

Corporate governance report 2016



"Good corporate governance is built on openness and transparency and leads the company's owners and Board to run the company with clear strategies, responsibly and with a far-reaching perspective. This enhances confidence in the company and its leadership. For Peab, a company with distinct values, being considered trustworthy is essential for our ability to create value for our shareholders, employees and society."

Göran Grosskopf

CORPORATE GOVERNANCE AND THE CORPORATE GOVERNANCE REPORT

Corporate governance is the decision-making systems that owners use to govern the company directly or indirectly. On the one hand these systems consist of external laws and regulations such as the Company Act and other relevant laws, the regulations for Nasdaq Stockholm issuers and the Swedish Code of Corporate Governance and on the other hand they consist of Peab's Articles of Association as well as Peab's own internal regulations and policies that the Board of Directors and executive management decide on.

The corporate governance report is not a part of the financial reports. The company's auditor read the corporate governance report and acknowledge that a corporate governance report has been drawn up and that its legally stipulated information is consistent with the annual accounts and Group accounts.

SHAREHOLDERS, GENERAL MEETING AND THE NOMINATION PROCEDURE

The General Meeting (GM) is the highest decisionmaking organ in Peab. All shareholders can use their right to vote at the GM. The shareholders also have the right to ask questions and have opinions about Peab's business at the GM.

The procedure of preparing the nomination of members of the Board of Directors and the auditor for the Annual General Meeting (AGM) follows the nomination procedure established at the previous AGM.

The AGM was held on 10 May 2016 at Grevieparken, Grevie. It was attended by 437 shareholders, representing over 74% of the votes, either personally or through representatives. The AGM elected Göran Grosskopf, Ulf Liljedahl, Mats Rasmussen and Malte Åkerström, all reelected, to act as Peab's nomination committee with Ulf Liljedahl as Chairman. The nomination committee's proposals will be presented to shareholders in the notice to attend the 2017 AGM. A reasoned opinion, including information on the diversity policy used by the nomination committee when preparing the proposal and an account of the

work of the nomination committee will be available on Peab's website as the notice to attend the AGM is made public.

THE BOARD OF DIRECTORS AND ITS WORK

Peab's Board of Directors is ultimately responsible for the business. According to Peab's Articles of Association the Board of Directors must be made up of no fewer than five and no more than nine members in addition to the statutory employee representatives. The members of the Board of Directors are elected annually by the AGM. It was decided at the 2016 AGM that the Board of Directors should consist of eight members chosen by the AGM and the following persons were elected as members of the Board of Directors;

- Göran Grosskopf, reelected
- Karl Axel Granlund, reelected
- Malin Persson, new election
- Fredrik Paulsson, reelected
- Mats Paulsson, reelected
- Lars Sköld, reelected
- Kerstin Lindell, reelected
- Nina Udnes Tronstad, reelected

Göran Grosskopf was appointed Chairman of the Board by the AGM and Mats Paulsson was appointed vice Chairman. The members of the Board of Directors elected by the shareholders are compensated in accordance with decisions taken by the AGM.

The following employee representatives were appointed by the employee unions at the 2016 AGM; Patrik Svensson, Kim Thomsen and Egon Waldemarsson (members), Torsten Centerdal and Kristina Bengtsson (deputies).

The Board of Directors held nine meetings in 2016, of which five were ordinary Board meetings (including the constitutional meeting) and four additional Board meetings, which were held over the telephone. Members of executive management have given reports at the Board meetings. The principle company accountant was present at two Board meetings. The Board's work follows the work program adopted by the Board of Directors. The Board evaluates its work on an annual basis.

THE AUDIT COMMITTEE

Members between 1 January 2016 and 10 May 2016:

- Göran Grosskopf, Chairman
- Mats Paulsson
- Karl-Axel Granlund
- Kerstin Lindell
- Fredrik Paulsson
- Lars Sköld
- Nina Udnes Tronstad

Members between 10 May 2016 and 31 December 2016:

- Lars Sköld, Chairman
- Göran Grosskopf
- Kerstin Lindell

The Audit Committee prepares the work of the Board of Directors by ensuring the quality of company financial reports, establishing guidelines for which other services besides auditing the company may procure from the company accountants, maintaining regular contact with the company accountant regarding the scope and focus as well as their view of company risks, evaluating the auditing work and informing the nomination committee of the evaluation and assisting the nomination committee in producing proposals for auditors and remuneration for auditing work. The Audit Committee, that changed its composition at the constitutional meeting on 10 May 2016, met three times in 2016, all held after the change in the Audit Committee composition. The principle company accountant assisted in all relevant parts of these meetings. The Audit Committee regularly reports to the Board of Directors.

THE FINANCE COMMITTEE

Members in 2016:

- Göran Grosskopf, Chairman
- Karl-Axel Granlund
- Mats Paulsson (between 1 January 2016 and 10 May 2016)
- Fredrik Paulsson (between 10 May 2016 and 31 December 2016)

The Finance Committee handles and makes decisions on financial matters in accordance with the Finance Policy established by the Board of Directors. Executive management representatives give reports to the Finance Committee meetings. The Finance Committee met six times during 2016. The Finance Committee regularly reports to the Board of Directors.

THE REMUNERATION COMMITTEE

Members in 2016:

- Göran Grosskopf, Chairman
- Karl-Axel Granlund
- Mats Paulsson

The Remuneration Committee prepares guidelines and the framework for Group executives regarding salaries and other terms of employment and it provides the Board of Directors with a proposal regarding the CEO's salary and other terms, in accordance with the Remuneration Policy established each year by the AGM. The Remuneration Committee also decides the salaries and other terms for other members of executive management based on proposals from the CEO. The Remuneration Committee met four times in 2016. The Remuneration Committee regularly reports to the Board of Directors.

Board meetings, attendance 2016

AGM elected members	Independent in relation to the company and executive management	Independent in relation to the major shareholders	Attendance Board meetings	Audit Committee	Presence Audit Committee	Remuneration Committee	Presence Remuneration Committee	Finance Committee	Presence Finance Committee
Göran Grosskopf	Yes	Yes	100%	M	100%	C	100%	C	100%
Mats Paulsson									
In the Finance Committee after 10 May	No	No	100%			M	100%	M	100%
Karl-Axel Granlund	Yes	Yes	100%			M	100%	M	100%
Kerstin Lindell	Yes	Yes	100%	M	100%				
Fredrik Paulsson									
In the Finance Committee after 10 May	No	No	100%					M	100%
Malin Persson									
After the AGM 10 May	Yes	Yes	50%						
Lars Sköld	Yes	Yes	100%	C	100%				
Nina Udnes Tronstad	Yes	Yes	100%						
Employee representatives									
Lars Modin, ordinary									
Jan-Feb 2016			100%						
Patrik Svensson, ordinary			100%						
Kim Thomsen, ordinary			89%						
Egon Waldemarsson, ordinary									
From 10 May 2016			100%						
Torsten Centerdal, deputy			100%						
Kristina Bengtsson, deputy			100%						

C – Chairman M – Member

REMUNERATION TO EXECUTIVE MANAGEMENT

The 2016 Annual General Meeting approved the Remuneration Policy for executive management. The Remuneration Policy is available on Peab's website, www.peab.com. Information about salaries and other remuneration to the CEO and members of executive management can be found in note 9 in the Annual Report, page 77 and on our website.

INCENTIVE PROGRAM

Peab has no outstanding share or share related incentive programs for the Board of Directors or executive management.

AUDITORS

Under Peab's articles of association one or two auditors with an equal number of deputies are elected by the AGM. At the AGM in 2016 KPMG was elected the company auditor with the authorized public accountant Dan Kjellqvist as principle company accountant until the AGM 2017.

In addition to auditing, the accountant has only provided services for Peab in the form of accounting and tax advisement and certain analyses in connection with acquisitions and divestments over the last three years.

EXECUTIVE MANAGEMENT

The President and CEO leads the company according to the framework established by the Board of Directors and is responsible for the administration and control of the Group. In 2016 executive management consisted of the CEO, the CFO, the HR Director, the Business Area Manager of Construction and COO, the Business Area Manager of Civil Engineering and Industry and the Business Area Manager of Project Development.

Executive management meetings are held once a month and address issues of strategy and tactics to improve operations. Heads of Group staff teams and other officers are called to attend meetings when needed.

BUSINESS MANAGEMENT

Executive management adopts comprehensive goals and strategies for the business in the Group business plan. This is then passed on to the business areas, regions and companies that then make their own business plans.

Peab's organization is characterized by a focus on production with a clear decentralization and delegation of authority and responsibility in order to achieve efficiency and steering in each area.

Control is ensured through a clear decision process for each kind of major decision, comprising the need for specific approval from executive management or an organ appointed by executive management. This applies to acquisitions and divestitures of project and development property, operations and other major investments as well as in procurement processes where there are predefined levels for each position. The principles for manning boards of directors and signatories in Group companies are adopted centrally.

BUSINESS AREAS

Group operations are run in four business areas: Construction,

Civil Engineering, Industry and Project Development. Each business area has a management team led by the BA Manager and consisting otherwise of operational managers in the business area and staff members. The BA Managers are responsible for managing each operation and for running the line organization by delegating responsibility and authorizations.

GROUP FUNCTIONS

The Group functions, which support both executive management and operations in the business areas, strategically and in day-to-day operations, are divided into the following teams;

- Finance and treasury
- Communication
- HR
- Production

SUSTAINABILITY WORK AND THE SUSTAINABILITY COUNCIL

Peab Sustainability Council coordinates the overall sustainability work and creates the prerequisites for integrating sustainability work into the business. The Group CEO is the Chairman of the Sustainability Council and the other members are: COO, CFO, HR Director, Head of Sustainability, General Counsel, and Head of Competence Development. The Sustainability Council met four times in 2016.

THE ETHICAL COUNCIL

The Ethical Council is charged with communicating Peab's approach to ethical issues, both internally and externally, answering questions of an ethical character that come up internally and to prepare and make decisions on issues when laws or ethical guidelines are breached. The Group HR Director was the Chairman of the Ethical Council and the other members were the HR Directors for each business area as well as the Group Security Manager. The Ethical Council met twice in 2016.

CODE OF CONDUCT AND ETHICAL GUIDELINES

Peab founded its ethical work on Peab's core values; Down-to-earth, Developing, Personal and Reliable many years ago. These core values form the basis of Peab's code of conduct and Peab's ethical guidelines. In 2016 work with updating the code of conduct was initiated and it will be launched in 2017. The work to spread and root Peab's ethical guidelines throughout the organization is continuous.

THE BOARD OF DIRECTORS' DESCRIPTION OF INTERNAL CONTROL AND RISK MANAGEMENT CONCERNING FINANCIAL REPORTING

Peab's Board of Directors is responsible for ensuring that there are efficient procedures for the management and control of the Group regarding financial reporting. The CEO is responsible for ensuring that internal control is organized and follows the guidelines laid down by the Board of Directors. There is a clear set of rules in the Group for the delegation of responsibility and authority which follows the Group's operative structure. Processes and tools for internal steering and control is provided and coordinated by the Group function Finance and treasury.

The Board of Directors' guidelines for internal control concerning financial reporting were laid down in the Internal Control Policy. This policy establishes the way in which the internal control of financial

reporting is organized, reviewed and assessed based on the following factors;

- control environment
- risk assessment
- information and communication
- control structure
- evaluation/follow-up

The CEO has the comprehensive responsibility for an efficient control environment and good internal control in the Group. It is the responsibility of each Business Area Manager to ensure good internal control in their respective area and they need also to ensure that everyone works in accordance with the Group policies, systems and routines.

The CEO is responsible for evaluating the management and control of financial reporting at the first ordinary meeting of the Board of Directors after the end of the financial year.

The Board of Directors has assessed the need for an internal auditing department. The established control structure in Peab ensures sufficient management and control of the Group. At this time there is therefore no need for an internal auditing function in the company.

DEVIATIONS FROM THE CODE

Peab has elected to make the following deviations from the code.

Code rule 9:2

The Chairman of the Board may chair the remuneration committee.

Other members elected by the AGM must be independent in relation to the company and Group management.

Deviation

Mats Paulsson, who is a member of the Remuneration Committee, is not independent in relation to the company and Group management.

Explanation of the deviation

The Board wishes to take advantage of the long and unique experience in matters of compensation for senior officers that founder and former CEO of Peab, Mats Paulsson, has. The majority of the members of the Remuneration Committee are independent in relation to the company and Group management and this is believed to guarantee the objectivity and independence of the Remuneration Committee.

Auditor's statement on the corporate governance report to the Annual General Meeting of Peab AB (publ) company id nr. 556061-4330

The Board of Directors are responsible for the corporate governance report 2016 on pages 114-117 and that it has been prepared according to the Annual Accounts Act.

We have read the corporate governance report and based on this reading and our knowledge of the company and the Group we believe we have sufficient grounds for our statement. This means that our statutory review of the corporate governance report has a different focus and a much more narrow scope than compared to the focus and scope of an audit according to the International Standards on Auditing and the professional code for auditors in Sweden.

In our opinion a corporate governance report has been prepared, and its legal contents agree with the annual accounts and Group accounts.

Förslöv, March 31, 2017

KPMG AB

Dan Kjellqvist

Authorized Public Accountant