

Executive remuneration policy

The executive officers, i.e. the CEO and other members of Group Management reporting to the CEO, fall within the provisions of this policy. The policy is forward-looking, i.e. applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the policy by the annual general meeting in April 2020. This policy does not apply to any remuneration decided or approved by the general meeting. The policy is substantially in line with the policy adopted in 2019, but more detailed due to new legislation.

A prerequisite for the successful implementation of the company’s business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel, consequently it is necessary that the company offers market competitive remuneration.

For information regarding Alfa Laval’s business strategy, please visit <https://www.alfalaval.com/investors/in-brief/#xaa>

This policy enables the company to offer the executive officers a competitive total remuneration. The remuneration shall be on market terms and may consist of the following components: fixed base salary, variable cash remuneration (including STI and LTIP), pension benefits and other benefits. The components, their purpose and link to the company’s business strategy are described below.

The decision-making process to determine, review and implement the policy

The Board of Directors has established a Committee within the Board (the Remuneration Committee), with the tasks of preparing, within the Board of Directors, the policy for remuneration for executive officers. The Board of Directors shall propose a revised policy at least every fourth year and submit it to the general meeting. The policy shall be in force until a new policy is adopted by the general meeting.

Unless otherwise stated herein, the Board of Directors shall resolve on matters regarding remuneration and employment provisions for all other executive officers. The Committee shall continuously report to the Board of Directors. The CEO and the other executive officers shall not be present when their respective remuneration terms are decided.

Additionally, the general meeting may –irrespective of this policy– resolve on, among other things, share-related or share price-related remuneration.

Fixed Base Salary

Purpose and link to strategy	Supports the attraction and retention of the best talents. Ensures competitiveness while controlling fixed costs to maximise efficiency.
Operational Details	<ul style="list-style-type: none">• Normally reviewed annually and increases will usually be effective from 1 January or following a change in responsibilities.• The Remuneration Committee will consider, among other things, the following parameters when reviewing fixed base salary:<ul style="list-style-type: none">- Economic and salary conditions and trends.- The individual’s performance and responsibilities.- Base salaries and total remuneration at other companies that operate in the same markets, typically benchmarked against similar roles.

Variable Cash Remuneration

A portion of the total remuneration for the executive officers is linked to business performance so that total remuneration will increase or decrease in line with performance, thus promoting the company’s business strategy and long-term interests.

Annual Short Term Incentive (STI)

Purpose and link to strategy To incentivise and create focus on the delivery of annual financial and strategic criteria.

- Operational Details
- The performance criteria, weighting and targets are to be proposed by the Remuneration Committee annually and approved by the Board of Directors. Targets shall be set by reference to the company’s operating plan and historical and projected performance.
 - The outcome of criteria for awarding STI is to be measured over a period of one year and depend on the degree of fulfilment of predetermined targets.
 - The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to reclaim in whole or in part STI paid on incorrect grounds (so-called claw-back).

Opportunity Levels The maximum opportunity for STI can amount up to 40% of fixed base salary. For the CEO the maximum opportunity can amount up to 60% of fixed base salary.
The Remuneration Committee shall have the possibility to review the opportunity levels in order to ensure market competitiveness.

Performance criteria The STI plan awards shall be based on mainly financial criteria. The criteria shall be designed so as to contribute to the company’s business strategy and long-term interests.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy Give extra focus on the long-term value creation for the shareholders.

- Operational Details
- An annual grant of the LTIP, with a three-year performance period, can be decided by the Board of Directors each year.
 - Payment to the participants of the program are made after year three, provided, that they are still employed at the date of payment.
 - The Board of Directors shall have the possibility, under applicable law or contractual provisions, subject to the restrictions that may apply under law or contract, to reclaim in whole or in part LTIP paid on incorrect grounds (claw-back).
 - In the event of a restructuring of the Company or any other extraordinary event which the Remuneration Committee considers will affect the value of an award, the method of calculating the proportion of the maximum value of the award which will be paid to a Participant on vesting may be adjusted in such manner as the Remuneration Committee shall determine to be fair and reasonable.

Opportunity Levels For executive officers the maximum opportunity for LTIP can amount up to 40% of fixed base salary for each three-year performance period. For the CEO the maximum opportunity can amount up to 50% of fixed base salary for each three-year performance period.

Performance Criteria The performance criteria of the LTIP are to be related to financial targets over a business cycle, including but not necessarily limited to, Operating margin (adjusted EBITA margin) and Net invoicing growth. Maximum outcome is awarded when the externally communicated long-term financial targets are clearly exceeded.

For retention or recruitment purposes or extraordinary performance beyond the individual's ordinary tasks the Remuneration Committee based on proposal of CEO, may decide on a specific cash remuneration. Such remuneration may not exceed an annual amount corresponding to 40 percent of fixed annual cash salary and may not be paid more than once each year per individual.

Pension Benefits

Purpose and link to strategy Provide competitive and cost-effective pension benefits.

- Operational Details
- Pension benefits shall be defined contribution (premium defined) unless the individual concerned is subject to defined benefit pension under mandatory collective agreement provisions.
 - Variable cash remuneration shall not qualify for pension benefits unless the executive officer is part of mandatory collective agreed provisions where this is stipulated.
 - Early retirement may be offered selectively and only after a special decision by the Remuneration Committee, with a defined contribution early retirement scheme.
 - For executive officers governed by rules other than Swedish, pension benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy.
- Opportunity Levels
- The pension premiums for defined contribution pension shall amount to not more than 50 per cent of the pensionable salary (for the CEO fixed annual base salary).

Other Benefits

Purpose and link to strategy Provide competitive and cost-effective benefits.

- Operational Details
- Other benefits may include but is not limited to life insurance, disability insurance, medical insurance/cover (Sw: sjukvårdsförsäkring), and a company car or car allowance.
 - For executive officers governed by rules other than Swedish, benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy.
 - Executive officers who are international assignees (for example expatriates) to or from Sweden may receive additional remuneration and other benefits to the extent reasonable in light of the special circumstances associated with the international assignment arrangement, taking into account, to

the extent possible, the overall purpose of this policy.

Opportunity Levels

Other benefits may amount to not more than 5 per cent of the fixed annual cash salary and shall be set at a level which the Remuneration Committee considers to:

- provide the relevant level of benefit depending on role and the individual circumstances,
- be in line with comparable roles in companies with similar size and complexity in the local market, and
- be appropriate compared to the benefits offered to the wider workforce in the local market.

Termination of employment

Details

- If notice of termination of employment is made by the company:
 - The notice period may not exceed twelve months.
 - Fixed cash salary during the period of notice and severance pay may together not exceed an amount equivalent to the fixed cash salary for two years.
- When termination is made by the executive officer, the period of notice may not exceed six months without any right to severance pay.
- Appropriate so-called good leaver/bad leaver principles are to be applied for STI and LTIP.
- Repatriation – If the executive officer is an international assignee the company may reimburse reasonable cost for the repatriation of good leavers, taking into account, to the extent possible, the overall purpose of this policy.

For executive officers governed by rules other than Swedish, payments in connection with termination may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of this policy.

Salary and employment conditions for employees

In the preparation of the Board of Directors' proposal for this remuneration policy, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time. The development of the difference between the remuneration to executive officers and remuneration to other employees will be disclosed in the remuneration report.

Derogation from the policy

The Board of Directors may temporarily resolve to derogate from the policy, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the policy.

Additional information regarding executive remuneration is available in the Alfa Laval Annual Report.