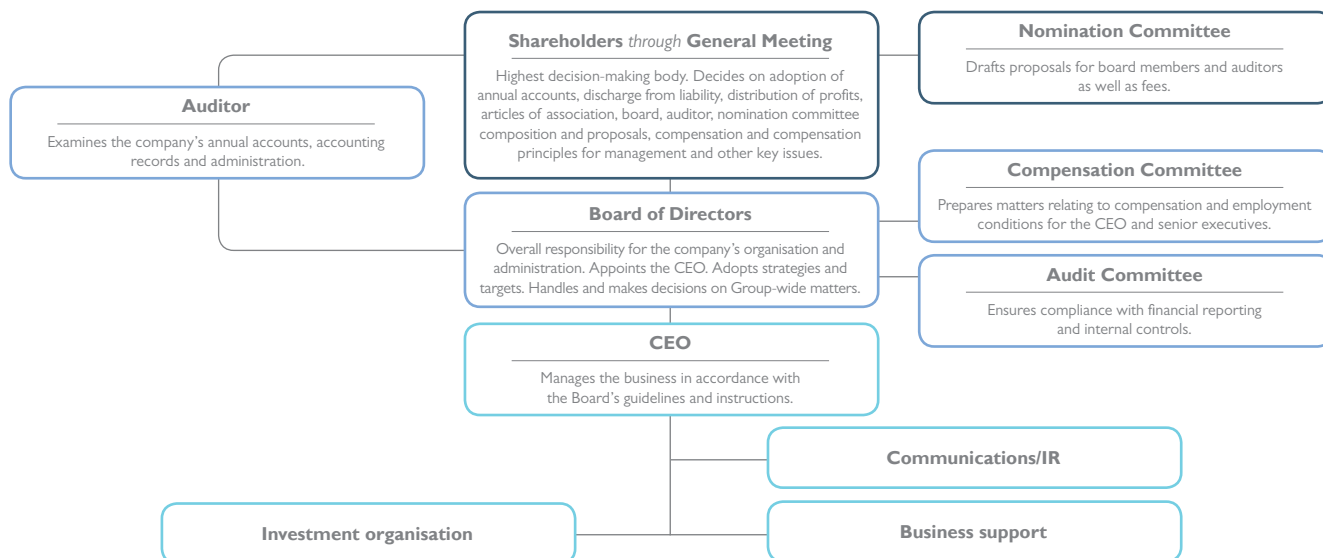


# Corporate governance report

## GOVERNANCE STRUCTURE AT RATOS



### External rules

- Swedish Companies Act
- Accounting legislation – Swedish Bookkeeping Act, Annual Accounts Act, Swedish Financial Reporting Board (RFR) and IFRS
- Nasdaq OMX Stockholm Rules for Issuers
- Swedish Code of Corporate Governance (“the Code”)

### Internal rules

- Articles of Association
- The Board’s formal work plan (read more on page 72)
- Instructions for the CEO
- Decision-making procedures/authorisation instructions
- Instructions for financial reporting
- Internal guidelines
- Policies adopted by the Board (see on right)

### Policies

All policy documents are updated and adopted annually by the Board, most recently on 14 February 2013. Senior executives are responsible for monitoring.

- Financial policy
- Incentive policy
- Information policy
- IT policy
- Crisis policy
- Environmental policy
- Pensions policy
- Social responsibility policy
- Rules for Ratos employees’ share transactions
- Recommendation for Board members’ share trading
- Code of conduct
- Ownership policy

### Corporate governance in Ratos

Ratos AB is a public limited company and is regulated by Swedish legislation mainly through the Swedish Companies Act, and by Nasdaq OMX Stockholm Rules for issuers. In addition, the Swedish business community’s self-regulation is taken into account where the Swedish Corporate Governance Board has formulated the Swedish Code of Corporate Governance.

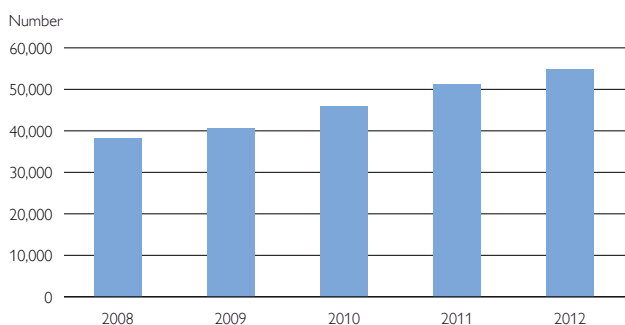
In addition to legislation and self-regulating recommendations and rules, the Articles of Association form the basis for governance of operations. The Articles of Association specify where the Board shall be domiciled, the focus of operations, rules about general meetings, information about class of shares and share capital, etc.

In order to establish guidelines for the company’s activities, the Board has also prepared and adopted twelve policy documents. The policy documents set out the basic values that must characterise the organisation and the conduct of its employees. In addition there are internal rules and documents which provide a basis for governance of the company’s activities.

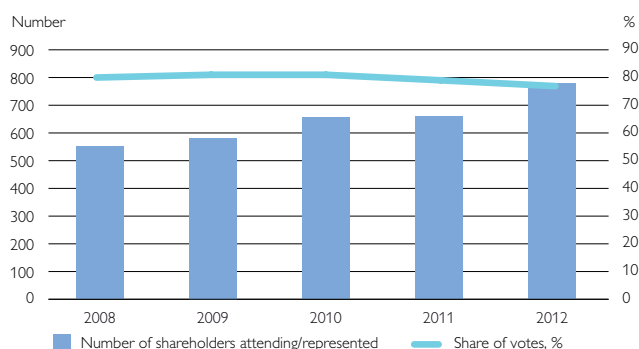
Ratos applies the Code and does not report any non-compliance with the Code in the 2012 financial year, except with regard to the composition of the Nomination Committee (see under Nomination Committee on next page).

The corporate governance report has been reviewed by the company’s auditor.

### Shareholders



### Attendance at Annual General Meetings



## Shareholders and general meetings

### Share capital and shareholders

Ratos has been listed on Nasdaq OMX Stockholm since 1954. At year-end 2012 the share capital amounted to SEK 1,021m divided among a total of 324,140,896 shares, of which 84,637,060 A shares and 239,503,836 B shares. The company's A shares carry entitlement to one vote per share while B shares carry entitlement to 1/10 of a vote per share. All shares carry the same right to a share of the company's assets and to the same amount of dividend.

At year-end 2012 Ratos had a total of 54,911 shareholders according to statistics from Euroclear Sweden. The ten largest shareholders accounted for 76% of the voting rights and 43% of the capital. The proportion of shares owned by physical or legal entities outside Sweden amounted to 18%. 55% of Ratos's shareholders owned 500 shares or less and together accounted for just under 2% of the share capital. More information about Ratos's shareholders and share performance in 2012 is provided on pages 11–13.

### General meetings

The general meeting is the highest decision-making body in Ratos and it is through attendance at general meetings that Ratos's shareholders exercise their influence on the company. An ordinary general meeting, also called the Annual General Meeting of Shareholders, is to be convened in Stockholm once a year before the end of June. Notice of an Annual General Meeting must be published no earlier than six weeks and no later than four weeks prior to the meeting. Regarding extraordinary general meetings, refer to the Swedish Companies Act (2005:551). The notice must always take the form of an announcement published in the Official Swedish Gazette (Post- och Inrikes Tidningar) and be available on the company'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 versions.

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. The closing date for such requests is stated on Ratos's website.

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

- adoption of the income statement and balance sheet
- disposition of the company's profit or loss
- number of directors and deputy directors to be elected by the Annual General Meeting
- election of the Board of Directors and auditor
- determination of fees to be paid to the Board of Directors and auditor
- guidelines for compensation to senior executives
- amendments to the Articles of Association.

The Articles of Association comply with the Swedish Companies Act as regards appointment and dismissal of Board members and amendments to the Articles of Association. The company's Articles of Association do

not contain any limitations as to how many votes each shareholder may cast at general meetings. All shareholders who are registered on Euroclear Sweden's list of shareholders who have notified their attendance to the company in due time are entitled to attend the general meeting and to vote for their total holding of shares. Shareholders may bring an assistant to the general meeting provided they have notified the company.

### Read more about Ratos's corporate governance

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

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

### 2012 Annual General Meeting

The 2012 Annual General Meeting was held on 18 April at Stockholm Waterfront Congress Centre in Stockholm. The Meeting was attended by 779 shareholders, proxies or assistants, who together represented 76.9% of the voting rights and 46.9% of the capital.

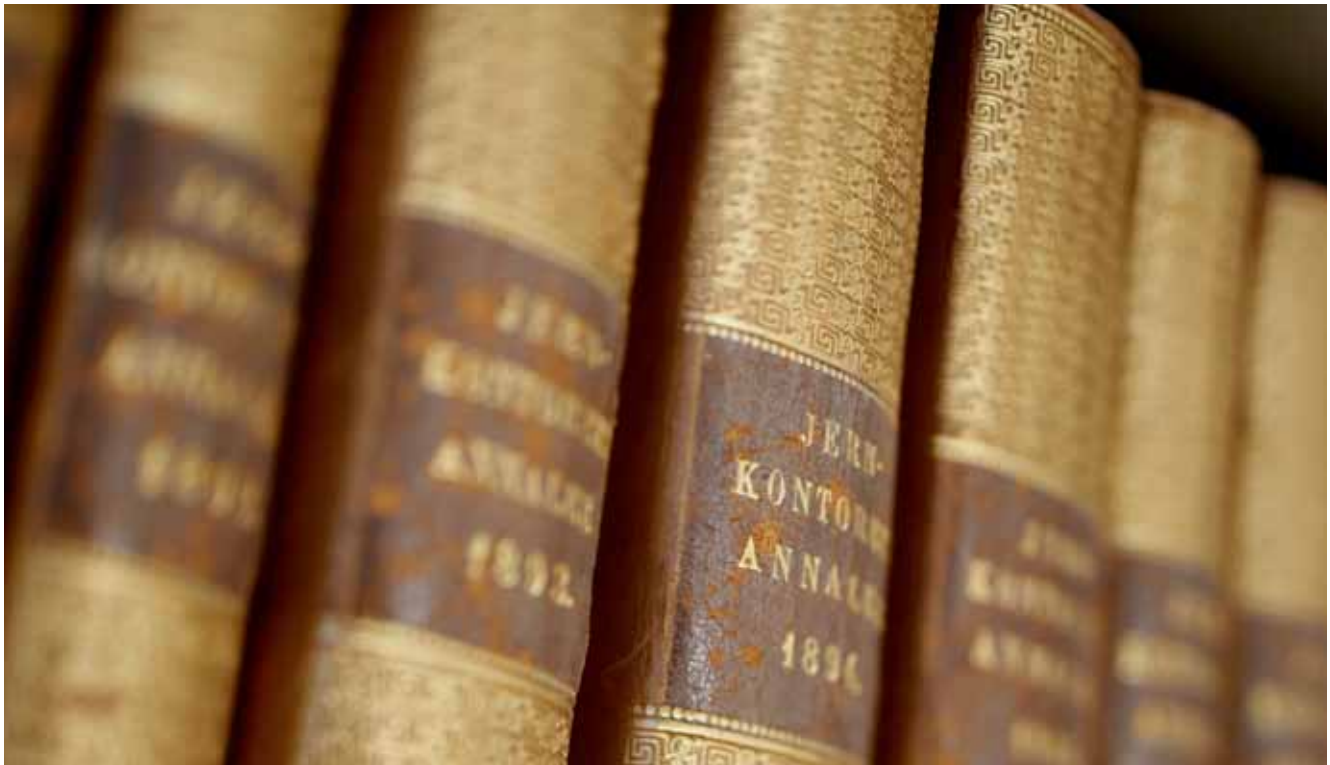
Ratos's Board, management and auditor were present at the meeting. The CEO's address to the Meeting was published in its entirety on the website the day after the Meeting. Minutes in Swedish and English versions were available on the website approximately two weeks after the Meeting.

Decisions at the 2012 Annual General Meeting included the following:

- Dividend of SEK 5.50 per share corresponding to a total of SEK 1,754m.
- The Board of Directors shall consist of seven members.
- Re-election of all members of the Board except Olof Stenhammar (who had declined re-election). Arne Karlsson was elected as Chairman of the Board.
- Fees of SEK 1,000,000 to the Chairman of the Board and SEK 450,000 to each member of the Board.
- PricewaterhouseCoopers (PwC) was elected as the new firm of auditors.
- Adoption of guidelines for compensation to senior executives.
- Offer to key people in Ratos on acquisition of call options.
- Offer to key people in Ratos on acquisition of synthetic options relating to holdings.
- Authorisation for the Board to acquire Ratos shares up to 4% of all shares.
- Authorisation for the Board to decide on a new issue of shares in conjunction with company acquisitions. The authorisation to comprise a maximum of 35 million B shares.

## NOMINATION COMMITTEE AHEAD OF 2013 ANNUAL GENERAL MEETING

Name	Represents	Share of voting rights 31 Aug 2012	Share of voting rights 31 Dec 2012
Björn Franzon	Swedbank Robur funds, Chairman of Nomination Committee	0.6%	0.5%
Ulf Fahlgren	Akademiinvest	0.5%	0.5%
Arne Karlsson	Chairman of Ratos's Board, own holding	0.0%	0.0%
Jan Söderberg	Ragnar Söderberg Foundation and own and related parties' holdings, Board member	28.5%	28.5%
Maria Söderberg	Torsten Söderberg Foundation	12.4%	12.4%
Per-Olof Söderberg	Own and related parties' holdings, Board member	15.4%	15.4%
<b>Total</b>		<b>57.4%</b>	<b>57.3%</b>



### Nomination Committee

The Annual General Meeting decides how the Nomination Committee should be appointed. The 2012 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 2013 Annual General Meeting. According to the Annual General Meeting decision, the Nomination Committee shall comprise the company's Chairman plus a minimum of four members of the major shareholders in terms of voting rights registered at 31 August 2012. If an already appointed member resigns from the Nomination Committee, the company's major shareholders shall appoint a replacement following consultation. The members of the Nomination Committee do not receive any remuneration from the company but are entitled to receive reasonable remuneration from the company for expenditure incurred with regard to evaluation and recruitment.

The composition of the Nomination Committee was announced on Ratos's website and disclosed together with contact details through a press release on 10 October 2012.

Ratos has chosen to deviate from the Code with regard to the recommendation that not more than one Board member who sits on

the Nomination Committee is non-independent in relation to the company's major shareholders. Chairman of the Board, Arne Karlsson, and Ratos are of the opinion that Per-Olof Söderberg and Jan Söderberg, regardless of their non-independence to major shareholders, should be members of the Nomination Committee in their capacity as the company's two largest individual owners.

### The work of the Nomination Committee

The duties of the Nomination Committee include:

- 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 Meeting regarding election of auditor when appropriate
- to prepare a proposal to the Meeting regarding fees to the Board and auditor
- to prepare a proposal to the Meeting regarding a chairman for the meeting
- to prepare a proposal regarding principles for the composition of the next Nomination Committee.

### Deviations/infringements

There were no deviations from the Code in 2012, except that pursuant to paragraph 2.4 in the Code, the Nomination Committee includes two members of the Board who are non-independent in relation to the company's major shareholders. Ratos's explanation is provided under Nomination Committee.

Ratos has not contravened Nasdaq OMX Stockholm's Rules for Issuers or accepted stock market practice.

### 2013 Annual General Meeting

Ratos's 2013 Annual General Meeting will be held on 17 April at 17.00 CET at the Stockholm Concert Hall, Hötorget, Stockholm.

Information related to the Nomination Committee, Annual General Meeting and the Chairman of the Board is available on Ratos's website.

Ahead of the 2013 Annual General Meeting the Nomination Committee held two minuted meetings. In addition, a committee within the Nomination Committee (Björn Franzon, Ulf Fahlgren and Maria Söderberg) met to discuss the proposal on remuneration to the Chairman of the Board and Board members.

On 26 January 2012 the Nomination Committee announced its proposal that the then CEO Arne Karlsson should be appointed as Chairman of the Board at the 2012 Annual General Meeting. Ratos's Chairman Olof Stenhammar after 18 years on the Board, including 14 as Chairman, had declined re-election. The Annual General Meeting resolved in accordance with the Nomination Committee's proposal.

As in the previous year, the Nomination Committee's work included the strategic issues the Board is expected to face in the years ahead and on this basis a discussion of the composition and size of the Board. The general opinion was that the Board functions very well and this was also confirmed by an external appraisal.

A committee within the Nomination Committee composed of members independent of the Board prepared the issue of fees to the Chairman of the company, other Board members and fees to the committees. The Audit Committee submitted a proposal on auditors' fees to the Nomination Committee.

The Nomination Committee's proposals, an account of the work of the Nomination Committee ahead of the 2013 Annual General Meeting and complementary information on proposed members of the Board will be announced in conjunction with the Notice of the Meeting and also be presented at the 2013 Annual General Meeting.

## Board of Directors

### The role of the Board

According to the Swedish Companies Act the board is responsible for the company's organisation and management of its affairs. The duties of the board include assessing the financial situation of the company, ongoing control of the work, adopting a formal work plan, appointing a CEO and stipulating allocation of working duties.

In addition to what is stipulated in the Swedish Companies Act the board should develop the company's strategy and business plan in such a manner that the long-term interests of shareholders are met in the best possible way. The board should also support and guide management in a positive manner.

The board is appointed by the shareholders at the Annual General Meeting with a mandate period from the Annual General Meeting until the next Annual General Meeting has been held. According to the Articles of Association Ratos's Board shall comprise a minimum of four and a maximum of nine members with a maximum of three deputies. All members of the Board are elected by the shareholders at the Annual General Meeting for the period until the next Annual General Meeting has been held. A Board decision only applies if more than half of the elected Board members are agreed.

The 2012 Annual General Meeting re-elected Arne Karlsson (who was also elected as Chairman), Lars Berg, Staffan Bohman, Annette Sadolin, Jan Söderberg, Per-Olof Söderberg and Margareth Øvrum. No deputies were elected. All Board members elected at the 2012 Annual General Meeting are presented in more detail on pages 78–79.

### Formal work plan

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 includes:

- the Chairman's role and duties
- instructions for the company's CEO
- decision-making procedures for Ratos's board and CEO relating to investment activities
- formal work plan for Compensation Committee
- formal work plan for the Audit Committee
- formal work plan for subsidiaries
- Board meeting procedures
- procedures for the provision of information between the company and the Board.

### Chairman of the Board

The Annual General Meeting elects a Chairman of the Board whose main duty is to lead the work of the Board and ensure that Board members carry out their respective duties. According to the formal work plan, the Chairman also mainly has the following duties:

- Responsible for ensuring that the Board follows a good formal work plan.
- Ensuring that decisions are made on requisite matters and that minutes are kept.
- Responsible for convening meetings and ensuring that requisite decision material is sent to Board members approximately one week before the meeting.
- Acting as a contact and maintaining regular contact with the CEO and management.
- Maintaining regular contact with auditors and ensuring that auditors are summoned to attend a meeting in conjunction with the year-end report.
- Ensuring that an annual evaluation is performed of the work of the Board and the performance of its members.
- Annually evaluating and reporting on the work of the CEO.

### Work of the Board

The decision-making procedures within the company for the company's Board and CEO relating to investment activities stipulate that all acquisitions of, and add-on investments in, companies that are to be included

## COMPOSITION OF THE BOARD

Name	Elected year	Independent	Total fee	Attendance at meetings		
				Compensation Committee	Audit Committee	Board meetings
Arne Karlsson (Chairman from 2012 AGM)	1999	No	825,000	9/9	3/3	16/16
Olof Stenhammar (Chairman until 2012 AGM)	1994	Yes	275,000	3/9	1/3	3/16
Lars Berg	2000	Yes	480,000		2/3	15/16
Staffan Bohman	2005	Yes	510,000	9/9	3/3	14/16
Annette Sadolin	2007	Yes	480,000		3/3	16/16
Jan Söderberg	2000	No	510,000	8/9	3/3	15/16
Per-Olof Söderberg	2000	No	510,000	9/9	3/3	14/16
Margareth Øvrum	2009	Yes	480,000		3/3	15/16
<b>Total</b>			<b>4,070,000</b>			



among Ratos's holdings must be submitted to the Board for decision. This also applies to the sale, wholly or partly, of a holding. Guarantees or pledging of other collateral from Ratos is decided by the Board. Ratos has a principle not to provide security for loans since the 1890s. The Board's year follows an approved agenda. Information material and material on which decisions are to be made at board meetings are normally sent out approximately one week 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 person responsible for the holding. The Board is also given an annual evaluation of all functions and adopts policy documents annually.

#### Work of the Board in 2012

During 2012, 16 minuted board meetings were held: seven ordinary meetings, including one statutory meeting, and nine extra board

meetings. Board meetings have a recurrent structure with the key items as illustrated below.

Extra Board meetings normally examine acquisition and exit questions as well as financing and are held when such matters requiring a Board decision arise. During 2012 the question of the appointment of a new CEO and Chairman of the Board was also discussed. The minutes were taken by the Company Secretary who during the year was the lawyer Tore Stenholm, Tore Stenholm Advokatbyrå AB. Other senior executives at Ratos attended board meetings to present specific issues.

#### Evaluation of the Board

The Chairman of the Board decides on the extent to which an annual evaluation of the work of the Board shall be performed 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. For the 2012 financial year this evaluation was performed

### WORK OF THE BOARD IN 2012





internally through interviews with Board members and senior executives in the company. As in evaluations made in previous years the work of the Board was assessed as functioning very well. All members of the Board 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 very good.

### Auditor

The auditor is appointed by the Annual General Meeting and tasked on behalf of shareholders to examine the company's annual accounts and consolidated accounts as well as the administration of the company by the Board and the CEO.

At the 2012 Annual General Meeting the audit firm PricewaterhouseCoopers was elected as auditor until the next Annual General Meeting. PwC has appointed Peter Clemetson as Senior Auditor. In addition to his assignment in Ratos, Peter Clemetson is senior auditor for, among others, AB Volvo, the Wallenberg Foundations, 3 and Proventus.

### Committees

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

#### Work of the Compensation Committee

At Ratos, structured work with compensation principles has been under way for many years and this was further formalised in 1999 when the Board set up a Compensation Committee to which members are appointed annually. Committee members in 2012 were Olof Stenhammar (chairman until April)/Arne Karlsson (chairman from April), Staffan Bohman, Jan Söderberg and Per-Olof Söderberg.

The Compensation Committee has both an advisory function and a preparatory function for decision matters prior to their examination and decision by the Ratos Board.

The following matters are handled by the Compensation Committee:

- The CEO's terms of employment.
- Terms for employees directly subordinate to the CEO according to "the grandfather principle".
- Advice where required on general policy formulations.

- Matters of principle concerning pension agreements, severance pay/notice periods, bonus/earnings-related compensation, fees (Swedish/foreign), benefits, etc.
- Matters relating to the incentive systems for Ratos and the holdings.

The Compensation Committee held nine minuted meetings during 2012 and was in regular contact in between. The minutes were taken by the company's CEO, Arne Karlsson/Susanna Campbell.

The Compensation Committee works in accordance with an adopted formal work plan. Early in the autumn an examination is carried out to see whether there are any major compensation-related issues of principle to prepare. If such issues exist they are processed ahead of a final decision at the ordinary meeting in January. 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. During the year the committee also discussed succession matters as well as questions relating to leadership and organisational development.

#### Work of the Audit Committee

The Board has appointed an Audit Committee in order to give work with reporting and auditing a special forum. The Audit Committee includes all members of the Board. The chairman is the Chairman of the Board. Regarding 2012, see the Work of the Compensation Committee.

The main duties of the Audit Committee are as follows:

- Examine the quality of accounts and internal control as well as audit arrangements.
- Discuss valuation issues and assessments in closing accounts.
- Evaluate the work of the auditing firm and prepare for the election of a new auditor when appropriate.
- Discuss risk assessments, public financial information, auditors' fees, co-operation between auditor and management.
- Examine and evaluate accounting principles with a major impact on the Group.

The entire Audit Committee met the company's auditor on two occasions in 2012 and held three minuted meetings. The company's work procedures also stipulate that the Chairman of the Board is tasked with maintaining regular contact with the company's auditor.

During the year the work of the Audit Committee included procurement of audit services for auditor elected at the 2012 Annual General Meeting until the 2013 Annual General Meeting has been held. A number of leading audit firms participated in the procurement process and following evaluation of these the Audit Committee has recommended to the Board and the Nomination Committee that PwC be nominated as auditor for the next mandate period. The Annual General Meeting resolved in accordance with the Nomination Committee's proposal.

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

Ratos's exercise of its ownership role shall be conducted professionally, actively and responsibly throughout the holding period, from acquisition to exit. Ratos is always represented on the boards of all holdings via the person responsible for the holding. Depending on the size of the holding, it is also possible to appoint additional suitable board members who might be Ratos employees and/or people in Ratos's network.

Ratos's core expertise is not industry-specific and Ratos's holdings today are represented in widely differing sectors and with a wide geographic spread. Furthermore, Ratos's mission means that holdings are sold and acquired on an ongoing basis. For these reasons a general internal audit function would be difficult to establish. With regard to Ratos and the need for an internal audit it has been judged more suitable to discuss and decide for each individual holding rather than setting up an internal audit at Group level.

An internal audit function can also be perceived as a “quality seal of approval” by a buyer company. It is therefore more suitable to establish a control function in each holding rather than have an overall control function that does not accompany the holding when it is sold.

The parent company Ratos AB with 48 employees is a relatively small parent company which lacks complex functions that are difficult to analyse. So 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 not to introduce an internal audit function at Group level or for the parent company Ratos AB.

## Compensation to the Board of Directors, auditor, CEO and senior executives

### Compensation to the Board and the CEO

The 2012 Annual General Meeting decided that compensation to the ordinary members of the Board should be paid of SEK 450,000 per member and year. Compensation to the Chairman of the Board should amount to SEK 1,000,000 per year. It was decided to pay an additional SEK 30,000 per year and committee to Board members who sit on these committees while compensation to committee chairmen was set at SEK 50,000 per year and committee.

Information on compensation to the CEO is provided in Note 9 on page 104.

### Auditor's fees

Compensation is paid to the company's auditor in accordance with a special agreement on this matter. In 2012, audit fees amounted to SEK 2m in the parent company and SEK 38m in the Group. In addition, the parent company paid SEK 0m in fees for other assignments to the company's auditor and the Group as a whole paid fees for other assignments amounting to SEK 28m. 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.

### Guidelines and principles for compensation to senior executives

The guidelines for compensation and incentive systems for key people as set out below were approved by the 2012 Annual General Meeting. The guidelines were applied throughout 2012.

The incentive system for the company's business organisation is of major strategic importance for Ratos. Against this background a remuneration 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 four components – basic salary, variable salary, call options and synthetic 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 with Ratos.
- Both individual efforts and the Group's performance must be linked to clear targets set by the Board.
- Variable salary paid shall be linked to the results development that benefits shareholders. Variable salary does not fall due until certain conditions have been met with regard to return on the company's equity.
- Each year the Board sets a limit for the total variable salary, which shall amount to a maximum of approximately 1% of the company's equity at the start of the financial year.
- Key people at Ratos shall be encouraged to have the same perspective as the company's shareholders which will be achieved through reasonably balanced option programmes where employees can share in price rises alternatively realised increase in value but also take a personal risk by paying a market premium for the options.

The variable salary that can be allocated to an employee is paid over a multi-year period. The cost of each year's variable salary, however, will be 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 regarding call options and synthetic options. Pension benefits are generally paid in accordance with the ITP Plan. In the event of pension benefits which deviate from the ITP Plan defined premium pension benefits are applied.

The Board shall be entitled to deviate from these guidelines if special circumstances should prevail.

### Variable salary

Variable salary does not fall due until certain conditions regarding return on the company's equity have been met. For 2012, the requirement for payment of variable compensation was that consolidated profit before tax, adjusted for minority effects in minority-owned subsidiaries shall correspond to at least 5% of opening equity. A ceiling was stipulated at a total of SEK 125m in variable compensation, which falls due in the event of adjusted profit before tax of 25% of opening equity.

An earnings bank for the result that forms the basis for calculation of variable compensation is applied. This means that earnings which in a certain year exceed the ceiling are transferred to the next year and increase the earnings on which compensation is calculated. Earnings that are less than the threshold amount are also transferred and charged against earnings on which compensation is based in the following year.

In calculation of variable compensation for 2012, the 2012 threshold amount of 5% was also used for calculation of opening earnings bank.

Adjusted profit before tax for 2012, including the earnings bank, provided variable compensation of SEK 6m to be paid in 2013–15. Payment of variable salary is allocated over three years with 50% in the first year and 25% per year in the remaining two years.

## TERMS FOR CALL OPTIONS OUTSTANDING AT 31 DECEMBER 2012

Maturity	Price/option, SEK	Exercise price SEK/share	Right to purchase number of shares	Number of options	Corresponding number of shares
2008 – 20 March 2013	28.10	125.80	2.07	552,500	1,143,675
2009 – 20 March 2014	13.00	92.60	2.03	641,000	1,301,230
2010 – 20 March 2015	16.60	124.20	2.03	529,500	1,074,885
2011 – 18 March 2016	11.80	156.40	1.02	640,000	652,800
2012 – 20 March 2017	4.70	74.40	1	1,149,200	1,149,200
				<b>3,512,200</b>	<b>5,321,790</b>

Outstanding options correspond to 1.7% of the total number of shares.

### Call option programmes

Annual general meetings from 2001 onwards have decided on call option programmes directed to senior executives and other key people within Ratos. All call options have a maturity of 4–5 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% 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 through the options. Call options are issued on treasury shares.

### Synthetic options

The 2012 Annual General Meeting, like all Annual General Meetings since 2007, resolved on a cash-based option programme related to the Ratos's investments in portfolio companies. The programmes are 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. It is not until Ratos's average annual return exceeds 15% per year that the options 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.

### Internal control

The Board has pursuant to the Swedish Companies Act ultimate responsibility for the company's internal control. This work is mainly conducted through effective and structured board work as by tasks being delegated to the CEO. 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. The person responsible for the holding has responsibility for the company.

The risks that are identified, both by the companies and by Ratos, regarding financial reporting are communicated monthly by the person responsible for the company and 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

## PROCESS FOR FINANCIAL REPORTING

*The process for financial reporting includes various control activities designed to assure quality. This process and its built-in controls are described below.*



**1.** The holdings report according to a set timetable an income statement every month and a complete reporting package every quarter. The reporting package is designed in accordance with current legislation, rules and accounting practice. Reporting is entered directly into a group-wide electronic consolidated reporting system with built-in controls designed to assure quality. As guidance for this reporting, Ratos has prepared a reporting manual intended for the holdings that provides clear instructions on how reporting should be carried out. The holdings' accounting and finance functions are invited at regular intervals during the year to seminars organised by Ratos which examine topical issues within reporting, accounting and finance.

**2.** The material reported by the holdings is examined analytically and checked regarding completeness and accuracy. In the event of any discrepancies the holding is contacted. The material is processed to be sent out for additional control by the person responsible for the holding at Ratos and others in the investment organisation who work with the holding.

**3.** The investment organisation analyses the material on the basis of the knowledge available on each holding. The material is checked to ensure that it agrees with information provided to the holding's board.

**4.** Any deviations noted in reconciliation are corrected both in the legal consolidated financial statements and in the information presented at holding level following a dialogue with the holding concerned. The accounts function also prepares analyses of operating results for Ratos's management every month. Consolidation is carried out of the Group where the consolidation process includes a number of reconciliation controls. Reconciliation includes contributions to total equity per holding and checking that changes in equity are in accordance with completed transactions.



company is performed, which includes an analysis of the accounting consequences and a review of capital structure and a financial risk analysis.

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 those responsible for each holding 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 firm of 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.

Key regulatory documents for internal control:

- Rules for authorisation entitlement
- Rules for signatories
- Power of attorney at acquisitions
- Formal work plan at acquisitions
- Investment instructions for cash and cash equivalents and fixed-income securities
- Decision-making procedures for investment activities
- Instructions for the CEO
- Other powers of attorney.

### Quality assurance for financial reporting

It is the opinion of the Board that the quality of a company's financial 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 reporting from the holdings. This means, that the quality of the accounting and reporting of the holdings is continuously examined and improved.

The finance and accounting unit 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 seven people are employed within the function headed by the company's Head of Accounting. All employees have many years of professional experience in financial control, reporting and accounting. The Debt Management staff 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 with 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.



**5.** Subsidiaries' reporting is reviewed by the auditors as per September (hard close) and as per December. A hard close is carried out in order to prepare and facilitate the audit of the complete report for the full year. In these cases the material reported in stage 1 is audited and approved by the auditor of each holding. The audit of preparation of consolidated financial statements takes place in parallel. The Board and management receive in conjunction with every quarterly report extensive in-depth material about both the Group and the individual holdings.

**6.** The accounts function receives all the audit reports relating to the holdings which are then followed up using a so-called "traffic light system" where any observations made by auditors are graded and assigned a red, yellow or green light according to their significance and risk. A quarterly follow-up is performed to ensure that all audit observations have been put right.

**7.** The Audit Committee, in addition to what is stated in the corporate governance report, is tasked with quality assurance of the company's financial reporting and maintaining regular contact with the company's auditor. The result of the traffic light review and a summary of audit reports from Ratos by the auditor elected by the Annual General Meeting are reported to the Audit Committee. In conjunction with the audited quarterly accounts and in the annual accounts the Audit Committee has a meeting with Ratos's auditor.

**8.** Ratos publishes its interim and year-end reports through press releases and publication on the website. All reports for the last twelve years can be downloaded from the website. Publication of the legal annual accounts takes place in conjunction with the year-end report through a press release and publication on the website. A printed version of the annual report is available about three weeks after the closing date in Swedish and English. Financial information related to the holdings is published on Ratos's website in conjunction with publication of interim reports and year-end reports.

# Board of Directors and CEO



## Arne Karlsson

Non-independent Chairman of the Board since 2012. Non-independent Board member 1999–2012. CEO of Ratos 1999–2012.

MSc Econ. Born 1958, Swedish.

Chairman of Bonnier Holding, Einar Mattsson and SNS (Centre for Business and Policy Studies). Board member of AP Møller-Maersk, Bonnier, Ecolan, Fortnox and the World's Children's Prize Foundation. Member of the Swedish Securities Council.

Formerly President of Atle Mergers & Acquisitions 1996–98, Head Analyst Atle 1993–98, President of Hartwig Invest 1988–93, Aktiv Placering 1982–88.

*Shareholding in Ratos (own):* 171,200 B shares.

*Options in Ratos:* 74,900 call options/2009, 78,000 call options/2010, 200,000 call options/2011.



## Lars Berg

Independent Board member since 2000.

MSc Econ. Born 1947, Swedish.

European Venture Partner of Constellation Growth Capital. Chairman of KPN OnePhone (Düsseldorf) and Net Insight. Board member of Norma Group (Frankfurt) and Tele2.

Previously member of executive management of Mannesmann with special responsibility for the Telecom Division 1999–2000, President and CEO Telia 1994–99 and senior positions within Ericsson 1970–94.

*Shareholding in Ratos (own):* 20,000 B shares.



## Staffan Bohman

Independent Board member since 2005.

MSc Econ. Born 1949, Swedish.

Chairman of CibesLift and Ersta Diakoni, Deputy Chairman of Rezidor Hotel Group and the Board of Trustees of SNS. Board member of Atlas Copco, Boliden, InterIKEA Holding, Rolling Optics and a member of the Swedish Corporate Governance Board.

Formerly President and CEO of Gränges and Sapa 1999–2004. President and CEO of DeLaval 1992–99.

*Shareholding in Ratos (own):* 60,000 B shares.



## Annette Sadolin

Independent Board member since 2007.

LL.B. Born 1947, Danish.

Board member of Blue Square Re NL, Dansk Standard, DSB, DSV, Ny Carlsberg Glyptotek, Skodsborg Kurhotel, Topdanmark and Østre Gasværk Teater.

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.

*Shareholding in Ratos (own):* 8,264 B shares.



### Jan Söderberg

Non-independent Board member since 2000.

MSc Econ. Born 1956, Swedish.

Chairman of Söderbergföretagen. Board member of Elisolation, Henjo Plåtteknik, NPG and Smelink. Member of the Lund School of Economics Management Advisory Board and the Ragnar Söderberg Foundation. Formerly CEO of Bröderna Edstrand 1991–93.

*Shareholding in Ratos (own and related parties):* 14,973,776 A shares, 116,800 B shares.



### Per-Olof Söderberg

Non-independent Board member since 2000.

MSc Econ. MBA Insead. Born 1955, Swedish.

Chairman of Attivio and Söderberg & Partners. Board member of the Stockholm School of Economics Association, the Stockholm Chamber of Commerce, among others.

Formerly CEO of Dahl 1990–2004.

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

## CEO



### Margareth Øvrum

Independent Board member since 2009.

MSc Eng. Born 1958, Norwegian.

Executive Vice President, Technology, Projects and Drilling, in the Statoil Group.

Management positions within the Statoil Group 1982–.

Board member of Atlas Copco.

*Shareholder in Ratos:* 0.



### Susanna Campbell

Not a member of the Board.

CEO of Ratos since April 2012.

MSc Econ. Born 1973, Swedish.

No significant assignments outside Ratos.

Employed by Ratos since 2003.

McKinsey & Company 2000–03.

Alfred Berg Corporate Finance 1996–2000

*Shareholder in Ratos (own):* 19,000 B shares.

*Options in Ratos:* 37,400 call options/2009, 39,000 call options/2010, 40,000 call options/2011, 150,000 call options/2012.

## AUDITOR

At the 2012 Annual General Meeting the auditing firm PricewaterhouseCoopers AB, with authorised public accountant Peter Clemetson as Senior Auditor, was elected for the period until the 2013 Annual General Meeting has been held.