

## **The Board's statement of the Compensation Committee's evaluation of Ratos's remuneration structure and incentive system for CEO and other senior executives ahead of the 2019 Annual General Meeting according to the Swedish Corporate Governance Code**

### ***Background***

A functioning incentive program is a key tool for Ratos in order to retain a high-class organisation, which in turn is essential if Ratos is to achieve its business goals. Ratos's remuneration structure, remuneration levels and incentive programs are regularly evaluated by Ratos's Compensation Committee and Board and formal decisions are, at least, made yearly.

### ***The purpose of Ratos's remuneration structure and incentive programs***

The purpose of Ratos's remuneration structure and incentive programs is to strive for a market oriented total remuneration to be able to recruit, retain and motivate employees and to create a common understanding with Ratos's shareholders. In concrete terms, the emphasis is on the possibility to motivate employees to work in the interest of the shareholders and in common understanding with them, to offer competitive terms of employment and that performances shall be able to be linked to clear targets set by the Board.

Ratos's current remuneration system and incentive program, as also shown in the 2018 annual report, are in addition to basic salary and pension provisions, divided into a number of components – variable cash salary, convertibles debentures and warrants.

### **Variable cash salary to senior executives**

The variable cash salary is linked both to collectively and individually set annual targets. The targets are both quantitative and qualitative and aim to fulfil Ratos's long term strategy. During 2018, no material amendments have been made regarding the criteria for, and the calculation of, the result of variable cash salary.

Variable cash salary is paid over a two-year period, divided by 50 per cent per year. However, the cost of each year's variable salaries is recorded in the accounts, in their entirety, the year the remuneration was earned. A cap has been established in relation to each senior executive's fixed salary which, as for 2018, may amount to a maximum of 100 per cent of the fixed salary.

Follow-up and evaluation of variable cash salaries is made at the beginning of the year following the end of the relevant financial year. The evaluation of the CEO's and the senior executives goal completion is monitored and evaluated by the Compensation Committee and approved by the Board following a proposal from the Compensation Committee.

### **Warrants and convertible debentures**

The Annual General Meeting 2018 resolved upon the implementation of a long-term incentive program for the CEO and other key employees in Ratos consisting of convertible debentures and warrants (below jointly referred to as the "Instruments"), where participants are free to decide to which extent the offered Instruments shall consist of convertible debentures (which lasts for a maximum of 4 years) and/or warrants (which lasts for a maximum of 5 years).

As a requirement for the allotment of warrants, the employee must have signed an agreement with the company regarding repurchase right etc. in which inter alia the company or another buyer designated by the company has a right to redeem the warrants if the participant's employment is terminated.

Ratos has issued and allocated a total of 1,240,000 Instruments to the participants, divided into 724 528 convertibles and 515 472 warrants, due to the incentive program. Ratos convertible debenture loans amount to a nominal amount of more than SEK 19 million.

The increase of the company's share capital could not amount to more than SEK 3,906,000 upon full conversion of the Instruments (based on the current quotient value and that no recalculation has been made in accordance with the terms), which corresponds to a dilution of approximately 0.39 percent of Ratos shares at the time the Instruments were issued, based on the number of outstanding shares.

### **Call option programs**

The Annual General Meetings as from 2001 up until 2017 have decided upon call option programs for senior executives and other key employees within Ratos. The programmes do not comprise Ratos's Board members. The exercise period for the call option is 4-5 years. The employees have paid a market premium for the options within the programs. The purchase of options is subsidised by the option purchaser receiving an extra cash compensation corresponding to a maximum of 50 per cent of the option premium, after deduction of 55 per cent standard tax, whereby the compensation will be divided into equal components over 5 years and normally requires that the person concerned is still working in the Ratos group and still holds options acquired from Ratos or shares acquired through the options. The call options are issued on repurchased treasury shares.

### **Synthetic options**

The 2017 Annual General Meeting, like previous Annual General Meetings since 2007, decided upon a cash based option program related to Ratos's investments in its portfolio companies. The program is carried out through the issue of synthetic options which are transferred on market value. The programmes give key employees working at Ratos the opportunity to take part in its portfolio companies' value growth. The options only have a value when Ratos's average annual rate of return exceeds 8 per cent per year. The purchase of options will be subsidised by the option purchaser receiving an extra cash compensation corresponding to a maximum of 50 per cent of the option premium up to a maximum of 5 per cent of Ratos's investment in the relevant portfolio company, after deduction of 55 per cent standard tax, whereby the compensation will be divided into equal components over 4 years and normally requires that the person concerned is still active in the Ratos group and still holds options acquired from Ratos.

The total value of the issued options within the synthetic option program for 2017, amounts to a maximum of 5 per cent of the difference between the actual value increase of Ratos's investment at the closing date and the acquisition value, adjusted upwards by 8 per cent per year.

In addition, the 2017 Annual General Meeting adopted an "Additional Program 2017" for the investments made during 2016, amounting to an additional 2 per cent (in addition to the already offered options corresponding to 3 per cent in 2016) of the difference between the actual value increase of Ratos's investment at the closing date and the acquisition value, on otherwise equivalent terms as the option program for 2017.

### **Guidelines for salary and other remuneration**

During the year, the Compensation Committee continuously monitors and evaluates both the program for variable remuneration to the senior executives and the application of the guidelines adopted the General Meeting for remuneration to these persons.

Ratos's aim, to the extent possible, is to have defined contribution pension solutions, however some pension benefits that follow the ITP-plan are defined benefits. A defined contribution pension solution applies for the CEO. The variable cash salary does not count as pensionable income.

## Evaluation and proposed changes

Ratos's Board and Compensation Committee continuously evaluates the incentive programs and initiates amendments when deemed necessary. During 2018, the Compensation Committee has made a thorough evaluation of Ratos's remuneration structure and incentive programs. The evaluation was made from four perspectives; the motivation of the employees and mutual interest with the shareholders, control effects, shareholder value and simplicity.

The evaluation resulted in the Board resolving to leave the variable cash salary structure for 2019 materially unchanged as it is deemed to be marketable and appropriate.

Furthermore, as in 2018, the evaluation resulted in the Board resolving to propose to the Annual General Meeting 2019 to adopt an incentive scheme consisting of a warrants program and a convertible debentures program in order to continuously have a marketable and competitive programme motivating the employees to act in the interest of shareholders and in agreement with them.

The remuneration guidelines are materially unchanged.

Based on the Compensation Committee's evaluation concerning remuneration and incentive programmes, the Board is of the opinion that current remuneration structure and remuneration levels, including proposed changes, has and will have a positive effect on Ratos. The Compensation Committee's overall assessment is that the remuneration structures and remuneration levels in the company are well adapted to meet the target of the remunerations, that the application of the guidelines for remuneration for senior executives that the 2018 Annual General Meeting decided on was accurate and balanced and that the outcome of the variable remuneration is in accordance with achieved targets.

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Stockholm in April 2019

Ratos AB (publ)

*The Board of Directors*