Note 6. Salaries and remunerations

Salaries and remunerations – total

Consolidated

SEK millions	2018	2017
Board of Directors, Presidents and Vice Presidents	260	255
– out of which, variable	49	46
Other	8,004	7,297
Total salaries and remunerations	8,264	7,552
Social security costs	1,366	1,272
Pension costs, defined benefit plans	143	142
Pension costs, defined contribution plans	593	577
Total personnel costs	**10,366**	**9,543**

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 32 (32) million and SEK 267 (290) million respectively. SEK 93 (110) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits
During the period 2017 to 2018 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 categorises 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 Meeting 2018 decided to implement a modified cash based long term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The outcome of the modified programme depends on how the adjusted EBITA margin and the growth in net invoicing have developed during the three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute between maximum 20 and 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment.

The Annual General Meetings 2015 to 2017 decided to implement step five to seven 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.

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 2018 step six, seven and eight 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	Maximum long-term incentive in percent of base salary: 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 2018 (five) or are running (six-seven). In the table the EPS outcome for each year is also presented.

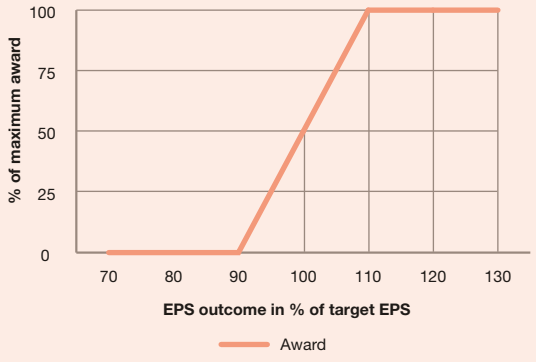
Earnings per share

Consolidated

	Target and outcome			
SEK	2018	2017	2016	2015
Target EPS for step:				
Five	N/A	10.14	9.30	8.45
Six	9.42	8.64	7.85	N/A
Seven	6.88	6.25	N/A	N/A
EPS outcome	**10.77**	**7.09**	**8.43***	**9.15**

* Adjusted for comparison distortion items of SEK -1,500 million.

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.

Based on the reported EPS during the period 2015 to 2018, 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	Awards	
Step		January 1	December 31		2018	2017	2016	2015	To date		Paid	Estimated
Five	2015	2015	2017	2018	N/A	0.00%	3.23%	91.42%	31.55%	3.79%	9	N/A
Six	2016	2016	2018	2019	100.00%	0.00%	86.94%	N/A	62.31%	7.48%	N/A	17
Seven	2017	2017	2019	2020	100.00%	100.00%	N/A	N/A	100.00%	8.00%	N/A	20
Awards per year					19	10	8	9	Total		9	37

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 outcome of the variable remuneration depends on the level of fulfilment of the established mainly financial targets and to limited extent also qualitative objectives. 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 2015 to 2017 decided to implement step five to seven 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 Annual General Meeting 2018 decided to implement a modified cash based long term incentive programme for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. The outcome of the modified programme depends on how the adjusted EBITA margin and the growth in net invoicing have developed during the three-year period, with a 50/50 weight between the targets. This means that there will be no award during the first two years since it is first in year three that it can be determined to what extent the targets have been achieved. Maximum outcome is awarded when the targets are exceeded. The remuneration from the modified long-term incentive programme can constitute between maximum 20 and 50 percent of the fixed remuneration depending on position. Payment to the participants in the programme is made after year three and only provided that they are still employed at the date of payment.

The Board of Directors will propose the Annual General Meeting 2019 to implement step two of the modified cash-based long-term incentive programme for the period January 1, 2019 – December 31, 2021 for maximum 95 senior managers in the Group including the Chief Executive Officer and the persons defined as executive officers. 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/President Tom Erixon		Other executive officers	
SEK thousands	2018	2017	2018	2017
Salary and remunerations				
Base salary	10,500	9,250	28,884	27,068
Variable salary [1]	5,522	3,003	8,737	6,849
Cash-based long-term incentive programme [1]	1,343	2,859	2,626	7,180
Other benefits [2]	310	249	3,234	2,738
Total salary and remuneration	17,675	15,361	43,481	43,835
Pension costs				
Retirement and survivors' pension	5,274	4,649	15,643	16,971
Life, disability and health care insurance	72	69	331	287
Total pension costs	5,346	4,718	15,974	17,258
Sum including pensions	**23,021**	**20,079**	**59,455**	**61,093**
Number of other executive officers at year end			8	8
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 thousand) [3]	3,197	1,472	3,849	2,399
Vested unpaid awards at December 31 (SEK thousand)	6,189	4,027	8,087	6,312
Commitment for early retirement [4]	No	No	Yes	Yes
Commitment for severance pay	Yes [5]	Yes [5]	Yes [6]	Yes [6]
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 and payment for vacation taken in cash.
[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] If Alfa Laval terminates his employment before the age of 61 he will receive 24 months' remuneration, between 61 and 62 he will receive 12 months' remuneration and from 62 he will receive 6 months' remuneration.
[6] Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.
[7] Is not included in the ITP plan. 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.

During 2018 and 2017 three of the other executive officers in Group Management have retired or left the company, Thomas Thuresson as per March 1, 2018, Svante Karlsson as per April 1, 2017 and Peter Balliere as per February 1, 2018. Their costs during each year are included in the above table.

Board of Directors
For 2018, the Board of Directors receive a total fixed remuneration of SEK 5,610 (5,538) 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		2018	2017
Fees by function:			
Chairman of the Board		1,675	1,575
Other members of the Board		560	525
Supplement to:			
Chairman of the Audit Committee		175	175
Other members of the Audit Committee		125	125
Chairman of the remuneration committee		50	50
Other members of the remuneration committee		50	50
Fees by name:			
Anders Narvinger	Chairman	1,725	1,625
Arne Frank **	Member	–	288
Henrik Lange	Member	685	–
Ulla Litzén	Member	–	650
Anna Ohlsson-Leijon	Member	685	650
Finn Rausing	Member	735	700
Jörn Rausing	Member	610	575
Ulf Wiinberg	Member	610	525
Margareth Øvrum	Member	560	525
Total		**5,610**	**5,538**

* Elected at the Annual General Meeting and not employed by the company.
** Deceased during 2017.

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:

	2018	2017
Audit Committee:		
Chairman	Finn Rausing	Finn Rausing
Other member	Anna Ohlsson-Leijon	Anna Ohlsson-Leijon
Other member	Henrik Lange	Ulla Litzén
Remuneration committee:		
Chairman	Anders Narvinger	Anders Narvinger
Other member	Ulf Wiinberg	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 2018 decided to elect EY as the Group's auditors for the coming year. KPMG was the Group's auditors in 2017.

Fees and expense compensation

Consolidated

SEK millions	2018	2017
Audit engagements		
Group auditors	34	34
Other audit firms	1	0
Total	**35**	**34**
Audit related services		
Group auditors	1	2
Other audit firms	1	1
Total	**2**	**3**
Tax services		
Group auditors	5	6
Other audit firms	7	7
Total	**12**	**13**
Other services		
Group auditors	2	1
Other audit firms	5	8
Total	**7**	**9**
Expenses		
Group auditors	2	1
Other audit firms	0	0
Total	**2**	**1**
Total		
Group auditors	44	44
Other audit firms	14	16
Total	**58**	**60**

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.

Note 8. Comparison distortion items

Other operating income has been affected by comparison distortion items of SEK 151 (-) million in 2018. The comparison distortion income during 2018 is relating to three items.

The divestments of the Alonte based commercial tubular heat exchanger business and the heat exchanger systems business have resulted in a total gain of SEK 26 million.

The sale of a property in Lima in Peru resulted in a realised gain of SEK 70 million.

Based on a court decision in a litigation against the former owners of Ashbrook Simon-Hartley, Alfa Laval has received a purchase price reduction of SEK 55 million. The acquisition of Ashbrook Simon-Hartley took place in 2012.