

Remuneration report 2020

Introduction

This report describes how the policy for executive remuneration of Alfa Laval (the company), adopted by the annual general meeting 2020, was implemented in 2020. The report also provides details on the remuneration to the CEO. The report has been prepared in accordance with the Remuneration Rules issued by the Swedish Corporate Governance Board and the Swedish Companies Act.

Further information on executive remuneration is available in note 6 (Salaries and remunerations) on pages 121-123 in the annual report 2020. Information on the work of the remuneration committee in 2020 is set out in the corporate governance report available on pages 57-63 in the annual report 2020.

Remuneration of the board of directors is not covered by this report. Such remuneration is resolved annually by the annual general meeting and disclosed in note 6 on page 123 in the annual report 2020.

Key Developments 2020

A summary of the company's overall performance can be found in the CEO's statement (President's comments) on pages 6-7 in the 2020 annual report.

The Company's remuneration policy, scope purpose and deviations

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. To this end, the company must offer competitive remuneration.

The company's remuneration policy enables the company to offer executives a competitive total remuneration. Under the remuneration policy, executive remuneration shall be on market terms and may consist of the following components: fixed base salary, variable cash remuneration, pension benefits and other benefits. The variable cash remuneration shall be linked to mainly financial criteria. The criteria shall be designed to contribute to the company's business strategy and long-term interests.

The remuneration policy is found in note 37 on pages 149-151 in the annual report 2020. During 2020 the Company has complied with the applicable remuneration policy adopted by the general meeting. No deviations from the policy have been decided and no derogations from the procedure for implementation of the policy have been made. The auditor's report regarding the company's compliance with the policy is available on the company's website <https://www.alfalaval.com/investors/corporate-governance/>. No remuneration has been reclaimed.

Table 1 – Total paid remuneration of the CEO in KSEK in financial year 2020

Name of Director, position	1 Fixed remuneration		2 Variable remuneration		3 Extraordinary items ²	4 Pension expense ³	6 Total remuneration ⁴	7 Proportion of fixed and variable remuneration ⁵
	Base salary	Other benefits ¹	STI One-year variable	LTI Cash based Multi-year variable				
Tom Erixon, CEO	14 000	593	4 905	5 063	-1 167	7 015	30 409	67% fixed 33% variable

¹ Includes the value of company car, taxable daily allowances, holiday pay, payment for vacation taken in cash, life, disability and healthcare insurance.

² Voluntary salary reduction due to COVID-19

³ Includes a defined contribution pension contribution of 50% of base salary, survivor's benefit

⁴ Excluding social security

⁵ Fixed remuneration including fixed pension costs, Variable remuneration including variable pension costs

Share based remuneration

The company does not have any shared-based or share price-based related incentive programs.

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver the company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance measures, the strategic objectives and short- and long-term business priorities have been taken into account.

Table 2a – Performance of the CEO paid out in the reported financial year 2020; short term variable cash remuneration.

Name of director (position)	Description of the criteria related to the remuneration component	Relative weighting of the performance criteria	Actual award/outcome KSEK (paid out in 2020) and measured performance.
Tom Erixon (CEO)	Orders Received growth (%)	25%	0 (0 %)
	Adjusted EBITA % of net sales	60%	4 050 (100%)
	ROCE (%)	15%	855 (84%)

Table 2b - Performance of the CEO paid out in the reported financial year; long term variable cash remuneration.

Name of director (position)	Description of the criteria related to the remuneration component	Relative weighting of the performance criteria	Actual award/outcome KSEK (paid out in 2020) and measured performance.
Tom Erixon (CEO)	Earnings per share	100%	5 063 (100%)

Comparative information on the change of remuneration and company performance

Table 3 – Change of remuneration and company performance over the last two reported financial years (RFY) (KSEK). 2020 will be the first reference-year and therefore no year over year changes for the previously reported financial years (RFY), except for 2019, will be presented.

Annual change	RFY vs RFY1 2020 vs 2019	RFY (2020)
Directors Remuneration		
Tom Erixon, CEO	+3 817 (+14.4%)	30 409
Company Performance		
Net invoicing Growth	-5 049 (-10.9%)	41 468
Adjusted EBITA % of net sales	+0.2 (+1.16%)	17.4 %
Average remuneration on a fulltime equivalent basis of Employees		
Employees of the company ¹	+9 (+1.4%)	642

¹ The companies in Sweden, excl executive management. Salary increase in 2020 has not yet been implemented due to COVID-19.