

Note 6. Salaries and remunerations

Salaries and remunerations - total

Consolidated		
SEK millions	2014	2013 *
Board of Directors, Presidents and Vice Presidents	243	229
- out of which, variable	44	40
Other	6,421	5,415
Total salaries and remunerations	6,664	5,644
Social security costs	1,097	964
Pension costs, defined benefit plans	103	103
Pension costs, defined contribution plans	483	415
Total costs of personnel	8,347	7,126

* Restated to IFRS 11.

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 43 (37) million and SEK 312 (298) million respectively. SEK 116 (130) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2013 to 2014 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 2011 to 2014 decided to implement step one to four 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 stretches over three years and the awards under each step are divided into three tranches (one for each year). The award under each tranche is set independently from the other two tranches. Since each step stretches

over three years, three steps of the programmes will always run in parallel. In 2014 step two, three and four of the programme are 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 set to a percentage of the employee's annual maximum variable remuneration 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
	In total over the three year period
60%	45%
40%	30%
30%	25%
25%	20%
15%	12%

The outcome of the programme is linked to the development of earnings per share (EPS) for Alfa Laval. The EPS targets for the three tranches within each step are set by the Board of Directors.

The award is calculated in the following way. When the EPS is within the range of -10 percent to +10 percent of the target EPS the employee gets 5 percent of one third of the maximum outcome per year for each percent that the EPS exceeds the bottom level of 90 percent of the target EPS up to the maximum level of 110 percent of the target EPS.

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.

Based on the reported EPS during the period 2011 to 2014, the different steps have resulted in the following awards:

Cash based long term incentive plan

Consolidated										
SEK millions, unless otherwise stated										
					Per year					Accumulated
Decided by Annual General Meeting		Covering period		Payable in April	Actual outcome in % of maximum outcome					Payable in percent of base salary based on 15% in variable remuneration
Step	Meeting	January 1	December 31		2014	2013	2012	2011	To date	Awards
One	2011	2011	2013	2014	N/A	33.65%	100.00%	100.00%	77.88%	9.35%
Two	2012	2012	2014	2015	0.00%	23.57%	99.06%	N/A	40.88%	4.91%
Three	2013	2013	2015	2016	66.78%	100.00%	N/A	N/A	83.39%	6.67%
Four	2014	2014	2016	2017	61.77%	N/A	N/A	N/A	61.77%	2.47%
Awards per year					15	17	20	10	Total	23 39

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 2011 to 2014 decided to implement step one to four 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 2015 to implement step five of the cash-based long term incentive programme for the period January 1, 2015 – December 31, 2017. 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	2014	2013	2014	2013
Salary and remunerations				
Base salary	10,300	9,280	28,823	26,427
Variable salary ¹⁾	5,160	4,330	8,639	6,962
Cash-based long term incentive programme ¹⁾	3,253	2,652	5,742	5,132
Other benefits ²⁾	898	693	3,037	2,303
Total salary and remuneration	19,611	16,955	46,241	40,824
Pension costs				
Retirement and survivors' pension	6,364	5,410	18,284	16,304
Life, disability and health care insurance	49	99	215	337
Total pension costs	6,413	5,509	18,499	16,641
Sum including pensions	26,024	22,464	64,740	57,465
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⁾	2,076	2,283	3,827	4,171
Vested unpaid awards at December 31 (SEK)	5,563	6,501	10,166	12,248
Commitment for early retirement ⁴⁾	No	No	8 of 10	7 of 10
Commitment for severance pay	Yes ⁵⁾	Yes	Yes ⁶⁾	Yes
Commitment for retirement and survivors' pension		⁷⁾		⁸⁾

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 (2) other executive officers.

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.

The employment contract for Lars Renström is valid until 2016.

Board of Directors

For 2014, the Board of Directors receive a total fixed remuneration of SEK 5,075 (4,895) 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		2014	2013
Fees by function:			
Chairman of the Board		1,250	1,175
Other members of the Board		475	460
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	1,300	1,225
Gunilla Berg	Member	575	560
Arne Frank	Member	525	460
Björn Häggglund	Member	475	510
Ulla Litzén	Member	575	560
Finn Rausing	Member	625	610
Jörn Rausing	Member	525	510
Ulf Wiinberg	Member	475	460
Total		5,075	4,895

* 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:

	2014	2013
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	Björn Häggglund
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.