

# Corporate governance report

Ratos aims to exercise professional, active and responsible ownership. Through good control and awareness of the risks – as well as the opportunities – in their operations our portfolio companies have been able to face and handle problems in a well-thought out and effective manner. The vigilance and fast action in our portfolio companies have often been exemplary.

Ratos has been giving priority to order and structure for many decades. I can report that corporate governance at Ratos functions well in times of prosperity and recession.

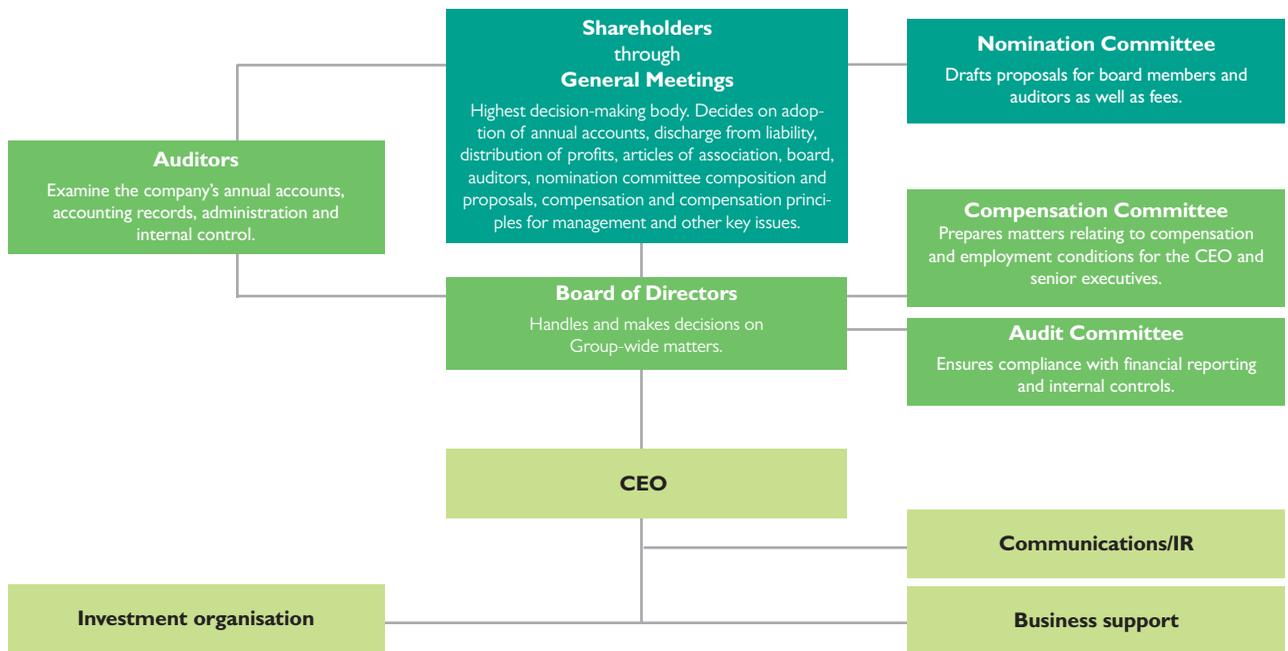
Ratos has chosen to comply with the Swedish Code of Corporate Governance except with regard to the composition of the Nomination Committee (see Nomination Committee on page 42). The self-regulatory code has made a positive contribution by providing clear guidelines

on how corporate governance should be applied. It is also a strength that the Code's "comply or explain" rule allows it to be adapted to companies' different circumstances if sensible reasons for non-compliance exist. As I see it, this is one of the strengths of the Code. The Code has also helped to enhance the credibility of and confidence in Swedish business.



Olof Stenhammar  
Chairman of the Board

## Governance structure at Ratos



### External rules

- Swedish Companies Act
- Accounting legislation (Swedish Book-keeping Act, Annual Accounts Act, Swedish Financial Reporting Board (RFR) and IFRS)
- Nasdaq OMX Stockholm Rules for issuers
- Swedish Code of Corporate Governance

### Internal rules

- Articles of Association (read more on page 41)
- The Board's formal work plan (read more on page 43)
- Instructions for the CEO
- Decision-making procedures/authorisation instructions
- Instructions for financial reporting
- Internal guidelines
- Policies adopted by the Board

### Policies

All policy documents are updated and adopted annually by the Board, most recently on 15 February 2012. Senior executives are responsible for monitoring.

- Financial policy
- Incentive policy
- Information policy
- Crisis policy
- Environmental policy
- Pensions policy
- Rules for Ratos employees' share transactions
- Recommendation for Board members' share trading
- Code of conduct
- Social responsibility policy
- IT security policy
- 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 (the Code).

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 2011 financial year, except with regard to the composition of the Nomination Committee (see under Nomination Committee page 42).

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

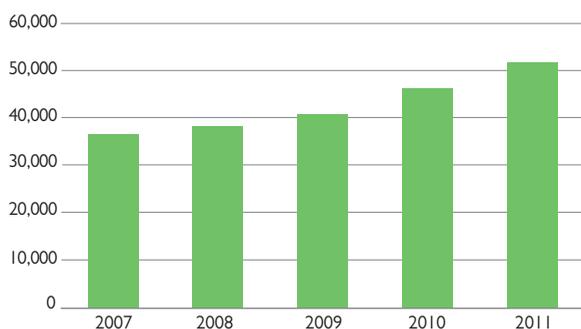
## Shareholders and general meetings

### Share capital and shareholders

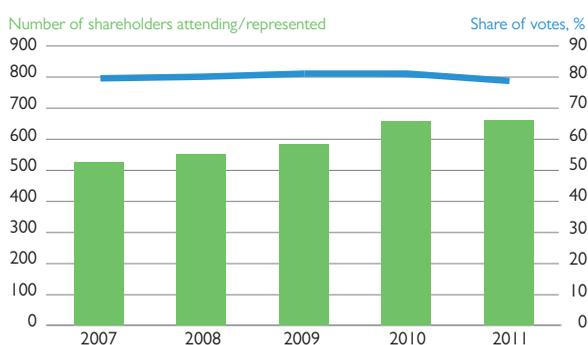
Ratos has been listed on Nasdaq OMX Stockholm since 1954. At year-end 2011 the share capital amounted to SEK 1,021m divided among a total of 324,140,896 shares, of which 84,637,060 A shares and 239,503,836 B shares. The company's A shares carry entitlement to one vote per share while B shares carry entitlement to one-tenth 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 2011 Ratos had a total of 51,294 shareholders according to statistics from Euroclear Sweden. The ten largest shareholders accounted for 79% of the voting rights and 46% of the capital. The proportion of

### Number of shareholders



### Attendance at Annual General Meeting



According to Ratos's Articles of Association the following business shall come before the Annual General Meeting:

- Opening of the Meeting
- Election of the Chairman of the Meeting
- Preparation and approval of the voting list
- Election of two persons to check the minutes
- Determination of whether the Meeting has been duly convened
- Approval of the Agenda for the Meeting
- Presentation of the annual report and the auditor's report
- Resolutions on
  - adoption of the income statement and balance sheet, as well as of the consolidated income statement and consolidated balance sheet,
  - discharge from liability for the members of the Board of Directors and the CEO, and
  - disposition of the Company's profit or loss according to the adopted balance sheet
- Determination of the number of directors and deputy directors who shall be elected by the Meeting
- Determination of fees to be paid to the Board of Directors and auditors
- Election of the Board of Directors and where appropriate auditors and deputy auditors
- Any other business to come before the Meeting according to the Swedish Companies Act or the Articles of Association

shares owned by physical or legal entities outside Sweden amounted to 17%. 56% 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 2011 is provided on pages 20-24.

### General meetings

The general meeting is the highest decision-making body in Ratos and an Annual General Meeting of Shareholders is to be convened in Stockholm once a year before the end of June. Notice of an ordinary general meeting must be published no earlier than six weeks and no later than four weeks prior to the meeting and of an extraordinary general meeting no earlier than six weeks and no later than two weeks prior to the meeting. The notice must always take the form of an announcement published in the Official Swedish Gazette (Post- och Inrikes Tidningar). 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 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 Meeting and to vote for their total holding of shares. Shareholders may bring an assistant to the meeting provided they have notified the company.

### 2011 Annual General Meeting

The 2011 Annual General Meeting was held on 5 April in Berwaldhallen in Stockholm. The Meeting was attended by 660 shareholders, proxies or assistants, who together represented 79.3% of the voting rights and 48.2% 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 2011 Annual General Meeting included the following:

- Dividend of SEK 5.25 per share (adjusted for share split) corresponding to a total of SEK 1,678m
- 2:1 share split
- The Board of Directors shall consist of eight members
- Re-election of all members 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
- 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 total of 35 million B shares.

#### Nomination Committee

The Annual General Meeting decides how the Nomination Committee should be appointed. The 2011 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 2012 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. 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 13 October 2011.

The members of the Nomination Committee are as follows:

- Björn Franzon representing Swedbank Robur funds
- Anders Oscarsson representing AMF and AMF Fonder, Chairman of the Nomination Committee
- Olof Stenhammar representing his own holding, Chairman of Ratos's Board

- Jan Söderberg representing his own and related parties' holdings, Board member
- Maria Söderberg representing the Torsten Söderberg Foundation
- Per Olof Söderberg representing the Ragnar Söderberg Foundation as well as his own and related parties' holdings, Board member.

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, Olof Stenhammar, 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 are as follows:

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

Ahead of the 2012 Annual General Meeting the Nomination Committee held four minuted meetings. 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.

Olof Stenhammar after 18 years in Ratos, including 14 as Chairman of the Board, has declined re-election. The work of the Nomination Committee during the year has therefore concentrated on finding a suitable successor for the position of chairman. In this work the Nomination Committee has given priority to knowledge and industry experience which will contribute to Ratos's business in the future. Another aspect the Nomination Committee regarded as important is to maintain continuity in the Board. The Nomination Committee is therefore unanimous in proposing the present CEO Arne Karlsson as Chairman of the Board. The Nomination Committee is convinced that Arne Karlsson meets the above criteria and that there is no more suitable candidate to propose.

#### Nomination Committee ahead of 2012 Annual General Meeting

Name	Represents	Share of voting rights 31 Aug 2011	Share of voting rights 31 Dec 2011
Per-Olof Söderberg	Ragnar Söderberg foundation and own and related parties' holdings	29.9%	29.9%
Jan Söderberg	Own and related parties' holdings	13.8%	13.8%
Maria Söderberg	Torsten Söderberg Foundation	12.4%	12.4%
Björn Franzon	Swedbank Robur funds	0.8%	0.8%
Anders Oscarsson	AMF and AMF Fonder	0.5%	0.6%
Olof Stenhammar	Chairman of Ratos's Board, own holding	0.3%	0.3%
Total		57.7%	57.8%

A committee composed of members independent of the Board prepared the issue of fees to the Chairman of the company, other Board members who are not employed by the company and fees to the committees. The Audit Committee submitted a proposal on auditor fees to the Nomination Committee.

The Nomination Committee's proposals, an account of the work of the Nomination Committee ahead of the 2012 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 2012 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 2011 Annual General Meeting re-elected Olof Stenhammar (Chairman), Lars Berg, Staffan Bohman, Arne Karlsson, Annette Sadolin, Jan Söderberg, Per-Olof Söderberg and Margareth Øvrum. No deputies were elected. All Board members elected at the 2011 Annual General Meeting are presented in more detail on pages 48-49.

### 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 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 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 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. Board meetings follow 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 2011

During 2011, 12 minuted board meetings were held – eight ordinary meetings, including one statutory meeting, and four extra board meetings. Board meetings have a recurrent structure with the following key items:

- January: Annual evaluations of all holdings
- February: Year-end report, audit report, work of the Compensation Committee
- April: Ordinary meeting and statutory meeting in conjunction with the Annual General Meeting
- June: Visits to holdings. HL Display's production facility in Sundsvall, Sweden, was visited in 2011
- August: Six-month report
- October: Strategy meeting
- December: Examination of Risk Assessment, social responsibility.

Extra Board meetings normally examine acquisition and exit questions as well as financing and are held when such matters requiring a Board decision arise. Information about Board members' attendance at board meetings is provided on pages 48-49. 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 2011 this evaluation was performed with the help of an external consultant regarding the work of the Board as a whole and each member individually. The evaluation took the form of a questionnaire as well as in-depth 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 unusually well. All members were

considered to have made a constructive contribution to both strategic discussions and the governance of the company. The dialogue between the Board and management was also perceived as 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 2008 Annual General Meeting the audit firm KPMG AB was elected as auditor with authorised public accountant Thomas Thiel as Senior Auditor for the period until the 2012 Annual General Meeting has been held. KPMG with Thomas Thiel as Senior Auditor were elected for the first time at the 2004 Annual General Meeting. In addition to his assignment for Ratos, Thomas Thiel is auditor of companies that include Axfood, Folksam, Peab, Skandia, SKF, Stena and Swedish Match as well as the Ragnar Söderberg Foundation and the Torsten Söderberg Foundation, which together are Ratos's largest single owner.

### Committee work

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 2011 were Olof Stenhammar (chairman), 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 five minuted meetings during 2011 and was in regular contact in between. The minutes were taken by the company's CEO, Arne Karlsson.

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 with the exception of Ratos's CEO.

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 auditors and prepare for the election of new auditors when appropriate
- Discuss risk assessments, public financial information, auditors' fees, co-operation between auditors and management and ethical rules in the company.

The entire Audit Committee met the company's auditor on two occasions in 2011 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 auditors.

During the year the work of the Audit Committee included procurement of audit services for audits to be elected at the 2012 Annual General Meeting until the 2013 Annual General Meeting has been held. A number of leading audit firms have 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 auditors for the next mandate period. The Nomination Committee has decided to submit a proposal to the 2012 Annual General Meeting in accordance with the Audit Committee's recommendation.

#### 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 49 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 and 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 2011 Annual General Meeting decided that compensation to the ordinary members of the Board should be paid of SEK 450,000 per member and year (although not to Ratos's CEO). Compensation to the Chairman of the Board should amount to SEK 1,000,000 per year. Information on compensation to the CEO is provided in Note 9 on page 74. 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.

### Auditors' fees

Compensation is paid to the company's auditors in accordance with a special agreement on this matter. In 2011, audit fees amounted to SEK 3m in the parent company and SEK 20m in the Group. In addition, the parent company paid SEK 1m in fees for other assignments to the company's auditors and the Group as a whole paid fees for other assignments amounting to SEK 7m. 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 2011 Annual General Meeting. The following guidelines were applied throughout 2011.

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 per cent 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 does not fall due until certain conditions regarding return on the company's equity have been met. For 2011, 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 8% 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 32% 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 32% ceiling are transferred to the next year and increase the earnings on which compensation is calculated. Earnings that are less than the threshold amount of 8% are also transferred and charged against earnings on which compensation is based in the following year.

### Results for variable salary in 2011

Since adjusted profit before tax including the earnings bank for 2011 did not meet the return requirement of 8%, no variable salary was paid to the senior executives entitled to receive variable salary in accordance with the incentive system described above.

### 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 five years. Employees have paid a market premium for the call options in all programmes. Acquisition of call options is subsidised by the purchaser receiving extra remuneration corresponding to a maximum of 50% 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 2011 Annual General Meeting, like the Annual General Meetings in 2007, 2008, 2009 and 2010, 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. If the value growth on Ratos's investment in the portfolio company concerned exceeds 15% per year, the options will have a value. The total value of the issued options at the closing date will be a maximum of 3% of the difference between the actual realised value for Ratos's investment at the closing date and the cost increased by 15% per year.

### Terms for call options outstanding at 31 December 2011

Maturity	Price/option SEK	No. of shares/option	Exercise price SEK/share	Outstanding number of call options	Corresponding no. of shares
2007 – 31 March 2012	36.50	2	139.00	518,000	1,036,000
2008 – 20 March 2013	28.10	2.04	127.80	552,500	1,127,100
2009 – 20 March 2014	13.00	2	94.10	641,000	1,282,000
2010 – 20 March 2015	16.60	2	126.10	529,500	1,059,000
2011 – 18 March 2016	11.80	1	158.90	640,000	640,000
				2,881,000	5,144,100

Outstanding options correspond to 1.6% of the total number of shares.

## 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. A person responsible for the company has responsibility for a 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 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 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 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 internal 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 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 business organisation is deeply involved in reporting of the individual 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, five of whom have a degree in economics, have many years of professional experience in financial control, reporting and accounting. The Debt Management staff function comprises one person with a university degree and 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.

## Process for financial reporting

The process of producing financial reports includes various control activities designed to assure the quality of financial reporting.

This process and the built-in controls are described on the next page.

## Process for financial reporting

