

# 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 the Swedish Companies Act, Nasdaq OMX Stockholm Rules for Issuers and the Swedish Code of Corporate Governance (the Code). In addition, the Articles of Association are important 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 thirteen 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 2013 financial year, except with regard to the composition of the Nomination Committee (see Nomination Committee on page 79).

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

#### Key external rules

- Swedish Companies Act
- Accounting legislation and recommendations
- Nasdaq OMX Stockholm Rules for Issuers
- Swedish Code of Corporate Governance

#### Key internal rules and documents

- Articles of Association
- The Board's formal work plan
- Decision-making procedures/authorisation instructions
- Reporting guidelines for holdings
- Internal guidelines, policies and manuals which provide guidelines and guidance for the Group's operations and employees, such as Ratos's information policy, owner policy and code of conduct.

#### For further information

- Swedish Companies Act, [www.regeringen.se](http://www.regeringen.se)
- Nasdaq OMX Stockholm, [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com)
- Swedish Code of Corporate Governance and special Swedish rules for corporate governance, [www.bolagsstyrning.se](http://www.bolagsstyrning.se)

### 1 Shareholders and general meetings

#### Share capital and shareholders

Ratos has been listed on Nasdaq OMX Stockholm since 1954. At year-end 2013 the share capital amounted to SEK 1,024m divided among a total of 324,970,896 shares, of which 84,637,060 A shares, 239,503,836 B shares and 830,000 C shares (preference shares). The company's A shares carry entitlement to one vote per share while B shares and preference shares carry entitlement to one-tenth of a vote per share. 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 A and B shares to the company's assets. The Annual General Meeting decides on dividends.

At year-end Ratos had a total of 57,052 shareholders according to statistics from Euroclear Sweden. The ten largest shareholders accounted for 76% of the voting rights and 44% of the capital. The proportion of shares owned by shareholders outside Sweden amounted to 14%. 57% 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 2013 is provided on pages 13–15.

#### 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. 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 of an ordinary general meeting is published in the form of an announcement in the Official Swedish Gazette (Post- och Inrikes Tidningar) and on Ratos's

#### 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

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.

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.

All 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 and to vote for their holding of shares. Shareholders may attend in person or through a proxy. Shareholders may bring an assistant to the meeting provided they have notified the company.

Resolutions at general meetings are normally passed by a simple majority. Pursuant to the Swedish Companies Act certain resolutions, such as those related to compensation or amendments to the Articles of Association require a qualified majority.

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 and auditor
- election of the Board of Directors and auditor
- guidelines for compensation to senior executives
- amendments to the Articles of Association.

Ratos's Articles of Association specify that election of the Board must always take place at the Annual General Meeting. Apart from this, the Articles of Association do not contain any regulations on how Board members are appointed or dismissed or on amendments to the Articles of Association. Ratos's Articles of Association are available at [www.ratos.se](http://www.ratos.se).

Extraordinary general meetings may also be held, which occurred in 2013. Shareholders who own at least one tenth of the votes in Ratos are entitled to request an extraordinary general meeting. The Board and Ratos's auditor can also convene an extraordinary general meeting.

### 2013 Annual General Meeting

The 2013 Annual General Meeting was held on 17 April at the Stockholm Concert Hall in Stockholm. The Meeting was attended by 636 shareholders, proxies or assistants, who together represented 78.1% of the voting rights and 50.8% of the capital.

Ratos's Board, management and auditor were present at the Meeting. The CEO's address to the Meeting was published on the website. Minutes in Swedish and English versions were available on the website within one week after the Meeting.

Decisions at the 2013 Annual General Meeting included the following:

- Adoption of income statement and balance sheet.
- Dividend of SEK 3.00 per A and B share, a total of SEK 957m.
- Fees of SEK 1,000,000 to the Chairman of the Board and SEK 450,000 to each member of the Board as well as fees to auditors.
- Re-election of all members of the Board. Arne Karlsson was elected as Chairman of the Board.

- Re-election of audit firm PricewaterhouseCoopers (PwC).
- Principles for how the Nomination Committee should be appointed.
- Adoption of guidelines for compensation to senior executives.
- Offer to key people in Ratos on acquisition of call options in Ratos and 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 a maximum of 35 million B shares to be used for acquisitions.
- Authorisation for the Board to decide on a new issue of a maximum of 1,250,000 Class C preference shares to be used for acquisitions.
- Amendments to the Articles of Association to enable a new issue of Class C preference shares.

### Extraordinary General Meeting 2013

Ratos held an Extraordinary General Meeting at the head office on 25 April. The Meeting was attended by 14 shareholders and proxies who together represented 69.5% of the voting rights and 39.8% of the capital.

The Meeting resolved in accordance with the Board's proposal to approve the transfer of all shares in the subsidiary BTJ Group AB to Per Samuelson, Chairman of the Board of BTJ Group, or to an acquisition company controlled by Per Samuelsson.

### 2014 Annual General Meeting

Ratos's 2014 Annual General Meeting will be held on 27 March at 16.30 CET at Stockholm Waterfront Congress Centre, Stockholm.

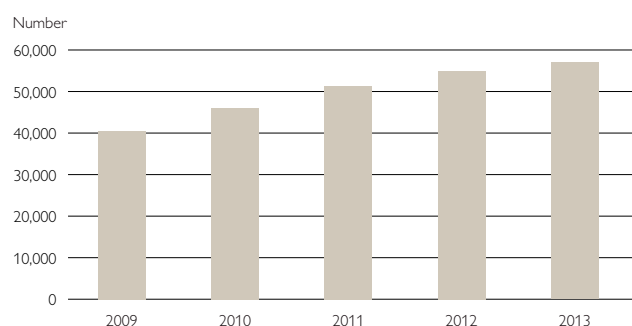
For matters related to the Nomination Committee, Annual General Meeting or the Chairman of the Board refer to Ratos's website.

## 2 Nomination Committee

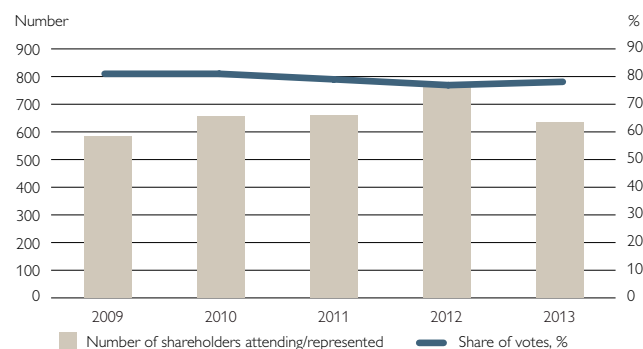
The Annual General Meeting decides principles for how the Nomination Committee should be appointed. The 2013 Annual General Meeting resolved that the company's Chairman in consultation with the company's major shareholders should appoint a nomination committee ahead of the 2014 Annual General Meeting. According to the resolution, 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 2013. If an already appointed member resigns from the Nomination Committee, the company's major shareholders shall appoint a replacement. The Nomination Committee appoints a chairman between themselves. The Chairman of the Board may not be the chairman of the Nomination Committee. The Nomination Committee's term of office extends until a new Nomination Committee is constituted. 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 if this is regarded as necessary for the fulfilment of its duties.

The composition of the Nomination Committee was announced on Ratos's website and disclosed through a press release on 26 September 2013.

### Shareholders



### Attendance at Annual General Meetings



### 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 Meeting regarding election of the Board and the Chairman of the Board
- to prepare a proposal, in cooperation with the company's Audit Committee, to the Meeting regarding election of auditor
- 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/violations

Ratos complies with the Code except in the following respect. 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. Two of the shareholders who have appointed members of the Nomination Committee have appointed Board members Per-Olof Söderberg and Jan Söderberg, both of whom are regarded as non-independent in relation to the company's major shareholders. Against the background of these persons' in-depth knowledge of Ratos, their 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 OMX Stockholm's Rules for Issuers or good practice in the stock market have taken place.

### Nomination Committee ahead of the 2014 Annual General Meeting

Ahead of the 2014 Annual General Meeting the Nomination Committee has held five minutes meetings and, in addition, the Nomination Committee has on several occasions discussed the recruitment of a new member of the Board.

As previously, the Nomination Committee has in its work taken into account the strategic issues the operations and the Board are expected to face in the years ahead and as a starting point in the work related to the composition and size of the Board weighed in diversity and breadth, as well as the Board members' competence, experience and background. An even gender distribution is sought over time. Independence to Ratos and Ratos's major shareholders has been also discussed. The general opinion of the Nomination Committee is 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 has specifically examined the issue of fees to the Chairman of the company and other Board members as well as fees for committee work.

The Nomination Committee's proposals, an account of the work of

the Nomination Committee ahead of the 2014 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 2014 Annual General Meeting.

### 3 Board of Directors

#### 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 duties of the Board include assessing the financial situation of the company, ongoing control of the work, appointment and dismissal of the CEO, drafting effective systems for risk management and internal control and ensuring that the provision of information is transparent and correct. The Board should also support and guide management. The work of the Board is regulated, among other things, by the Swedish Companies Act, the Articles of Association, the Code and the formal work plan adopted by the Board for its work.

Ratos's Board shall comprise a minimum of four and a maximum of nine members with a maximum of three deputies. Board decisions only apply if more than half the elected Board members are agreed. Over time an even distribution of men and women on the Board is sought. At present there are two women Board members, which is unchanged since 2009. The Board is appointed by shareholders at the Annual General Meeting. The mandate period is thereby one year.

The 2013 Annual General Meeting resolved on seven Board members and 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. The CEO is not a member of the Board but attends Board meetings, although not where a conflict of interests arises or where this is unsuitable for other reasons. The composition of the Board and an assessment of each Board member's independence is presented in more detail on page 81.

#### The Board is Ratos's investment committee

The Board adopts financial targets and develops the company's strategy and business plan. The decision-making procedures 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 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 had a principle not to provide security for loans since the 1890s. The Board adopts a plan for its work every year. Information material and documentation on which decisions are to be based 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 years are presented. These evaluations are presented to the Board by the person responsible for the holding. The Board adopts policy documents annually.

#### The Board's 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

## NOMINATION COMMITTEE AHEAD OF 2014 ANNUAL GENERAL MEETING

Name	Represents	Share of voting rights 31 Aug 2013
Ulrika Danielson	AP2, Chairman of Nomination Committee	0.4%
Ulf Fahlgren	Akademiinvest	0.5%
Arne Karlsson	Chairman of Ratos's board, own holding	0.0%
Jan Söderberg	Own and related parties' holdings, Board member	13.8%
Maria Söderberg	Torsten Söderberg Foundation	12.5%
Per-Olof Söderberg	Ragnar Söderberg Foundation, own and related parties' holdings, Board member	30.1%
<b>Total</b>		<b>57.3%</b>

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 as well as areas of responsibility for the committees.

The Board's overall responsibility cannot be delegated but the Board may appoint committees tasked to prepare and evaluate issues ahead of a Board decision.

#### Chairman of the Board

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:

- 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.
- 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 interim report as per September and the year-end report.
- Ensuring that an annual evaluation is performed of the Board and its members.
- Annually evaluating and reporting on the work of the CEO.

#### Work of the Board in 2013

During 2013, 15 minuted board meetings were held: seven ordinary meetings, including one statutory meeting, and eight extra board meetings. Board meetings have a recurrent structure with the key items as illustrated on the next page.

Extra board meetings normally examine acquisition and exit questions as well as financing and are held when such matters requiring a Board decision arise. 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 annually on the extent to which an 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 2013 financial year this evaluation was performed with the help of an external consultant regarding the work of the Board as a whole and its members individually. The evaluation was performed among other things through a questionnaire and in-depth interviews with Board members and a number of senior executives at Ratos. 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.

## 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.

### 3a Work of the Compensation Committee

At Ratos, structured work with compensation 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 the Compensation Committee

- The CEO's terms of employment and 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 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. 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 proposal 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 2013 Arne Karlsson (chairman), Staffan Bohman, Jan Söderberg and Per-Olof Söderberg were members of the Compensation Committee.

The Compensation Committee held six minuted meetings in 2013 and in between has been in regular contact. Ratos's CEO, Susanna Campbell, took the minutes.

### 3b Work of the Audit Committee

The Audit Committee includes all members of the Board. The chairman is the Chairman of the Board. The Audit Committee has both an advisory and preparatory function for decision matters prior to review and decision by Ratos's Board.

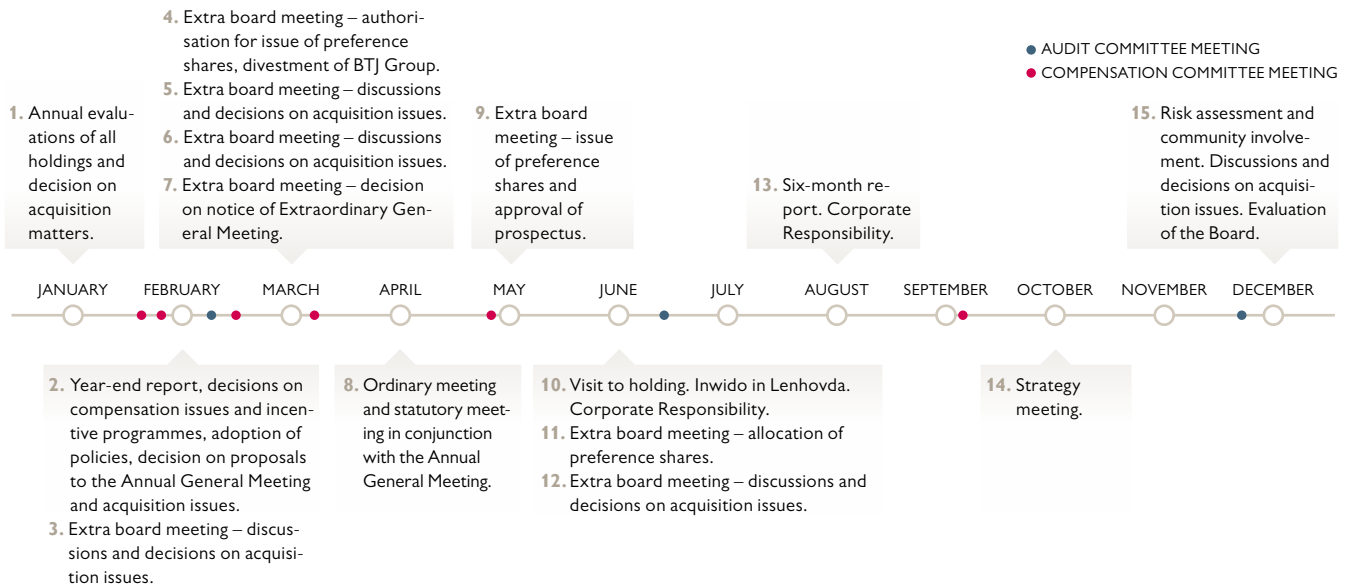
The main duties of the Audit Committee are as follows:

- 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 an auditor (support the Nomination Committee).
- Discuss risk assessments, public financial information, auditors' fees, cooperation between auditors and management.
- Examine and evaluate accounting principles with a major impact on the Group.

## COMPOSITION OF THE BOARD

Name	Elected year	Independent of company	Independent of major shareholders	Total fee, SEK	Attendance at meetings		
					Compensation Committee	Audit Committee	Board meetings
Arne Karlsson, Chairman	1999	No	Yes	1,100,000	6/6	3/3	15/15
Lars Berg	2000	Yes	Yes	480,000		3/3	15/15
Staffan Bohman	2005	Yes	Yes	510,000	6/6	2/3	14/15
Annette Sadolin	2007	Yes	Yes	480,000		3/3	13/15
Jan Söderberg	2000	Yes	No	510,000	6/6	3/3	15/15
Per-Olof Söderberg	2000	Yes	No	510,000	6/6	2/3	15/15
Margareth Øvrum	2009	Yes	Yes	480,000		1/3	13/15
<b>Total</b>				<b>4,070,000</b>			

## WORK OF THE BOARD IN 2013



The company's auditor presented his review and observations to the Audit Committee on two occasions in 2013. In addition, the Audit Committee held three minuted meetings. Minutes are made available to all members of the Board and the auditor. The Chairman of the Board maintains regular contact with the company's auditor.

### 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'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 acquired and divested. 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, so that this can accompany the holding when it is sold, rather than setting up an internal audit at Group level.

The parent company Ratos AB with approximately 50 employees is a relatively small 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.

### 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 accounts as well as the administration of the company by the Board and the CEO and the corporate governance report. The review work and auditor's report are presented at the Annual General Meeting.

At the 2013 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 this assignment in Ratos, Peter Clemedtson is Senior Auditor for, among others, AB Volvo and SKF.

### 5 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 management group at Ratos consists of the CEO, deputy CEO, head of Corporate Communications and three Investment Directors. The management group meets once a week and discusses, among other things, development in the holdings, acquisition and exit processes, personnel issues and strategic projects. The CEO provides the Board with regular updates on operations.

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

#### Compensation to the Board and the CEO

The 2013 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 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 pages 112–115.

#### Auditor's fees

Compensation 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. In 2013, audit fees in the parent company amounted to SEK 2m and SEK 36m in the Group. In addition, the parent company paid SEK 1m in fees for other assignments to the company's auditor and the Group as a whole paid fees for other assignments amounting to SEK 32m. The Board has established guidelines for the relation between auditing fees and consulting fees. These guidelines are continuously monitored 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 2013 Annual General Meeting. The following guidelines were applied throughout 2013.

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 a number of components – basic salary, variable salary, pension provisions, call options and synthetic options – and rests on five basic principles:

- Ratos's employees shall be offered competitive 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 and is paid over a multi-year period. The cost of each year's variable salary, however, is booked in its entirety in the year in which the compensation was earned.
- 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 increases in value but also take a personal risk by paying a market premium for the options.

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 contribution pension benefits are applied.

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

#### Variable salary

Variable salary is not paid to senior executives until certain conditions regarding return on the company's equity have been met. The requirement for payment of variable compensation is that consolidated profit before tax, adjusted for minority effects in minority-owned subsidiaries, shall correspond to at least 5% of opening equity. A ceiling has been 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.

Adjusted profit before tax for 2013, including the earnings bank, provided variable compensation of SEK 18.1m to be paid in 2014–16. Payment of variable salary is allocated over three years with 50% in the first year and 25% per year in the remaining two years.

#### 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 2013 Annual General Meeting, like all Annual General Meetings since 2007, resolved on a cash-based option programme related to Ratos's investments in portfolio companies. The programme is carried out through the issue of synthetic options that are transferred at a market price. The programme gives key people within Ratos an opportunity to participate in the investments in the individual portfolio companies. Options related to an individual investment only have a value if Ratos's annual return on the investment exceeds 15%. 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 ultimate responsibility for preparing an effective process for the company's risk management and internal control. The purpose is to provide reasonable assurance that operations are conducted in an appropriate and effective manner, that financial reporting is reliable and that external laws as well as internal regulations 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. Responsibility and authority are defined in instructions for powers of authorisation, policies and manuals which provide guidelines and guidance for the Group's operations and employees, for example Ratos's Information Policy, Owner Policy and Code of Conduct.

#### Internal control of financial reporting

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 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 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 holding period. Each holding represents its own risk independent of

### 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
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
2013 – 20 March 2018	11.50	77.60	1	585,900	585,900
				<b>3,545,600</b>	<b>4,764,015</b>

Outstanding options correspond to 1.5% of the total number of shares.

other holdings. A person responsible for the company has responsibility for the holding.

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 to the CEO, who in turn reports to the Board. The 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 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. Ratos Accounts formally controls the companies' reports and those responsible for each holding check reporting from an analytical aspect. Control within subsidiaries and associates is decided separately for each company. Ratos continuously follows up the holdings' compliance with guidelines and manuals.

Accounts relating to acquisitions and divestments are also examined by Ratos's 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

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 reporting from the holdings. This means, that the quality of the accounting and reporting of the holdings is continuously examined and improved.

Ratos Accounts 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 work at Ratos Accounts headed by the company's Finance Manager. All employees have many years of professional experience in financial control, 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.

## RATOS'S RISK ASSESSMENT PROCESS

Ratos performs an annual risk assessment where the biggest risks in the company's own operations and the holdings are summarised and discussed in Ratos's management and Board. As part of good corporate governance, the holdings are expected to have a dynamic process for identifying, assessing and managing the biggest risks in each company. Each holding's CEO and management have operational responsibility for ensuring that a good risk management process exists, which is approved by the holding's board. In 2013–2014 Ratos is working to introduce a more structured process for this in all majority owned holdings (subsidiaries).

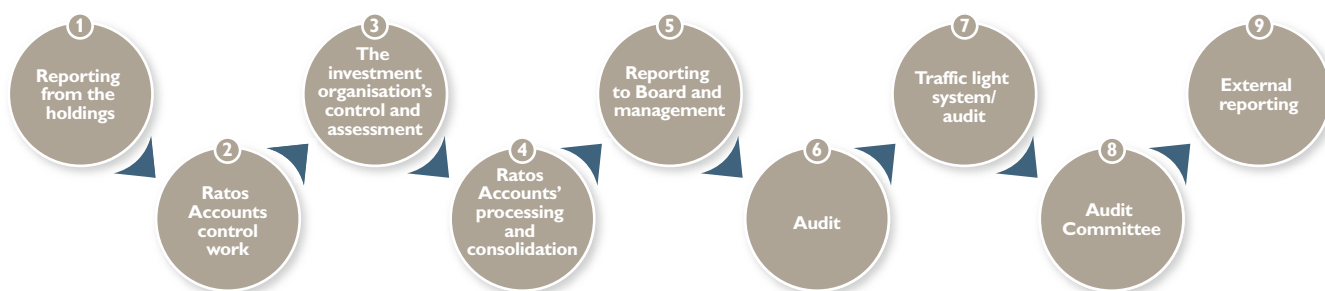
### RECOMMENDED PROCESS FOR RATOS'S SUBSIDIARIES



- 1 IDENTIFICATION** – Ratos recommends a broad process where all relevant operational and strategic areas are covered, in order to identify the companies' biggest risks. Each holding 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, for example 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 should be presented and discussed in each company's board at least once a year.
- 5 REPORT TO OWNER** – a report which summarises the biggest risks at Ratos and the holdings is compiled and presented to Ratos's Board annually.

## PROCESS FOR FINANCIAL REPORTING

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



### 1 REPORTING FROM HOLDINGS

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 once a year to seminars organised by Ratos which examine topical issues within reporting, accounting and finance.

### 2 RATOS ACCOUNTS' CONTROL WORK

The material reported by the holdings is examined analytically and checked regarding completeness and accuracy and compliance with Ratos's accounting principles. 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 company at Ratos and others in the investment organisation who work with the holding.

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

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 holdings' boards.

### 4 RATOS ACCOUNTS' PROCESSING AND CONSOLIDATION

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. 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.

### 5 REPORTING TO BOARD AND MANAGEMENT

Board and management receive at every quarterly closing extensive in-depth material about both the Group and the individual holdings. Ratos Accounts also prepares an analysis of results of an operating nature to Ratos's management on a monthly basis.

### 6 AUDIT

An review is performed of subsidiaries' closing accounts 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 periods the material reported in stage 1 is audited and approved by the auditor of each holding. The audit of consolidated financial statements takes place in parallel.

### 7 TRAFFIC LIGHT SYSTEM/AUDIT

Ratos Accounts 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 on the holdings are graded and assigned a red, yellow or green light according to their significance and risk. A follow-up is performed three times a year. All auditors' observations are followed up until they are graded green by Ratos Accounts in conjunction with a hard close, annual accounts review and Audit Committee meeting in June.

### 8 AUDIT COMMITTEE

The Audit Committee, in addition to what is stated earlier in this corporate governance report, is tasked with quality assurance of the company's financial reporting, reviewing the reports on internal control 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 September closing accounts and annual accounts, the Audit Committee has a meeting with Ratos's auditor.

### 9 EXTERNAL REPORTING

Ratos publishes its interim and year-end reports through press releases and publication on the website. All reports for the last thirteen years can be downloaded from the website. Publication of the annual report takes place through a press release and publication on the website. A printed version of the annual report is available in Swedish and English no later than three weeks before the Annual General Meeting. 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 & CEO

Holdings at 31 December 2013



## 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, Ecolean, Einar Mattsson, the Swedish Corporate Governance Board, SNS (Centre for Business and Policy Studies) and the World's Children's Prize Foundation. Board member of AP Møller-Maersk, Bonnier and Fortnox. 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 in 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 and related parties):* 20,000 B shares, 80 preference shares.



## Staffan Bohman

Independent Board member since 2005.

MSc Econ. Born 1949, Swedish.

Chairman of CibesLift, Ersta Diakoni and Höganäs, Deputy Chairman of Rezidor Hotel Group and the Board of Trustees of SNS. Board member of Atlas Copco, Boliden, InterKEA 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, 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 and My Big Day. Board member of Blinkfyrrar, 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, 6,600 preference 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, 1,515 preference 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:* 39,000 call options/2010, 40,000 call options/2011, 150,000 call options/2012, 90,000 call options/2013.

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## AUDITOR

At the 2014 Annual General Meeting the auditing firm PricewaterhouseCoopers AB with authorised public accountant Peter Clemedtson as Senior Auditor, was elected for the period until the 2014 Annual General Meeting has been held.