

Note 6. Salaries and remunerations

Salaries and remunerations – total		
Consolidated		
SEK millions	2016	2015
Board of Directors, Presidents and Vice Presidents		
Presidents	260	272
- out of which, variable	39	42
Other	7,337	7,315
Total salaries and remunerations	7,597	7,587
Social security costs	1,237	1,208
Pension costs, defined benefit plans	142	139
Pension costs, defined contribution plans	586	547
Total personnel costs	9,562	9,481

The Group's pension costs and pension liabilities relating to the Board of Directors, presidents and vice presidents amounts to SEK 62 (45) million and SEK 315 (310) million respectively. SEK 114 (113) million of the pension liabilities is covered by the Alfa Laval Pension Fund.

Equity compensation benefits

During the period 2015 to 2016 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 2013 to 2016 decided to implement step three to six 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 2016 step four, five and six 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 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

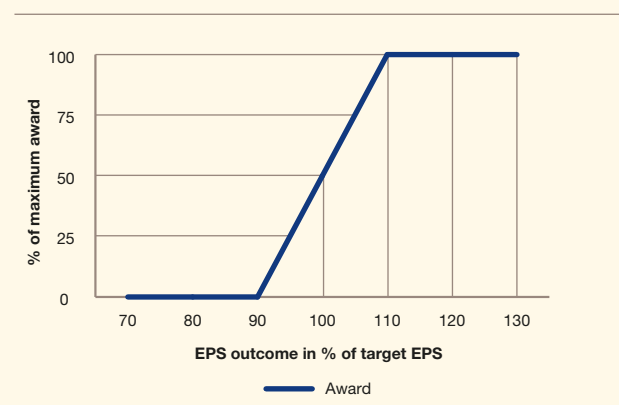
award in percent during a certain year can be as large as the maximum award in percent for a certain step during the whole three year period.

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 2016 (three) or are running (four-six). In the table the EPS outcome for each year is also presented.

Earnings per share				
Consolidated				
SEK	Target and outcome			
	2016	2015	2014	2013
Target EPS for step:				
Three	N/A	7.80	7.15	6.50
Four	8.66	7.94	7.22	N/A
Five	9.30	8.45	N/A	N/A
Six	7.85	N/A	N/A	N/A
EPS outcome	8.43*	9.15	7.39**	7.22

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

108 Financial statements

Based on the reported EPS during the period 2013 to 2016, the different steps have resulted in the following awards:

Cash-based long term incentive plan

Consolidated					Group Management							
SEK millions, unless otherwise stated					Per year					Accumulated		
Step	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	
		January 1 –	December 31		2016	2015	2014	2013	To date		Paid	Estimated
Three	2013	2013	2015	2016	N/A	100.00%	66.78%	100.00%	88.93%	10.67%	28	N/A
Four	2014	2014	2016	2017	36.72%	100.00%	61.77%	N/A	66.16%	7.94%	N/A	22
Five	2015	2015	2017	2018	3.23%	91.42%	N/A	N/A	47.33%	3.79%	N/A	12
Six	2016	2016	2018	2019	86.94%	N/A	N/A	N/A	86.94%	3.48%	N/A	11
Awards per year					15	33	14	11	Total		28	45

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 2013 to 2016 decided to implement step three to six 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 2017 to implement step seven of the cash-based long term incentive programme for the period January 1, 2017 – December 31, 2019 for maximum 70 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			Other executive officers	
	Current: Tom Erixon	Former: Lars Renström		2016	2015
SEK thousands	2016	2016	2015	2016	2015
Salary and remunerations					
Base salary	8,250	4,506	10,815	31,175	31,485
Variable salary ¹⁾	–	6,911	4,020	8,866	7,180
Cash-based long term incentive programme ¹⁾	–	8,436	1,895	8,033	3,445
Other benefits ²⁾	84	4,560	719	4,448	2,365
Total salary and remuneration	8,334	24,413	17,449	52,522	44,475
Pension costs					
Retirement and survivors' pension	4,147	3,129	6,689	22,694	20,878
Life, disability and health care insurance	64	6	50	308	239
Total pension costs	4,211	3,135	6,739	23,002	21,117
Sum including pensions	12,545	27,548	24,188	75,524	65,592
Number of other executive officers at year end				9	10
Variable salary					
Included	Yes ³⁾	Yes	Yes	Yes	Yes
Un-guaranteed target of base salary	30%	30%	30%	Not set	Not set
Maximum of base salary	60%	60%	60%	40%	40%
Cash-based long term incentive programme					
Included	Yes ⁴⁾	Yes	Yes	Yes	Yes
Current year award (SEK thousands) ⁵⁾	1,785	270	4,866	3,799	9,066
Vested unpaid awards at December 31 (SEK thousands)	5,241	270	8,605	11,903	16,031
Commitment for early retirement ⁶⁾	No	No	No	Yes	8 of 10
Commitment for severance pay	Yes ⁷⁾	Yes ⁸⁾	Yes	Yes ⁹⁾	Yes
Commitment for retirement and survivors' pension	¹⁰⁾	¹¹⁾		¹²⁾	

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 during 6 (12) months supplied to 1 (1) other executive officer.

³⁾ For 2016 he has a transitional provision that means that he is guaranteed at least 30 percent variable salary.

⁴⁾ He also participates retroactively in the plans that started in 2014 and 2015, where he is guaranteed an outcome of at least 7.5 percent per annum.

⁵⁾ Based on estimated base salaries at the future time of payment.

⁶⁾ From the age of 62. A defined contribution solution for early retirement with a premium of 15 percent of the pensionable salary.

⁷⁾ 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.

⁸⁾ 24 months' remuneration reduced with the number of months that has passed since his 63rd birthday.

⁹⁾ Maximum 2 years' salary. The commitments define the conditions that must be fulfilled in order for them to become valid.

¹⁰⁾ 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.

¹¹⁾ The ordinary ITP up to a salary of 30 base amounts was funded in order to achieve full ITP benefits at the age of 65. On top of the ordinary ITP he had a defined contribution benefit comprising 50 percent of the base salary. In addition, he could exchange salary and variable remunerations for a temporary old age and family pension.

¹²⁾ 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 replaced Lars Renström as President and Chief Executive Officer of Alfa Laval AB (publ) as per March 1, 2016. The remunerations during 2016 is relating to eleven months for Tom Erixon and five months for Lars Renström.

In connection with Lars Renström leaving his employment, the tranches of the cash-based long term incentive programme that already were vested per December 31, 2015 were paid out, which constitute SEK 4,277 thousand of the reported amount under salaries and remunerations for 2016. The current year award of SEK 270 thousand will be paid in May 2017. The variable salary for the first five months 2016 amounted to SEK 1,352 thousand and was paid already in 2016. The amount under other benefits 2016 is to SEK 4,506 thousand relating to paid available vacation days.

One of the other executive officers in Group Management Ray Field retired as per July 1, 2016. His cost for the first six months 2016 are included in the above table. The vested unpaid awards at December 31, 2016 for him in the cash-based long term incentive programme constitute SEK 950 thousand of the reported amount for 2016 and will be paid in May 2017.

Board of Directors

For 2016, the Board of Directors receive a total fixed remuneration of SEK 5,605 (5,350) 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		2016	2015
Fees by function:			
Chairman of the Board		1,500	1,350
Other members of the Board		515	500
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	1,550	1,400
Gunilla Berg	Member	615	600
Arne Frank	Member	565	550
Ulla Litzén	Member	615	600
Finn Rausing	Member	665	650
Jörn Rausing	Member	565	550
Ulf Wiinberg	Member	515	500
Margareth Øvrum	Member	515	500
Total		5,605	5,350

* 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:

	2016	2015
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 2016 and 2015 decided to elect KPMG as the Group's auditors for the coming year.

Fees and expense compensation

Consolidated		
SEK millions	2016	2015
Audit engagements		
Group auditors	34	34
Other audit firms	1	1
Total	35	35
Audit related services		
Group auditors	3	1
Other audit firms	1	1
Total	4	2
Tax services		
Group auditors	7	5
Other audit firms	7	3
Total	14	8
Other services		
Group auditors	1	1
Other audit firms	3	4
Total	4	5
Expenses		
Group auditors	0	1
Other audit firms	0	0
Total	0	1
Total		
Group auditors	45	42
Other audit firms	12	9
Total	57	51

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.