

Corporate governance report 2007

Ratos AB (publ), company registration number 556008-3585, shall according to the Articles of Association acquire, manage and sell real property and chattels and conduct other activities compatible therewith. Within the framework of the company's tax status and its operations as described in the Articles of Association, the company's Board has decided that Ratos shall conduct private equity operations. The company has approximately 36,000 shareholders, the majority of whom own less than 500 shares. The company's A shares carry entitlement to 1 vote per share while B shares carry entitlement to 0.1 votes per share. Ratos's largest owner is the Torsten and Ragnar Söderberg foundations.

Swedish Code of Corporate Governance

Ratos, Ratos's Board and Ratos's Nomination Committee apply the Swedish Code of Corporate Governance (the Code). The corporate governance report states how the Code is applied. The company has not deviated from the rules in the Code. The corporate governance report has not been reviewed by the company's auditors. Neither have the auditors reviewed the section "Organisation of internal control".

Nomination Committee

The 2007 Annual General Meeting resolved that the company's Chairman in consultation with the company's major shareholders should appoint a nomination committee ahead of the 2008 Annual General Meeting. According to the Annual General Meeting decision, the Nomination Committee shall comprise a minimum of four members, one of whom is the company Chairman. If an already appointed member resigns from the Nomination Com-

mittee, the company's major shareholders shall appoint a replacement following consultation. The Nomination Committee is entitled to receive reasonable remuneration from the company for expenditure incurred with regard to evaluation and recruitment. On the other hand, the members of the Nomination Committee do not receive any remuneration from the company.

The duties of the Nomination Committee are as follows:

- To evaluate the composition and work of the Board
- To prepare a proposal to the Annual General Meeting regarding election of the Board and the Chairman of the Board
- To prepare a proposal, in co-operation with the company's Audit Committee, to the Annual General Meeting regarding election of auditors when appropriate
- To prepare a proposal to the Annual General Meeting regarding fees to the Board and auditors
- To prepare a proposal to the Annual General Meeting regarding a chairman for the meeting.

The composition of the Nomination Committee was announced on 5 October 2007. The Nomination Committee met three times ahead of the 2008 Annual General Meeting.

Board of Directors

According to the Articles of Association Ratos's Board shall comprise a minimum of four and a maximum of nine members with a maximum

Nomination Committee

Member	Represents	Board member/not a Board member
Sarah McPhee, Chairman	AMF Pension	Not a member
Annika Andersson	AP4	Not a member
Olof Stenhammar	Chairman of the Board	Board member
Jan Söderberg	Own and related parties' holdings	Board member
Per-Olof Söderberg	Own and related parties' holdings	Board member
Maria Söderberg	Torsten Söderberg foundation	Not a member

of three deputies. At the 2007 Annual General Meeting the present board was elected which comprises eight members with no deputies. The Meeting appointed Olof Stenhammar as Chairman of the Board.

The Board has appointed two committees from among its members – the Compensation Committee and the Audit Committee, which are described below. The Annual General Meeting decided that remuneration should be paid to Board members of SEK 400,000 per member and year (although not to Ratos's CEO) while remuneration to the Chairman of Board should amount to SEK 800,000 per year. For attendance as members of committees it was decided to pay an additional SEK 30,000 per year and committee while remuneration to committee chairmen was decided at SEK 50,000 per year and committee. All Board members are presented in more detail on pages 38-39 of this annual report.

Among the Board's eight members, two have a non-independent relationship to one of the company's major shareholders (in each case the persons themselves) and two Board members are non-independent of the company and its management.

The work of the Board and formal work plan

The annually adopted formal work plan for the Board includes instructions for the company's CEO, decision-making procedures within the company, board meeting procedures, assignment of tasks, the duties of the Chairman and the provision of information between the company and the Board.

The decision-making procedures for the company's Board and CEO relating to invest-

ment activities stipulate that all acquisitions of, and add-on investments in, companies that are to be included among Ratos's holdings must be submitted to the Board for decision. This also applies to divestments, wholly or partly, of a holding. The Board is kept informed on an ongoing basis about the development of operations through a regular CEO's letter. Information material and material on which decisions are to be made at board meetings are normally sent out one to two weeks prior to each meeting. An evaluation of all the holdings is performed every year in which an analysis of holding strategy, results, and forecasts for the coming year are presented. These evaluations are presented to the Board by the Investment Director or Senior Investment Manager concerned.

The Chairman of the Board ensures that an annual evaluation is carried out of the work of the Board where members are given an opportunity to express their opinions on working methods, Board material, their own and other members' work and the scope of the assignment. The work of the Board was assessed as functioning very well and all Board members were considered to have made a constructive contribution to both strategic discussions and the governance of the company. The dialogue between the Board and management was also perceived as good.

During 2007, 14 minuted board meetings were held. The minutes were taken by the Secretary to the Board who during the year was the lawyer Tore Stenholm, Tore Stenholm Advokatbyrå AB.

Board of Directors

Member	No. of meetings attended			Remuneration, 2007, SEK	Elected	Position in relation to	
	Board	Compensation Committee	Audit Committee			Company	Major shareholders
Olof Stenhammar	14	8	5	900,000	1994	non-independent	independent
Lars Berg	13		5	430,000	2000	independent	independent
Staffan Bohman	14		5	430,000	2005	independent	independent
Göran Grosskopf	13		5	430,000	1996	independent	independent
Arne Karlsson	14				1999	non-independent	independent
Annette Sadolin ^{*)}	8		3	430,000	2007	independent	independent
Jan Söderberg	14	8	5	460,000	2000	independent	non-independent
Per-Olof Söderberg	12	8	5	460,000	2000	independent	non-independent

^{*)} Elected to Ratos's Board in April 2007.

Compensation Committee

The company's Compensation Committee is appointed by the Board. Committee members in 2007 were Olof Stenhammar (Chairman), Jan Söderberg and Per-Olof Söderberg.

The Compensation Committee prepares and presents proposals for decision by the Ratos Board regarding:

- The CEO's terms of employment
- Terms for employees directly subordinate to the CEO according to "the grandfather principle"
- Matters of principle concerning pensions, severance pay, fees and benefits, etc.
- Matters relating to Ratos's compensation system

The Compensation Committee held eight minuted meetings during the year where the minutes were taken by the company's CEO, Arne Karlsson.

Compensation system

The guidelines for compensation and incentive systems for key people as set out below were approved by the 2007 Annual General Meeting. The following guidelines were applied throughout 2007.

The incentive system for the company's business organisation is of major strategic importance for Ratos. Against this background a compensation and incentive system has been drawn up designed to offer competitive terms at the same time as the company's employees are motivated to work in the interests of shareholders.

The system comprises three components – basic salary, variable salary and options – and rests on five basic principles.

- Ratos's employees shall be offered competitive basic terms of employment in an industry where competition for qualified employees is intense and at the same time be encouraged to remain within Ratos.
- Both individual effort and the Group's performance must be linked to clear targets set by the Board.
- The variable compensation that is paid shall be linked to the results development that benefits shareholders. Variable compensation does not fall due until certain conditions have been met with regard to return on the company's capital.
- Each year the Board sets a limit for the total variable compensation. This means that the variable compensation component can only amount at maximum to a couple of per cent of the company's profit before tax.
- Key people at Ratos shall be encouraged to have the same perspective as the company's shareholders which will be achieved through reasonably balanced options programmes where employees can gain from price rises as well as taking a personal risk by paying a market price for the options.

The variable compensation that can be allocated to an employee is paid over a multi-year period. The cost for each year's variable salary, however, is booked in its entirety in the year in which the compensation was earned. With regard to the costs for proposed option programmes, refer to the Board's proposal (ahead

Terms for call options outstanding at 31 December 2007

Maturity	Price/option, SEK	Entitlement to purchase no. shares	Exercise price, SEK	Outstanding no. of options	Corresponding no. of shares
2003 – 28 March 2008	7.2	2.15	54.0	210,000	451,500
2004 – 31 March 2009	7.6	2.15	68.4	76,000	163,400
2005 – 31 March 2010	11.2	2.15	102.9	99,000	212,850
2006 – 31 March 2011	21.2	2.15	151.8	464,000	997,600
2007 – 31 March 2012	36.5	1	278	518,000	518,000
				1,367,000	2,343,350

Maximum dilution in relation to outstanding shares 1.45%.

of the 2007 Annual General Meeting) regarding call options and synthetic options. The Board shall be entitled to deviate from these guidelines if special reasons exist.

Variable compensation 2007

Variable compensation does not fall due until certain conditions regarding return on the company's capital have been met. For 2007, this return requirement was that consolidated profit before tax should correspond to at least 8% of equity. A ceiling was stipulated at a total of SEK 100m in variable compensation, which corresponds to a return on equity of 32%. An earnings bank for the result that forms that basis for calculation of variable compensation is applied. This means that earnings which in certain years exceed the 32% ceiling are transferred to the next year and increase the earnings on which compensation is calculated. Earnings that are less than the threshold amount of 8% are also transferred and charged against earnings on which compensation is based in the following year.

The return on equity before tax in 2007 amounted to 29.6% and the variable compensation paid will therefore amount to SEK 90m. At total of 27 people are included in the entitlement to receive variable compensation.

Payment of variable compensation is divided over three years with 50% in the first year and 25% per year in the next two years. In order to receive full payment, the person concerned must remain active within the Ratos Group.

Call options

Annual general meetings since 2001 have decided on call option programmes directed to senior executives and other key people within Ratos. All call options have a maturity of five years. Employees have paid a market premium for the call options in all programmes. Acquisition of call options is subsidised by the purchaser receiving extra remuneration corresponding to a maximum of 50% (60% until year-end 2003) of the option premium after deduction for 55% standard tax, whereby the compensation is divided into equal parts for five years and provided the person remains active within the Ratos Group and still holds options acquired

from Ratos or shares acquired from options. Call options are issued on Ratos purchased treasury shares.

Synthetic options

The 2007 Annual General Meeting resolved to introduce a cash-based option programme related to the Ratos's investments in portfolio companies. The programme is carried out through the issue of synthetic options that are transferred at market price. The programme gives key people within Ratos an opportunity to share in the growth in value of the portfolio companies. If the value growth on Ratos's investment in the portfolio company concerned exceeds 15% per year, the options will have a value. The total value of the issued options at the closing date will be a maximum of 3% of the difference between the actual realised value for Ratos's investment at the closing date and the cost increased by 15% per year.

Audit Committee

The Board has appointed an Audit Committee in order to give work with accounting and auditing a special forum. The Audit Committee includes all members of the Board with the exception of the CEO. The company's internal control and governance systems, as well as external financial reporting are within the scope of this committee. The committee also monitors and evaluates new practice and new accounting rules. The work of the auditors is continuously evaluated and the committee is also responsible for preparing the election of new auditors when appropriate. The entire Audit Committee met the company's auditor on two occasions in 2007. The company's work procedures also stipulate that the Chairman of the Board is tasked with maintaining regular contact with the company's auditors. The Audit Committee held five minuted meetings in 2007 at which Tore Stenholm took the minutes.

Organisation of internal control

Internal control of financial reporting is based on how operations are conducted and how the organisation is built up. Authority and responsibility are documented and have been communicated in documents such as internal

guidelines and manuals. This applies, for example, to the division of work between the Board on the one hand and the CEO on the other hand and the 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.

In the internal control of financial reporting, the parent company is assessed separately and each individual holding is assessed separately, regardless of whether they are subsidiaries or associates. Assessments are made both ahead of an acquisition and during the ownership period. Each holding represents its own risk independent of other holdings, where an Investment Director or Senior Investment Manager has main responsibility for a holding.

The risks that are identified, both by the companies and by Ratos, regarding financial reporting are communicated monthly by the Investment Director or Senior Investment Manager and quarterly by the accounts/finance function to the CEO; who in turn reports to the Board. Holdings' application of IFRS in reporting to Ratos is followed up in conjunction with quarterly accounts. Ahead of an acquisition a due diligence examination of the company is performed, which includes an analysis of the accounting consequences.

Information and communications channels at Ratos are designed to promote the completeness and accuracy of financial reporting. The accounts/finance function formally controls the companies' reports and Investment Managers check reporting from a material aspect. Control within subsidiaries and associates is decided separately for each company. Ratos continuously follows up the holdings' compliance with guidelines and manuals.

Acquisitions and divestments are also examined with the auditors. In parallel with the annual evaluation which is described in the description of the work of the Board, impairment testing is performed for each holding.

Quality assurance for financial reporting

In addition to what is stated above, the Audit Committee is tasked with quality assurance of

the company's financial reporting and maintaining regular contact with the company's auditors.

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 finance and accounting functions are staffed and organised. At Ratos, the entire business organisation is deeply involved in reporting and analysis of both the individual holdings and the performance of the Group. This involvement in accounting and reporting means, among other things, that the quality of the reporting is continuously examined and raised. The finance and accounting unit is organised both on the basis of the need to provide regular accounts mainly for the parent company, and to be able to prepare closing accounts for both the parent company and the Group. A total of seven people (corresponding to six FTEs) are employed within the function headed by the company's CFO. A total of four people have a degree in economics. The employees within this unit have many years of professional experience from financial control and reporting.

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 with the Ratos Group. Instead, the focus is on creating independent, high-quality organisations where this is part of the value-creating work with the holdings. Against this background, Ratos's Audit Committee has an ongoing dialogue with Ratos's auditors and finance function while the boards of the individual holdings are responsible for the quality of the companies' financial reporting. Ratos's finance function maintains a running dialogue with those responsible for finance at all the holdings and issues clear instructions for the preparation of each monthly, quarterly and full-year report. Every year Ratos's finance function receives audit memorandums from each holding. In order to achieve a high quality in the entire Group's reporting, Ratos has resources for follow-up and development of the finance functions and reporting of associates and subsidiaries. Ratos's finance function regularly offers training for the holdings' finance

functions in central reporting and accounting matters.

The finance function prepares monthly reports for the parent company and the Group which are submitted to Ratos's management. The Board is continuously informed about the financial development in the CEO's letter as described above. An interim report is prepared and published every quarter, of which one is reviewed by the company's auditors. In conjunction with quarterly reporting, the Board receives extensive in-depth material concerning both the Group and the individual holdings. Complete closing accounts (known as a hard close) which are reviewed by the company's auditors are prepared for the report for the third quarter. This hard close and subsequent review are conducted in order to prepare and facilitate the audit of the full-year accounts. A report from hard close work is presented to the Audit Committee. The parent company and all subsidiaries carry out a hard close. In the associates, Ratos decides in consultation with other owners whether a reviewed hard close should be prepared. The audit memorandum prepared in conjunction with the full-year accounts is presented to the Audit Committee.

Auditors

At the 2004 Annual General Meeting the audit firm KPMG Bohlins AB was elected as auditors with authorised public accountant Thomas Thiel as senior auditor for the period until the 2008 Annual General Meeting has been held. KPMG with Thomas Thiel appointed as senior auditor were appointed for the first time at the 2004 meeting. In addition to his assignment for Ratos, Thomas Thiel is an auditor for Atlas Copco, Ericsson, Holmen, Svenska Handelsbanken, Swedish Match and SKF, as well as the Torsten and Ragnar Söderberg foundations which are Ratos's largest single owner.

Auditors' fees

Fees are paid to the company's auditors in accordance with a special agreement on this matter. In 2007, audit fees amounted to SEK 2m (2) in the parent company and SEK 14m (8) in the Group. In addition, the parent company paid SEK 8m (1) in fees for other assignments

to the company's auditors and the Group as a whole paid fees for other assignments amounting to SEK 11m (3) to the company's senior auditor. The Board has established guidelines for the relation between auditing fees and consulting fees. These guidelines are continuously followed up by the Audit Committee which also evaluates the content of both auditing and consulting services.

Policies

In order to establish guidelines for the company's activities, the Board has prepared and adopted eleven internal policy documents which taken together form Ratos's code of conduct and ethics policy. The documents lay down the basic values that must characterise the organisation and the conduct of employees. In three of the documents: Code of social conduct, Ownership policy and Rules for Ratos employees – the main focus is on ethical issues.

Policy documents adopted by the Board

1. Ownership policy – Ratos's approach to its ownership role in unlisted companies
2. Environmental policy
3. Information and crisis policy
4. Sponsorship policy
5. Code of social conduct
6. Incentive policy for senior executives in Ratos's holdings
7. Rules for Ratos employees' share transactions
8. Pensions policy for senior executives in Ratos's holdings
9. Financial strategy
10. Principles for reporting options
11. IT security policy