10
Variable salary								
Included					Yes	Yes	Yes	Yes
Un-guaranteed target of base salary					30%	30%	Not set	Not set
Maximum of base salary					60%	60%	40%	40%
Cash-based long term incentive programme								
Included					Yes	Yes	Yes	Yes
Current year award (SEK) ³⁾					4,866	2,076	9,066	3,827
Vested unpaid awards at December 31 (SEK)					8,605	5,563	16,031	10,166
Commitment for early retirement ⁴⁾					No	No	8 of 10	8 of 10
Commitment for severance pay					Yes ⁵⁾	Yes	Yes ⁶⁾	Yes
Commitment for retirement and survivors' pension								

¹⁾ Refers to what was paid during the year.

²⁾ Value of company car, taxable daily allowances, holiday pay, payment for vacation taken in cash and house/flat supplied to 1 (1) other executive officer.

³⁾ Based on estimated base salaries at the future time of payment.

⁴⁾ From the age of 62. A defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary.

⁵⁾ Twenty four months' remuneration reduced with the number of months that has passed since his 63rd birthday.

⁶⁾ Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.

⁷⁾ The ordinary ITP up to a salary of 30 base amounts is funded in order to achieve full ITP benefits at the age of 65. On top of the ordinary ITP he has a defined contribution benefit comprising 50 percent of the base salary. In addition, he may exchange salary and variable remunerations for a temporary old age and family pension.

⁸⁾ For salaries above 30 base amounts there is a defined contribution pension solution with a premium of 30 percent of the pensionable salary above 30 base amounts. Until May 1, 2012 the executive officers also had a special family pension that represented a supplement between the old age pension and the family pension according to ITP. For the persons that were executive officers on May 1, 2012 the special family pension has been converted to a premium based supplementary retirement pension based on the premium level in December 2011. In addition, they may exchange salary and variable remunerations for a temporary old age and family pension.

Tom Erixon will replace Lars Renström as President and Chief Executive Officer of Alfa Laval AB (publ) as per March 1, 2016.

Board of Directors

For 2015, the Board of Directors receive a total fixed remuneration of SEK 5,350 (5,075) thousand, which is distributed among the members elected at the Annual General Meeting that are not employed by the company. These Directors do not receive any variable remuneration.

Remunerations to Board members *

Consolidated			
SEK thousands		2015	2014
Fees by function:			
Chairman of the Board		1,350	1,250
Other members of the Board		500	475
Supplement to:			
Chairman of the Audit Committee		150	150
Other members of the Audit Committee		100	100
Chairman of the remuneration committee		50	50
Other members of the remuneration committee		50	50
Fees by name:			
Anders Narvinger	Chairman	1,400	1,300
Gunilla Berg	Member	600	575
Arne Frank	Member	550	525
Björn Häggglund	Member	–	475
Ulla Litzén	Member	600	575
Finn Rausing	Member	650	625
Jörn Rausing	Member	550	525
Ulf Wiinberg	Member	500	475
Margareth Övrum	Member	500	–
Total		5,350	5,075

* Elected at the Annual General Meeting and not employed by the company

The reported remunerations refer to the period between two Annual General Meetings.

The Chairman of the Board does not have any agreement on future retirement or severance pay with Alfa Laval.

The audit committee and the remuneration committee have had the following members during the last two years:

	2015	2014
Audit Committee:		
Chairman	Finn Rausing	Finn Rausing
Other member	Gunilla Berg	Gunilla Berg
Other member	Ulla Litzén	Ulla Litzén
Remuneration committee:		
Chairman	Anders Narvinger	Anders Narvinger
Other member	Arne Frank	Arne Frank
Other member	Jörn Rausing	Jörn Rausing

The members of the committees are appointed at the constituent meeting of the Board of Directors directly after the Annual General Meeting.

Note 7. Information on auditors and auditors' fee

The line "Group auditors" in the below table is referring to the auditors elected at Annual General Meeting of Alfa Laval AB (publ). The Annual General Meeting 2015 and 2014 decided to elect KPMG as the Group's auditors for the coming year.

Fees and expense compensation

Consolidated		
SEK millions	2015	2014
Audit engagements		
Group auditors	34	29
Other audit firms	1	1
Total	35	30
Audit related services		
Group auditors	1	1
Other audit firms	1	5
Total	2	6
Tax services		
Group auditors	4	4
Other audit firms	3	3
Total	7	7
Other services		
Group auditors	1	1
Other audit firms	4	5
Total	5	6
Expenses		
Group auditors	1	0
Other audit firms	0	0
Total	1	0
Total		
Group auditors	41	35
Other audit firms	9	14
Total	50	49

An audit engagement 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. Audit related services are audit services that are outside the audit engagement. Tax services refer to advices given in connection with various tax matters. All other assignments are defined as other services. Expenses refer to reimbursements of travel costs, secretarial services etc.