

The Board's statement of the Compensation Committee's evaluation of Ratos' remuneration structure and incentive system for CEO and other senior executives ahead of the 2017 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' remuneration structure, remuneration levels and incentive programs are regularly evaluated by Ratos' Compensation Committee and Board and formal decisions are, at least, made yearly.

The purpose of Ratos' remuneration structure and incentive programs

The purpose of Ratos' 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' shareholders. In concrete terms the emphasis is on the possibility to motivate employees to work in the interests of the shareholders and in common understanding with them, to offer competitive terms of employment and to encourage them to remain within Ratos and that performances shall be able to be linked to clear targets set by the Board.

Ratos' remuneration system and incentive program, as also shown in the 2016 annual report, are in addition to basic salary and pension provisions, divided into a number of components –variable salary in cash, call option programs and synthetic option programs.

Variable salary in cash to senior executives

Variable salary in cash is linked both to collectively- and individually set annual targets. The targets are both quantitative and qualitative and aims to fulfil Ratos' long term strategy. During 2016 changes have been made regarding the criteria for, and the estimation of, the result of variable salary in cash. Examples of the targets has been the rise of EBITA in portfolio companies and the increased value of the underlying portfolio companies, as well as the sale of certain defined portfolio companies.

Variable salary in cash is paid over a three-year period, divided by 50 per cent the first year and 25 per cent per year as for the remaining 2 years. However, the cost of each year's variable salaries will be 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 2016, may amount to a maximum of 130 per cent of the fixed salary.

Follow-up and evaluation of variable salaries in cash are made by the end of each year. The evaluation of the CEO's and the senior executives goal completion, are 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 from 2001 and forth has decided upon call option programs for senior executives and other key employees within Ratos. 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 provided the person concerned is still working in the Ratos Group and still holds options acquired from Ratos or shares acquired through the options. Call options are issued of repurchased treasury shares. The Board has decided to propose to the 2017 Annual General Meeting a call option program consistent with the previously decided call option programs.

Synthetic options

The 2016 Annual General Meeting, like previous Annual General Meetings since 2007, decided upon a cash-based option program related to Ratos's investments in the portfolio companies. The program is carried out through the issue of synthetic options transferred to a market value. The programme gives key people working at Ratos opportunities to take part in the portfolio companies' value growth. Only when Ratos's average annual rate of return exceeds 10 per cent per year, the options have a value. 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, after deduction of 55 per cent standard tax, whereby the compensation will be divided into equal components over 5 years and normally provided that the person concerned is still active in the Ratos's group and still holds options acquired from Ratos.

The total value of the issued options within the synthetic option program for 2016, amounts at the closing date to a maximum of 3 per cent of the divergence between the value increased for Ratos' investment from the acquisition and the paid-in premium, adjusted upwards by 10 per cent per year.

The Board has decided to propose the 2017 Annual General Meeting a, to a certain extent, modified program regarding synthetic options.

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 also the application of the guidelines for remuneration to these persons, adopted the General Meeting.

Ratos aim is, as far as possible, to have pre-defined pension cost solutions. However, the old ITP-plan, which is applicable for Ratos' employees born prior to 1979, if no special solutions have been determined, is defined benefits. As for the CEO, a pre-defined pension cost solution applies. The main principle is that the variable salaries does not count as pensionable income.

Evaluation and proposed changes

During 2016 the Compensation Committee have made a profound evaluation of Ratos' remuneration structure and incentive programs. The evaluation was made from 4 perspectives; the motivation of the employees and mutual interest with the shareholders, control effects, shareholder-value and simplicity. The evaluation resulted in the Board discussing and evaluating alternative program modifications, where the Board decided to modify the calculation of, and criteria for, the result of the variable cash salaries relating to both 2016 and 2017, and reduce the cap for the total variable salary in the remuneration guidelines from a maximum of 1.0 to 0.6 per cent of the Company's equity at the start of the fiscal year.

It was also decided to propose, to the 2017 Annual General Meeting modifications regarding the synthetic options program, whereby among other things, the enumeration at the exercise price is proposed to increase by 8 per cent annually, compared to the previous program that had an

enumeration at the exercise price of 10 per cent annually and that the synthetic option program is expanded to comprise up to 5 per cent of the underlying value growth above the strike price, compared to previously 3 per cent, as well as an "Additional program 2017" for an additional 2 per cent (in addition to the already offered 3 per cent) for the investments made during 2016. It is further proposed that only 50 per cent of the option premium, after deduction for 55 per cent standard tax, up to a maximum of 5 per cent of Ratos' total investment in the current portfolio company, may be subsidized. The subsidy is intended to be allocated over 4 years instead of 5 years. The proposed modifications is to align the program with what is deemed to be market-based and competitive.

The call option program is considered customary and attractive and the decision has been taken not to propose modifications in respect to this.

Ratos' Board and Compensation Committee have, since Ratos' incentive system with its present main features was introduced in 2001, continuously evaluated the incentive system and initiated changes when these were judged necessary.

Based on the Compensation Committee's evaluation concerning remuneration and incitement programmes, the Board is of the opinion that current incentive system, including proposed changes, has and will have an effect positive for Ratos. The Compensation Committee's overall evaluation is that the now applicable remuneration structures and remuneration levels in the Ratos are well adapted to meet the target of the remunerations and that the application of the guidelines for remuneration for senior executives that the 2016 Annual General Meeting decided on was accurate and balanced, and that the outcome of the variable remuneration is in accordance with the achieved targets.