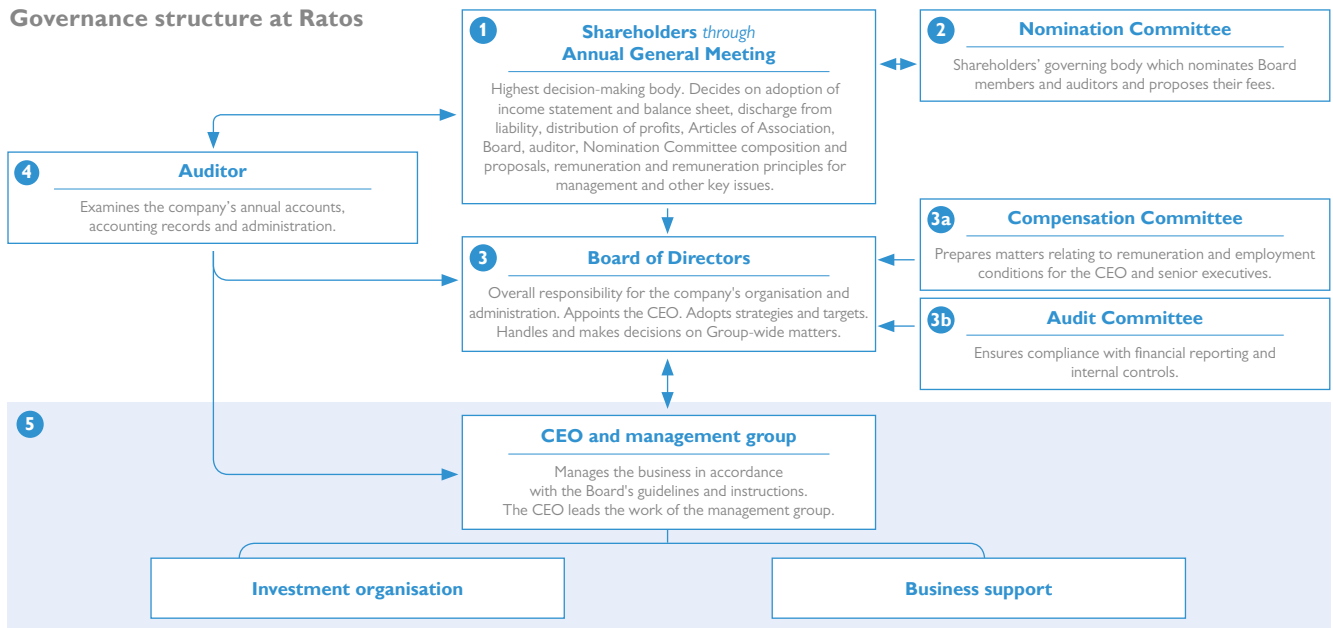


# Corporate Governance Report

## Governance structure at Ratos



## Corporate governance in Ratos

Ratos AB is a public limited company and the basis for governance of Ratos is both external and internal regulations. In order to establish guidelines for the company's activities, the Board has prepared and adopted policy documents. These provide guidance to the organisation and employees based on the basic values and principles that must characterise the operations and conduct.

Ratos applies the Swedish Corporate Governance Code (the Code) and did not report any non-compliance with the Code in the 2017 financial year, except with regard to the composition of the Nomination Committee (see Nomination Committee on ► page 53).

This Corporate Governance Report seeks to avoid repetition of information that is included in applicable regulations and primarily to describe corporate governance for Ratos AB.

The company's auditors have performed a statutory examination of the Corporate Governance Report.

## Key external rules

- Swedish Companies Act
- Accounting legislation and recommendations
- Nasdaq Stockholm's Rule Book for Issuers
- Swedish Corporate Governance Code

## Key internal rules and documents

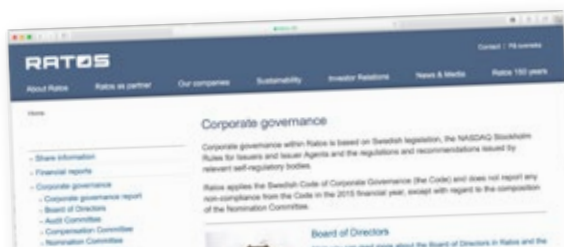
- Articles of Association
- Rules of procedure for the Board of Directors and Board Committees
- Decision-making procedures/authorisation instructions
- President and CEO of reporting instructions
- Internal guidelines, policy documents and manuals which provide guidelines for the Group's operations and employees, such as Ratos's information policy, owner policy, code of conduct, and policy for corporate responsibility and responsible investments

## 1 Shareholders and general meetings

### Share capital and shareholders

Ratos has been listed on Nasdaq Stockholm since 1954. At year-end the share capital amounted to SEK 1,021m divided among a total of 324,140,896 shares, of which 84,637,060 Class A shares and 239,503,836 Class B shares. On 16 May 2017, the Board of Directors of Ratos resolved to redeem all preference shares (Class C shares). Consequently, there are currently no preference shares issued in the company. The company's Class A shares carry entitlement to one vote per share while Class B shares and preference shares carry entitlement to one-tenth of a vote per share. Class A and B shares carry the same right to a share of the company's assets and to the same amount of dividend. The dividend on preference shares is regulated by the Articles of Association and includes preferential right before Class A and B shares to the company's assets. The Annual General Meeting decides on dividends.

At year-end, Ratos had a total of 59,526 shareholders according to statistics from Euroclear Sweden. The ten largest shareholders accounted for 78.5% of the voting rights and 46.2% of the share capital. More information about Ratos's shares and shareholders is provided on ► pages 24–25.



## Read more about Ratos's corporate governance

Read more about Ratos's corporate governance on our website under *About Ratos/Corporate governance*:

- Corporate governance reports from previous years
- Articles of association
- Information from general meetings in previous years
- Nomination Committee
- The Board and its committees
- Incentive system
- Auditor

## General meetings

The general meeting is the highest decision-making body in Ratos and it is through attendance that Ratos's shareholders exercise their influence on the company. Normally, one general meeting is held each year, the Annual General Meeting of Shareholders, which is convened in Stockholm before the end of June. Notice is published in the form of an announcement in the *Official Swedish Gazette (Post- och Inrikes Tidningar)* and on Ratos's website. Publication of the notice is announced in *Svenska Dagbladet*. All documentation required ahead of the Meeting is available on the website in Swedish and English.

A shareholder with at least one-tenth of the votes in Ratos is entitled to request an extraordinary general meeting. The Board and Ratos's auditor can also convene an extraordinary general meeting.

In order to have a matter considered at an Annual General Meeting, a shareholder must submit a written request to the Board in good time so that the matter can be included in the notice of the meeting, normally approximately seven weeks before the Annual General Meeting. The closing date for such requests is stated on Ratos's website.

# 59,526

## shareholders in Ratos

Shareholders who are registered on Euroclear Sweden's list of shareholders and who have notified their attendance to the company in due time are entitled to attend the Meeting, in person or through a proxy, and to vote for their holding of shares. Shareholders may bring an assistant to the meeting provided they have notified the company.

The following business shall be resolved at the Annual General Meeting:

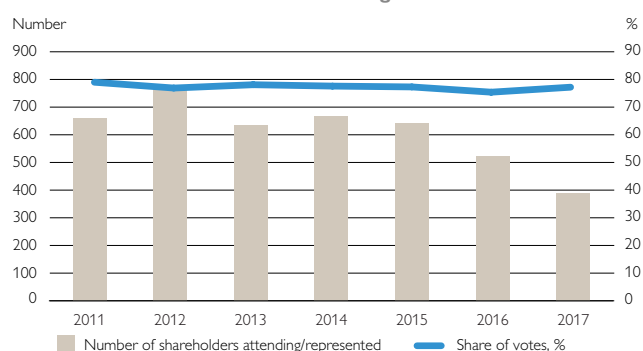
- adoption of the income statement and balance sheet
- discharge from liability for the Board and CEO
- disposition of the company's profit or loss
- determination of fees to be paid to the Board of Directors
- election of the Board of Directors and auditor
- guidelines for remuneration to senior executives
- amendments to the Articles of Association

## Annual General Meeting 2017

The 2017 Annual General Meeting was held on 6 April at Skandiascenen, Cirkus, in Stockholm, Sweden. The Meeting was attended by 388 shareholders, proxies and assistants, who together represented 77.2% of the voting rights and 46.7% of the capital.

All Board members, who were elected at the Annual General Meeting, as well as Ratos's CEO and auditor, were present at the Meeting. Minutes and information about the 2017 Annual General Meeting, in both Swedish and English versions, well as the CEO's address to the Meeting are published on [www.ratos.se](http://www.ratos.se).

## Attendance at Annual General Meetings



## Annual General Meeting 2018

The 2018 Annual General Meeting (AGM) will be held on 3 May, 2:00 p.m., at Skandiascenen, Cirkus, in Stockholm, Sweden.

For matters related to the Nomination Committee and the Annual General Meeting, refer to Ratos's website. For further information about the Annual General Meeting, see ► page 125.



## Extraordinary general meetings in 2017

On 14 June 2017, Ratos held an extraordinary general meeting in Sibelius-salen, Finlandshusets konferens, Stockholm. The meeting concerned the sale of Sophion Bioscience, part of Ratos's previous subsidiary Biolin Scientific, to the company's CEO, among others. The sale is covered by Chapter 16 of the Swedish Companies Act (the so-called Leo provisions). The meeting was attended by 137 shareholders, proxies and assistants, who together represented 64.7% of the voting rights and 35.6% of the capital.

A majority of the Board's members, including the Chairman of the Board, as well as Ratos's CEO, were present at the extraordinary general meeting. Minutes and information about the extraordinary general meeting, in both Swedish and English versions, are published on [www.ratos.se](http://www.ratos.se).

Decisions at the 2017 Annual General Meeting included the following:

- Dividend of SEK 2 per Class A and B share, a total of SEK 638m. Dividend on Class C preference shares issued on 19 June 2013 of SEK 30 per share per quarter, although a maximum of SEK 120 per year, a total of SEK 85m
- Fees of SEK 1,450,000 to the Chairman of the Board and SEK 485,000 to each member of the Board as well as fees to auditors
- Re-election of Board members Ulla Litzén, Annette Sadolin, Charlotte Strömberg, Jan Söderberg, Karsten Slotte, Per-Olof Söderberg and Jonas Wiström. Re-election of Jonas Wiström as Chairman of the Board
- Re-election of audit firm PricewaterhouseCoopers (PwC)
- Adoption of guidelines for remuneration to senior executives
- Offer to key people in Ratos on acquisition of call options in Ratos and of synthetic options relating to investments in the companies
- Amendments to the Articles of Association to enable a new issue of Class C and/or D preference shares
- Authorisation for the Board to acquire Ratos shares up to 7% of all shares
- Authorisation for the Board to decide on a new issue of a maximum of 35 million Class B shares to be used for acquisitions
- Authorisation for the Board to decide on a new issue of a maximum total of 1,250,000 Class C and/or Class D preference shares to be used for acquisitions

## 2 Nomination Committee

The 2016 Annual General Meeting decided on the principles for how the Nomination Committee should be appointed, and which should apply until otherwise decided by the Meeting. The Nomination Committee will comprise a minimum five members together with the Chairman. The Nomination Committee's members will be appointed by the largest shareholders in terms of voting rights, or group of shareholders in the Euroclear Sweden system (such a group is considered one shareholder), based on Euroclear Sweden AB's shareholder statistics at 31 August the year before the Meeting. If a shareholder waives the entitlement to appoint a member, the shareholder who is the next largest owner in terms of voting rights shall appoint a member. The majority of members of the Nomination Committee shall be independent in relation to the company and management. The Nomination Committee's mandate period extends until a new Nomination Committee has been appointed. If a member resigns from the Nomination Committee, the owner that appointed the member is entitled to appoint a replacement. If the owner who the member of the Nomination Committee represents considerably reduces its shareholding in the company, the Nomination Committee can offer another shareholder the opportunity to appoint a replacement.

The current composition of the Nomination Committee was announced on Ratos's website and disclosed through a press release on 25 October 2017. Because Ratos's Board of Directors appointed Jonas Wiström as the new CEO and Per-Olof Söderberg as the new Chairman of the Board, Per-Olof Söderberg replaced Jonas Wiström as a member of Ratos's Nomination Committee as of 19 December 2017, which was announced on Ratos's website and disclosed through a press release on 19 December 2017. Following this change, the Nomination Committee comprises:

- Ragnar Söderberg, appointed by the Ragnar Söderberg Foundation and related parties' holdings, Chairman of the Nomination Committee
- Jan Söderberg, own and related parties' holdings
- Maria Söderberg, nominated by the Torsten Söderberg Foundation, and own holdings
- Erik Brändström, appointed by Spiltan Fonder AB
- Håkan Roos, appointed by Roosgruppen AB
- Per-Olof Söderberg, Chairman of Ratos's Board

Combined, the Nomination Committee represents 59.8% of the voting rights for all the shares in the company.

### The work of the Nomination Committee

The duties of the Nomination Committee include:

- evaluating the composition and work of the Board
- preparing a proposal to the Meeting regarding election of the Board and the Chairman of the Board
- preparing a proposal, in cooperation with the company's Audit Committee, to the Meeting regarding election of auditor
- preparing a proposal to the Meeting regarding fees to the Board, divided between the Chairman and other members, as well as any remuneration for committee work, and auditor
- preparing a proposal to the Meeting regarding a Chairman for the Meeting
- where necessary, recommendation of changes to the principles for composition of the next Nomination Committee

### Nomination Committee's work ahead of the 2018 Annual General Meeting

Ahead of the 2018 Annual General Meeting, the Nomination Committee held five minuted meetings and was in regular contact in between. In its work, the Nomination Committee has taken note of the internal evaluation of the Board's work, taken the Chairman's account of the Board's work and the CEO's account of the company's strategies. The

Nomination Committee Chairman has also interviewed individual Board members.

Ratos is an investment company that invests in, owns and develops unlisted companies primarily in the Nordic region. In 2017, Ratos drafted a new strategic direction that is currently being implemented. This means that strict requirements are placed on the Board to be able to both evaluate acquisition and divestment opportunities and participate in operating and developing companies in different industries and phases of development, in combination with continuity for the implementation of the new strategic direction. The Nomination Committee deems the members proposed for re-election to have broad and complementary experience that more than adequately meets these requirements and deems that continued continuity in the work of the Board is paramount given the company's current stage of development. Consequently, the Nomination Committee sees no reason at this time to elect another board member, but feels that the proposed composition of six members, which entails a reduction of one member, is suitable and appropriate, and that Jonas Wiström, who was appointed as the new CEO at the close of 2017, should remain as a member.

### The requirement for independence is also assessed as having been met.

The Nomination Committee has continued to discuss requirements for diversity based in part on the Code's requirement for stipulating how the diversity policy has been applied and has chosen to use Rule 4.1 of the Code, which states that the Board is to exhibit diversity and breadth of qualifications, experience and background, and strive for an equal gender balance. In addition to what has already been stated regarding the Board members' background and experience as well as the importance of continuity for the continued work of the Board, it is noted that the gender balance will be less equal than in previous years as the members proposed for re-election include two women and four men, resulting in a gender distribution of 33.3%/66.7% for the proposed Board. According to the Nomination Committee, this is in accordance with the requirement for an equal gender balance.

Proposals regarding fees to the members of the Board as well as remuneration for committee work have been prepared by the four members of the Nomination Committee who are not members of Ratos's Board.

Shareholders have been informed that proposals to the Annual General Meeting can be submitted to the Nomination Committee.

The Nomination Committee's proposals, an account of the work of the Nomination Committee ahead of the 2018 Annual General Meeting as well as complementary information on proposed members of the Board will be announced in conjunction with the Notice of the Meeting and be presented at the 2018 Annual General Meeting.

### Deviations/violations

Ratos deviates from the Code's rule 2.4, second paragraph, which states that if more than one Board member sits on the Nomination Committee, a maximum of one of them may be non-independent in relation to the company's major shareholders. Per-Olof Söderberg (also the Chairman of the Board) and Jan Söderberg are members of the Nomination Committee and regarded as non-independent in relation to the company's major shareholders. Against the background of these persons' extensive experience of Board work, their in-depth knowledge of Ratos and roots in the ownership group, and their network in Swedish industry, it was deemed beneficial to the company to deviate from the Code on this point. No violations of Nasdaq Stockholm's Rule Book for Issuers or good practice in the stock market have occurred.

### 3 Board of Directors Composition of the Board

Ratos's Board shall comprise a minimum of four and a maximum of nine members with a maximum of three deputies. The Board is appointed by the shareholders at each Annual General Meeting. The mandate period is thereby one year.

The 2017 Annual General Meeting resolved that the Board shall consist of seven members and no deputies. The Meeting re-elected Ulla Litzén, Annette Sadolin, Charlotte Strömberg, Karsten Slotte, Jan Söderberg, Per-Olof Söderberg and Jonas Wiström. Jonas Wiström was re-elected as Chairman of the board.

Up to and including 12 December 2017, the CEO was not a member of the Board but attended Board meetings. As of 13 December 2017, the CEO is a member of the Board. The composition of the Board and an assessment of each Board member's independence is presented in more detail on ► pages 60–61.

#### Responsibilities and duties of the Board

The Board has overall responsibility for Ratos's organisation and management of its affairs, in the interests of both the company and its shareholders. The Board adopts financial targets, decides on the company's strategy and business plan, and ensures good internal control, risk management and an adequate sustainability programme. The work of the Board is regulated by, among other things, the Swedish Companies Act, the Articles of Association, the Code and the formal work plan adopted by the Board for its work. The Board's overarching responsibility cannot be delegated but the Board may appoint committees tasked to prepare and evaluate issues ahead of a decision by the Board.

Each year, the Board adopts a formal work plan for its work designed to ensure that the company's operations and financial circumstances are controlled in an adequate manner. The formal work plan describes the special role and duties of the Chairman of the Board, decision-making procedures, instructions for Ratos's CEO and reporting as well as areas of responsibility for the committees. Furthermore, the Board also adopts annually a number of policy documents for the company's operations and ensures that there is satisfactory control of the company's compliance with laws, rules and internal guidelines. The Board ensures compliance through various tools including Ratos's annual risk management process and assurance mapping – in which responsibility for and validation of internal processes and identified risks are clarified – and through the committees formed in 2017 comprising senior executives, which address a number of important matters related to insider issues, sustainability issues and personal data issues.

The main duty of the Chairman of the Board is to lead the work of the Board and ensure that Board members carry out their respective duties. Other areas of responsibility include the following:

- ensuring that the work of the Board is carried out effectively
- ensuring that decisions are made on requisite matters and that minutes are kept
- convening meetings and ensuring that requisite decision material is sent to Board members
- acting as a contact and maintaining regular contact with the CEO and management
- acting as a contact with the owners regarding ownership issues
- maintaining regular contact with the auditor and ensuring that the auditor is summoned to attend a meeting in conjunction with the interim report for June and the year-end report
- ensuring that the Board continuously updates and deepens its knowledge about the operations
- ensuring that the Board's work is evaluated by the Board members annually

#### Work of the Board in 2017

During 2017, a total of 13 minuted Board meetings were held: eight ordinary meetings, one statutory meeting, and four extra Board meetings. Board meetings have a recurrent structure with established key items. Information and documentation for decision ahead of Board meetings are usually sent out approximately one week before each meeting. An external secretary to the Board has taken the minutes of the Board up to and including the Board meeting on 16 August 2017, after which Ratos's general counsel has taken over the role of secretary for the Board of Directors.

Extra Board meetings normally examine acquisition and divestment issues as well as financing, and are held when such matters requiring a Board decision arise. 2017 was a year of great activity in terms of the divestment of companies, modifications to Ratos's strategy, the redemption of preference shares and addressing issues pertaining to the change in CEO. Senior executives at Ratos attended Board meetings to present specific issues.

#### Evaluation of the Board

The Board annually evaluates the work of the Board in a structured process where members are given an opportunity to express their opinions on working methods and efficiency, Board material, the performance of the members and the scope of the assignment in order to develop the Board's working methods. For the 2017 financial year, the evaluation

## COMPOSITION OF THE BOARD

Name	Elected year	Independent the company	Independent of major shareholders	Total fee <sup>1)</sup> , SEK 000s	Attendance at meetings 2017		
					Compensation Committee meetings	Audit Committee meetings	Board meetings
Per-Olof Söderberg <sup>2)</sup>	2000	Yes	No	535	13/13	–	13/13
Jan Söderberg <sup>3)</sup>	2000	Yes	No	535	13/13	–	13/13
Ulla Litzén	2016	Yes	Yes	585	–	5/5	12/13
Annette Sadolin	2007	Yes	Yes	485	–	–	13/13
Karsten Slotte	2015	Yes	Yes	485	–	–	12/13
Charlotte Strömberg	2014	Yes	Yes	635	–	5/5	13/13
Jonas Wiström <sup>4)</sup>	2016	Yes	Yes	1,200	13/13	4/5	12/13
<b>Total</b>				<b>4,460</b>			

<sup>1)</sup> Relates to fees for the Annual General Meeting year 2017/2018.

<sup>2)</sup> Ordinary Board member up to and through 12 December 2017 and then Chairman of the Board, Compensation Committee Chairman and member of the Audit Committee without prejudice to fees received.

<sup>3)</sup> Deputy Chairman as of 13 December 2017 without prejudice to fees received.

<sup>4)</sup> Chairman of the Board, Compensation Committee Chairman and member of the Audit Committee up to and through 12 December 2017 and then ordinary Board member. Jonas Wiström received 75% of the fees resolved at the 2017 AGM for his role as the company's Chairman of the Board and his work in the company's committees. Furthermore, Jonas Wiström received no fee for the role of ordinary Board member.

was performed internally with the members answering an anonymous questionnaire and the results of the evaluation have been presented by the Chairman with subsequent discussion on the Board. Furthermore, the Chairman of the Nomination Committee held individual interviews with each Board member. The results of the evaluation have been reported to the Nomination Committee. The evaluation indicates that the Board work is deemed to function well.

### Committees

The Board has established a Compensation Committee and an Audit Committee in order to structure, improve efficiency and assure the quality of work, and to prepare the Board's decisions within these areas. The members of these committees are appointed annually at the statutory Board meeting.

### 3a Work of the Compensation Committee

At Ratos, structured work with remuneration principles has been ongoing for many years. The Compensation Committee has both an advisory function (follow-up and evaluation) and a preparatory function for decision matters prior to their examination and decision by the Ratos Board.

The following matters are handled by, among others, the Compensation Committee:

- the CEO's terms of employment, and terms for management and employees directly subordinate to the CEO
- follow and evaluate variable remuneration programmes for company management
- matters of principle concerning pension agreements, severance pay, notice periods, bonus/earnings-related remuneration, fees, benefits, etc.
- prepare matters relating to the incentive systems for Ratos and the companies for decision by the Board and/or the general meeting
- the Board's proposal to the Annual General Meeting on guidelines for remuneration to senior executives

The Compensation Committee works in accordance with an adopted formal work plan. Normally, early in the autumn, an examination is carried out to see whether there are any major remuneration-related issues of principle to prepare. If such issues exist, they are processed ahead of a final proposal at the ordinary meeting in January. In 2017, the Compensation Committee made a thorough evaluation of Ratos's remuneration structures and incentive programme, which resulted in proposals from the committee to modify calculations and criteria for variable cash salary for 2017, and to propose to the Annual General Meeting a new long-term incentive programme in the form of a warrants and convertible debenture programme instead of the synthetic options and call options programme formerly proposed. Certain modifications in the remuneration guidelines are proposed ahead of the 2018 Annual General Meeting. The Compensation Committee also prepares and processes guidelines for the structure of general salary development for the years ahead and conducts an annual review of Ratos's long-term incentive systems, of which Ratos's Board of Directors then submit an account of no later than three weeks before the Annual General Meeting on the company's website ([www.ratos.se](http://www.ratos.se)).

During 2017, Jonas Wiström (Chairman of the Board and of the Compensation Committee), Jan Söderberg and Per-Olof Söderberg were members of the Compensation Committee. After Jonas Wiström assumed the role of CEO on 13 December 2017 and Per-Olof Söderberg the role of Chairman of the Board, Per-Olof Söderberg took over as Chairman of the Committee. As of 13 December 2017, the Compensation Committee is made up of Per-Olof Söderberg (Chairman) and Jan Söderberg.

The Compensation Committee held 13 minuted meetings in 2017 and in between has been in regular contact. The Committee's minutes were kept by the Board's former secretary, attorney Ingrid Westin Wallinder, up to and including the meeting on 5 September 2017, after

which Ratos's general counsel took over the role of secretary. The Compensation Committee provides continuous oral reports to the Board and submits proposals on issues that require a Board decision. Minutes are made available to all members of the Board. The CEO and senior executives normally participate in the meetings of the committee as rapporteur concerning certain issues.

### 3b Work of the Audit Committee

During 2017, Charlotte Strömberg (Chairman), Jonas Wiström and Ulla Litzén were members of the Committee. After Jonas Wiström assumed the role of CEO on 13 December 2017 and Per-Olof Söderberg the role of Chairman of the Board, Per-Olof Söderberg took over as member of the Committee. As of 13 December 2017, the Compensation Committee is made up of Charlotte Strömberg (Chairman), Per-Olof Söderberg and Ulla Litzén. The company's auditor has participated in five Audit Committee meetings in 2017. The Audit Committee held five minuted meetings. The Committee's minutes were kept by the Board's former secretary, attorney Ingrid Westin Wallinder, up to and including the meeting on 14 August 2017, after which Ratos's CFO took over the role of secretary.

The Audit Committee has both an advisory and preparatory function for decision matters prior to review and decision by Ratos's Board.

Each year, the Audit Committee adopts a fiscal cycle for its working duties and areas for which the Audit Committee is responsible. In 2016, the fiscal cycle and the Audit Committee's work plan were reviewed due to new regulations, making another review unnecessary in 2017. The Audit Committee is responsible for and monitors according to an adopted schedule, among other things, accounting and reporting, audit, internal control, corporate governance, risk management, purchases of non-audit-related services, tax payment, the parent company's guarantee and equity commitments, IT security, sustainability, insurance, disputes and strategic accounting issues as well as compliance with rules and regulations and certain policy documents adopted by Ratos's Board. Furthermore, the Audit Committee oversees Ratos's externally operated whistleblowing system. Since 2016, the Audit Committee has also modified its work to more closely follow Ratos's interim reporting and restructured its work on valuation issues and impairment testing, which resulted in a plan with five regular meetings every year and a stipulation that the auditor will participate in all Committee meetings. Specific issues addressed in 2017 included valuation and impairment issues, follow-up of bank terms, commitments concerning capital contributions and disputes. The CEO and senior executives normally participate in the meetings of the Committee as rapporteur.

The main duties of the Audit Committee are as follow:

- monitor the financial reporting and submit recommendations and proposals to secure the accuracy of the reports
- with regard to the financial reporting, monitor the efficiency of the company's internal control, internal audit and risk management
- consider valuation issues and assessments in closing accounts
- keep itself informed about the audit of the annual accounts and consolidated financial statements and the Supervisory Board of Public Accountants' quality control as well as review the audit process
- review and monitor the auditor's impartiality and independence and thereby give particular attention as to whether the auditor provides the company with other services than audit services
- issue guidelines for services other than audits that are provided by the auditor and, when applicable, approve such services in accordance with such guidelines
- assist with preparation of a proposal for a general meeting resolution on election of auditors as well as decision relating to fees to auditors
- ensure that the Group's six-month report is reviewed by the Group's auditor
- discuss and prepare Board decisions regarding risk, sustainability and internal control

The Audit Committee provides continuous oral reports to the Board and submits proposals on issues that require a Board decision. Minutes are made available to all members of the Board. The Chairman of the Committee maintains regular contact with the company's auditor.

#### Evaluation of the need for an internal audit

Ratos is an investment company that acquires, develops and divests Nordic companies. At the close of the year, Ratos had 14 companies that operate in different industries with various risks. Ratos's company portfolio and its composition show significant differences over time.

With regard to Ratos and the need for an internal audit, it has been judged more suitable to discuss and decide for each individual company according to need, size and complexity, rather than from parent company or Group level.

Ratos's annual review of risk and assurance mapping provide a foundation that enhances the Board's understanding of the operations' risk management and follow-up.

Ratos performs an annual review of risks where significant risks in the companies are summarised and discussed in Ratos's management, Audit Committee and Board of Directors. The process is intended to give Ratos's management, Audit Committee and Board of Directors an understanding of the Group's greatest risks. Each company's CEO and management have operational responsibility for having an appropriate risk process in place which is approved by the company's board. Since 2016, Ratos expanded the risk management process with an assurance mapping, meaning a clarification of responsibilities and validation of internal processes linked to identified risks. Ratos's management and Audit Committee can use this as a basis to identify a need for a closer look at/development of certain areas, the opportunity to identify areas that need to be centralised/strengthened, and to provide guidance to the Audit Committee for audit priorities for the portfolio companies.

In addition, the audit measures carried out by the auditor for the parent company and Group, including an audit of internal controls, are important instruments for identifying shortcomings and providing a basis for more in-depth measures/follow-up and the basis for decision regarding future audit priorities for the portfolio companies.

With 24 employees at the beginning of 2018, the parent company Ratos AB is a relatively small company which lacks complex functions

that are difficult to analyse. The need to introduce an internal audit function for the parent company Ratos AB must therefore be regarded as negligible. Against this background, the Audit Committee has decided, as in previous years, not to establish an internal audit function at Group level or for the parent company Ratos AB.

#### Remuneration to the Board of Directors

The 2017 Annual General Meeting resolved that remuneration to the ordinary members of the Board should be paid in an amount of SEK 485,000 per member and year. Remuneration to the Chairman of the Board should amount to SEK 1,450,000 per year. It was decided to pay an additional SEK 150,000 per year to the Chairman of the Audit Committee and SEK 100,000 per year to other members of the Committee. It was decided to pay SEK 50,000 per year to the Chairman of the Compensation Committee and SEK 50,000 per year to other members of the Committee.

#### 4 Auditor

Ratos's auditor is appointed annually by the Annual General Meeting. Nominations are made by the Nomination Committee. The auditor is tasked on behalf of shareholders to examine the company's annual accounts and consolidated financial statements as well as the administration of the company by the Board and the CEO and the corporate governance work. The review work and auditor's report are presented at the Annual General Meeting.

At the 2017 Annual General Meeting, the audit firm PricewaterhouseCoopers was elected as auditor until the next Annual General Meeting. PwC has appointed Peter Clemedtson as Senior Auditor. In addition to his assignment in Ratos, Peter Clemedtson is senior auditor for, among others, Nordea, SKF and Volvo.

#### Auditor's fees

Remuneration is paid to the company's auditor in accordance with a special agreement on this matter in accordance with a resolution at the Annual General Meeting. For a specification of audit fees and fees for other assignments, see Note 8. In 2016, the Audit Committee adopted

### RECOMMENDED RISK MANAGEMENT PROCESS FOR RATOS'S SUBSIDIARIES



**1 IDENTIFICATION:** Ratos recommends a broad process where all relevant operational, strategic, financial and legal areas are covered in order to identify the companies' biggest risks. Each company should identify and discuss risks at a suitable level in the organisation in a company-adapted process.

**2 CLASSIFICATION:** Classification and ranking of identified risks based on probability, degree of impact, type of risk and time perspective.

**3 MANAGEMENT:** A plan for how identified risks should be managed should be drawn up with activities and means to eliminate/reduce/monitor the risk and specifying who is responsible.

**4 REPORTING:** The risk assessment and management plans are presented and discussed in each company's board at least once a year.

**5 REPORT TO OWNER:** A report that summarises the biggest risks at Ratos and the companies is compiled and presented to the Ratos's Board annually.

a policy for the purchase of non-audit-related services, which took effect on 1 January 2017. This policy is continuously monitored by the Audit Committee, which also evaluates the content of both auditing and consulting services.

## 5 Governance in Ratos

### Ratos's principles for active ownership and the exercise of its ownership role

Ratos is an investment company whose business comprises the acquisition, development and divestment of preferably unlisted Nordic enterprises. Over time, Ratos is to generate the highest possible return by actively exercising its ownership to realise the potential of a number of selected companies and investment situations. Ratos's owner policy includes specific strategic foundations that provide a basis for how we choose to act as an owner and how we view corporate governance. One of these foundations is that Ratos's companies must be independent of each other, strategically, operationally and financially. As an owner, Ratos shall add and create value but value creation and governance are therefore not identical in all situations. Having a clear division of responsibility between owner, board and CEO is important for the governance of Ratos's companies as well as for the parent company Ratos AB and is therefore a key part of the business model and for Ratos's success as an owner. Read more about Ratos's exercise of its ownership role on ► pages 10–13.

### Investment decisions and evaluation of existing companies

The decision-making procedures for Ratos's Board and the CEO relating to investment activities stipulate that all significant acquisitions of, and add-on investments in, companies that are to be included in Ratos's company portfolio must be decided by the Board. This also applies to the sale, wholly or partially, of a company. An evaluation of all the companies is performed every year in which an analysis of holding strategy, results and forecasts for future years are presented. The evaluations of selected portfolio companies are presented to the Board by the company executive in conjunction with the Board meeting in February.

### CEO and management group

The CEO is appointed by the Board and is responsible together with the management group for daily operations in Ratos in accordance with the Board's instructions. The CEO provides the Board with regular updates on operations and ensures the Board members receive information on which to base well-considered decisions.

Magnus Agervald was CEO of Ratos from 14 November 2016 through 12 December 2017. Magnus Agervald was replaced by Jonas Wiström, who is the new CEO of Ratos as of 13 December 2017.

At the beginning of 2017, the management group at Ratos consisted of the CEO, Deputy CEO, three Senior Investment Directors, the Head of Strategic HR, the CFO and (as of April 2017) the General Counsel. In conjunction with changes in the organisation during the year, the management group at the beginning of 2018 consisted of the CEO, three Senior Investment Directors, the CFO and the General Counsel. The role of the management group is to prepare and implement strategies, manage corporate governance and organisational issues, and monitor Ratos's financial development and Ratos's sustainability programme.

The development of events in the companies as well as updating of ongoing investment processes are dealt with at weekly meetings in a broader group comprising primarily the CEO, the investment organisation and other senior executives.

Ideas for acquisitions are analysed by the investment organisation and discussed in an internal new-investment group, whose main role is to provide feedback on bids made by Ratos in connection with investment processes. After completion of due diligence, a basis for decision is sent to Ratos's Board ahead of a decision regarding a possible investment. (Read more about the development model in the section Ratos as owner).

### Remuneration to senior executives

Guidelines for remuneration to senior executives were approved at the 2017 Annual General Meeting. More information about basic and variable salary is provided in Note 7 on ► pages 86–90.

### Internal control

The Board has overarching responsibility for ensuring that Ratos internally has an effective and adequate process for risk management and internal control. The purpose is to provide reasonable assurance that operations

## RATOS'S INTERNAL RISK PROCESS

Ratos's internal risk process takes into account a broad spectrum of risks, including external events, strategic, operational and financial risks as well as risks related to violations of laws and rules, including internal policy documents (compliance and sustainability issues).

**Q1**  
JAN–MAR

- Collection of risk reports from subsidiaries established and approved by each subsidiary's board, confirmed by the chairman of the board to Ratos's CEO
- Each holding team presents and discusses subsidiaries' risk analysis

**Q2**  
APR–JUN

- An overall Group risk report is aggregated and compiled
- Discussion and adoption of final risk report in Ratos's management group
- Risk report is presented and then discussed in Ratos's Audit Committee

**Q3**  
JUL–SEP

- Discussion and adoption of risk report by Ratos's Board
- Follow-up of items from Board discussion
- Relevant items are included where necessary in Ratos's as well as the subsidiaries' strategy discussions
- Review of risk process based on feedback from Board and Audit Committee

**Q4**  
OCT–DEC

- Short update to the Audit Committee regarding the Group's greatest risks
- Focus on major changes in the risk map and status update action plan for Group-wide risks

are conducted in an appropriate and effective manner, that external reporting is reliable and that laws as well as internal rules and policy documents are complied with. This work is conducted through structured Board work as well as by tasks being delegated to management, the Audit Committee and other employees. In addition, a dialogue with the Group's auditors is maintained about their regular observations and the annual audit of internal control completed during the third quarter and presented by Ratos's auditors to the Audit Committee, which decides on appropriate measures based on the irregularities identified in the report. Responsibility and authority are also defined in Ratos's assurance mapping, which is part of Ratos's risk management process, and in instructions for powers of authorisation, policy documents and manuals which provide guidelines and guidance for the Group's operations and employees. As of 2017, as a complement to the portfolio companies' financial reporting and sustainability reporting, Ratos sends an annual compliance survey to the CFOs all of the portfolio companies. The findings are compiled and reported by the General Counsel to the Audit Committee, providing a basis for, among other things, decisions regarding future audit priorities for the portfolio companies.

Furthermore, the board of each subsidiary is responsible for ensuring that the company in question complies with laws and regulations as well as for compliance with internal policy documents and guidelines. Over the years, a procedure has gradually been implemented to strengthen the follow-up of these matters.

#### **Ratos's risk management process**

Ratos performs an annual review of risks where significant risks in its own operations and the companies are summarised and discussed in Ratos's management, Audit Committee and Board.

As part of good corporate governance, the companies are expected to have a continuous process for identifying, assessing and managing their risks. Each company's CEO and management have operational responsibility for having an appropriate risk management process in place which is approved by the company's board. All subsidiary chairmen are asked every year to confirm to Ratos's CEO that the company concerned has implemented an appropriate process for management of the company's risks.

Ratos continuously works to strengthen the internal and subsidiary risk processes. Since 2016, Ratos has expanded the risk management process to include an assurance mapping, meaning a clarification of responsibilities and validation of internal processes and identified risks. Ratos's greatest risks are summarised in the Directors' report on ► pages 46–49.

Ratos supports the subsidiaries with structures, models and so forth for work with risk management; see the illustration on ► page 57.

#### **Internal control of financial reporting**

Internal control of financial reporting is based on how operations are conducted and how the Ratos organisation is built up. Each company is independent of other companies owned by Ratos and has a dedicated holding team that consists of two Ratos employees, one of whom is company executive. The team works actively in the companies' boards.

Internal control of financial reporting is designed to be appropriate in Ratos AB, as well as in the companies, and is evaluated and decided by each board and management.

Authority and responsibility within Ratos are communicated and documented in internal guidelines, policy documents and manuals. This applies, for example, to the division of work between the Board and the CEO and other bodies set up by the Board, instructions for powers of authorisation as well as accounting and reporting instructions. This also serves to reduce the risk of irregularities and inappropriate favouring of a third party at the company's expense.

Ratos's holding teams evaluate reporting from the companies from an analytical viewpoint. Performance and risks that are identified are communicated monthly by the company executive to the CEO who, where appropriate, in turn reports to the Board. Ahead of an acquisition, a due diligence assessment of the company is performed which includes an analysis of accounting effects, a review of capital structure and a financial risk analysis.

The companies' application of IFRS in their reporting and how they comply with the principle choices Ratos has made are followed up regularly.

Accounts relating to acquisitions and investments as well as major transactions and accounting issues are discussed and regularly reconciled with Ratos's auditor. Impairment testing is performed for each company during the fourth quarter, which is also reviewed by Ratos's auditors.

#### **Quality assurance for financial reporting**

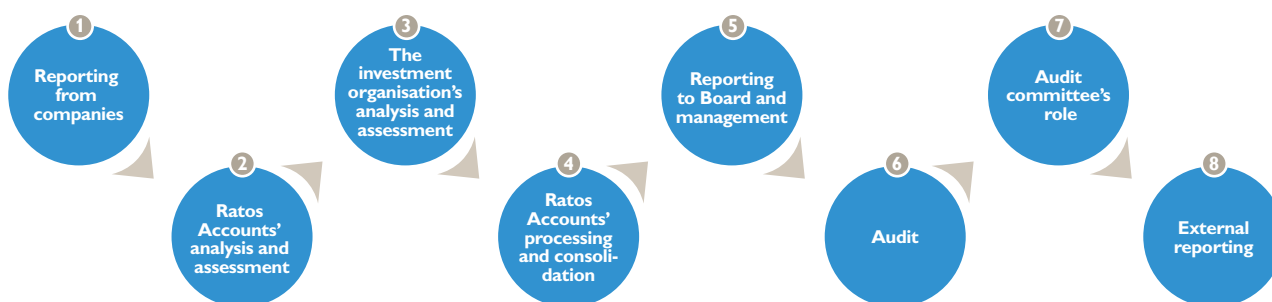
It is the opinion of the Board that the quality of a company's reporting is primarily determined by the organisation's competence in accounting matters as well as how the accounting, reporting and finance functions are staffed and organised. At Ratos, the entire investment organisation is deeply involved in the reporting from the companies. This means that the quality of the accounting and reporting of the companies is continuously examined and developed. Through the Audit Committee, the Board oversees the internal control and the accuracy of the financial reporting and evaluates recommendations for improvement. The Audit Committee provides continuous oral reports to the Board and submits proposals on issues that require a Board decision.

Ratos's Accounts function is organised and manned on the basis of the need to ensure that the Group maintains a high accounting standard and complies with IFRS and other standards within accounting. Working duties include preparing regular accounts mainly for the parent company and preparing closing accounts for both the parent company and the Group. A total of five people are employed within the function headed by the company's Finance Manager. The employees have long professional experience in reporting and accounting. The Debt Management function comprises one person with many years of experience of banking and finance issues.

Ratos's mission includes investing in and developing wholly or partly owned companies. The aim is not that these companies' systems and reporting should be integrated into the Ratos Group, but resources are used for follow-up and development of financial reporting from subsidiaries and associates. Ratos's aim, as part of the value-creating work with the companies, is to create independent and high-quality organisations with a quality of financial reporting that corresponds to that of a listed company.



## PROCESS FOR FINANCIAL REPORTING



### 1 REPORTING FROM COMPANIES

According to a set timetable, the companies report an income statement and balance sheet every month and an extended reporting package every quarter. Complementary information is provided within several areas in conjunction with the annual accounts.

The reporting constitutes the basis both for the legal consolidated financial statements and for Ratos's analysis of all portfolio companies. Normally, the financial information is the same, but in some cases, the companies report an adjusted profit, so-called pro forma, to achieve comparable periods and comparable results.

The financial reporting is designed to follow the applicable laws and regulatory frameworks such as IFRS. Reporting is entered into a Group-wide electronic consolidated reporting system. As support to the companies for this reporting, Ratos has a number of supporting instructions and documents. The companies' accounting and finance functions are invited once a year to seminars organised by Ratos which mainly examine year-end reporting, other financial information and other reporting to Ratos, but also pending accounting changes and other relevant and topical issues.

### 2 RATOS ACCOUNTS' ANALYSIS AND ASSESSMENT

Ratos Accounts acts as financial controllers in the analysis and assessment of each company's reporting. The material reported by the companies is examined analytically and evaluated regarding completeness, accuracy and compliance with Ratos's accounting principles. Ratos Accounts has an active dialogue with each company. Any deviations noted in the legal and operational follow-up as well as the analysis and reconciliation are corrected both in the legal consolidated financial statements and in the information presented at company level following a dialogue with the company concerned.

### 3 THE INVESTMENT ORGANISATION'S ANALYSIS AND ASSESSMENT

The investment organisation acts as business controllers in the analysis and assessment of each company's reporting. In parallel with Ratos Accounts, the reported material is analysed on the basis of the knowledge available on each company, including based on information provided to the companies' boards, to understand each company's financial development. The investment organisation writes a monthly report per company where activities in the company and the company's development are described and analysed. The report is submitted to Ratos's management each month and to Ratos's Board each quarter.

### 4 RATOS ACCOUNTS' PROCESSING AND CONSOLIDATION

Ratos Accounts prepares both a legal consolidated financial statement according to IFRS and various analyses of Ratos's portfolio companies combined, such as the table of companies found on ► pages 28–29.

Consolidation includes a number of reconciliation controls. Reconciliation includes contributions to total equity per company and checking that changes in equity are in accordance with completed transactions.

### 5 REPORTING TO BOARD AND MANAGEMENT

Every month, Ratos Accounts prepares a report to management and the Board regarding the development in Ratos's portfolio companies combined, focusing on the development of sales, EBITA, adjusted EBITA and EBITA margins, and a formal result for the Ratos Group every month in accordance with IFRS.

In addition to the above, the Board receives a follow-up report concerning the development of each individual portfolio company.

### 6 AUDIT

The company's auditors present the auditor's report as per December concerning the consolidated financial statement and management of the Ratos Group.

The auditors also perform a review of the interim report and the holding's closing accounts which, as of the 2017 financial year, will be performed as per June instead of as per September as in previous years.

The audit is conducted in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden.

### 7 AUDIT COMMITTEE'S ROLE

The Audit Committee receives an audit report from Ratos's auditor, both in conjunction with the second-quarter accounts and the year-end accounts. Ratos's auditors then also present an oral audit report to the Audit Committee and there is then an opportunity for Ratos's Audit Committee to ask complementary questions. Ratos's CEO and Finance Manager attend these meetings. As of the 2016 Annual General Meeting, the auditors attend all Audit Committee meetings.

### 8 EXTERNAL REPORTING

Ratos publishes its interim and year-end reports as well as an annual report through press releases and publication on the website. Earlier reports can be downloaded from the website. The annual report is available in Swedish and English, and is printed in Swedish and sent to those who wish to receive it. In addition, financial information about the companies is published on Ratos's website.

# Board of Directors and CEO

Board's and CEO's holdings at 31 December 2017



## Per-Olof Söderberg, Chairman\*

Dependent (on major shareholders) Chairman of the Board since December 2017. MSc Econ, SSE. MBA Insead. Born 1955, Swedish.

Chairman of Söderberg & Partners, Byggdialog, Stockholm City Mission and Inkludera Invest. Deputy Chairman of the Stockholm Chamber of Commerce and Board member of Stockholm School of Economics, among others.

*Shareholding in Ratos (own and related parties):* 16,705,964 Class A shares, 18,000 Class B shares, 90 preference shares

*\* new Chairman since 13 December 2017 – position formerly held by Jonas Wiström since 2016.*

## Ulla Litzén

Independent Board member since 2016.

MSc Econ and MBA. Born 1956, Swedish.

Board member of Alfa Laval, Electrolux, Husqvarna and NCC.

Formerly CEO of W Capital Management AB (wholly owned by the Wallenberg Foundations). Senior positions and member of the management group of Investor AB.

*Shares in Ratos:* 20,000 Class B shares

*Options in Ratos issued by Ratos's principal owner:* 85,000



## Annette Sadolin

Independent Board member since 2007.

LL.B. Born 1947, Danish.

Chairman of Østre Gasværk Teater. Board member of Blue Square Re NL, DSB, DSV, Ny Carlsberg Glyptotek and Topdanmark.

Formerly Deputy CEO of GE Frankona Ruck 1996–2004, CEO of GE Employers Re International 1993–96, Deputy CEO of GE Employers Re International 1988–93.

*Shares in Ratos:* 8,264 Class B shares

*Options in Ratos issued by Ratos's principal owner:* 42,500

## Karsten Slotte

Independent Board member since 2015.

MSc Econ. Born 1953, Finnish.

Board member of Onvest, Royal Unibrew and Scandi Standard.

Formerly President and CEO of the Karl Fazer Group 2007–2013.

Formerly CEO of Cloetta-Fazer 2002–2006.

*Shares in Ratos:* 8,600 Class B shares

*Options in Ratos issued by Ratos's principal owner:* 42,500



### Charlotte Strömberg

Independent Board member since 2014.

MSc Econ. Born 1959, Swedish.

Chairman of Castellum. Board member of Bonnier Holding, Clas Ohlson, Skanska and Sofina S.A. Member of the Swedish Securities Council.

Formerly CEO of Jones Lang LaSalle Nordic. Executive positions in Carnegie Investment Bank and Alfred Berg/ABN AMRO.

Shareholding in Ratos (own and related parties): 11,500 Class B shares

Options in Ratos issued by Ratos's principal owner: 85,000



### Jan Söderberg, Deputy Chairman\*

Dependent (on major shareholders) Deputy Chairman of the Board since December 2017.

MSc Econ. Born 1956, Swedish.

Chairman of Söderbergföretagen. Board member of Blinkfyrrar, Elisolation, Henjo Plåtteknik, NPG, ProVia, SEAB Nordic and My Big Day. Member of the Lund School of Economics Management Advisory Board.

Shareholding in Ratos (own and related parties): 14,975,580 Class A shares, 2,047,800 Class B shares

\* new Deputy Chairman as of 13 December 2017 – completely new position.



### Jonas Wiström, CEO\*

CEO and independent Board member since 2017.

MSc Eng. Born 1960, Swedish.

Deputy Chairman of the Board of Business Sweden, Teknikföretagen and IVA Business Executives Council. Board member of ICC and Tieto.

Shares in Ratos: 40,000 Class B shares

Options in Ratos issued by Ratos's principal owner: 260,000

\* new CEO as of 13 December 2017

– position formerly held by Magnus Agervald since November 2016.



#### AUDITOR

At the 2017 Annual General Meeting, the auditing firm PricewaterhouseCoopers AB, with authorised public accountant Peter Clemetson as Senior Auditor, was elected for the period until the 2018 Annual General Meeting has been held.

#### SECRETARY TO THE BOARD

Magnus Stephensen, General Counsel, Ratos.