

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 2018 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 2017 annual report, are in addition to basic salary and pension provisions, divided into a number of components – variable cash salary, call option programs and synthetic option programs.

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 2017, certain amendments have been made regarding the criteria for, and the calculation of, the result of variable cash salary. Examples of targets has been increase in EBITA for the portfolio companies and value increase of the underlying portfolio companies.

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 2017, may amount to a maximum of 130 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.

The call option program

The Annual General Meetings as from 2001 and onwards 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.

The Board has decided to propose to the 2018 Annual General Meeting to replace the current call option program with other share and share price related incentive programs; please refer to the below section “Evaluation and proposed changes”.

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.

The Board has decided to propose the 2018 Annual General Meeting to replace the current synthetic option program with other share and share price related incentive programs; please refer to the below section “Evaluation and proposed changes”.

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 2017, 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 change the criteria for, and the calculation of, the outcome of the variable cash salary for 2018, mainly by removing the criteria for growth in the operating cash flow for the portfolio and the development of Ratos’s net asset value (NAV).

Otherwise, the Board decided to leave the variable cash salary structure materially unchanged as it is deemed to be marketable and appropriate.

Furthermore, the evaluation resulted in the Board resolving to propose to the Annual General Meeting 2018 to replace current call option programs and synthetic option programs with an incentive scheme consisting of a warrants program and a convertible debentures program to further motivate employees to act in the interest of shareholders and in agreement with them and in order to make the program marketable and competitive.

The remuneration guidelines have been updated to reflect the new proposed incentive scheme consisting of a warrants program and a convertible debentures program, but were otherwise 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 2017 Annual General Meeting decided on was accurate and balanced and that the outcome of the variable remuneration is in accordance with achieved targets.

Stockholm in March 2018

Ratos AB (publ)

The Board of Directors