

# Corporate governance report 2018



"Good corporate governance is built on openness and transparency, which makes it possible for everyone to realize that the company is led with clear strategies, responsibly and with a far-reaching perspective. This is how we at Peab work to create value for our shareholders, employees and society."

Göran Grosskopf, Chairman

## CORPORATE GOVERNANCE AND THE CORPORATE GOVERNANCE REPORT

Corporate governance refers to the decision-making systems that owners use to directly or indirectly govern the company. These systems consist in part of external laws and regulations such as the Company Act and other relevant laws, regulations for Nasdaq Stockholm issuers and the Swedish Code of Corporate Governance and in part Peab's articles of association, Peab's Code of Conduct as well as other 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 reads the corporate governance report and acknowledges that a corporate governance report has been drawn up and that its legally stipulated information is consistent with the annual accounts and Group accounts.

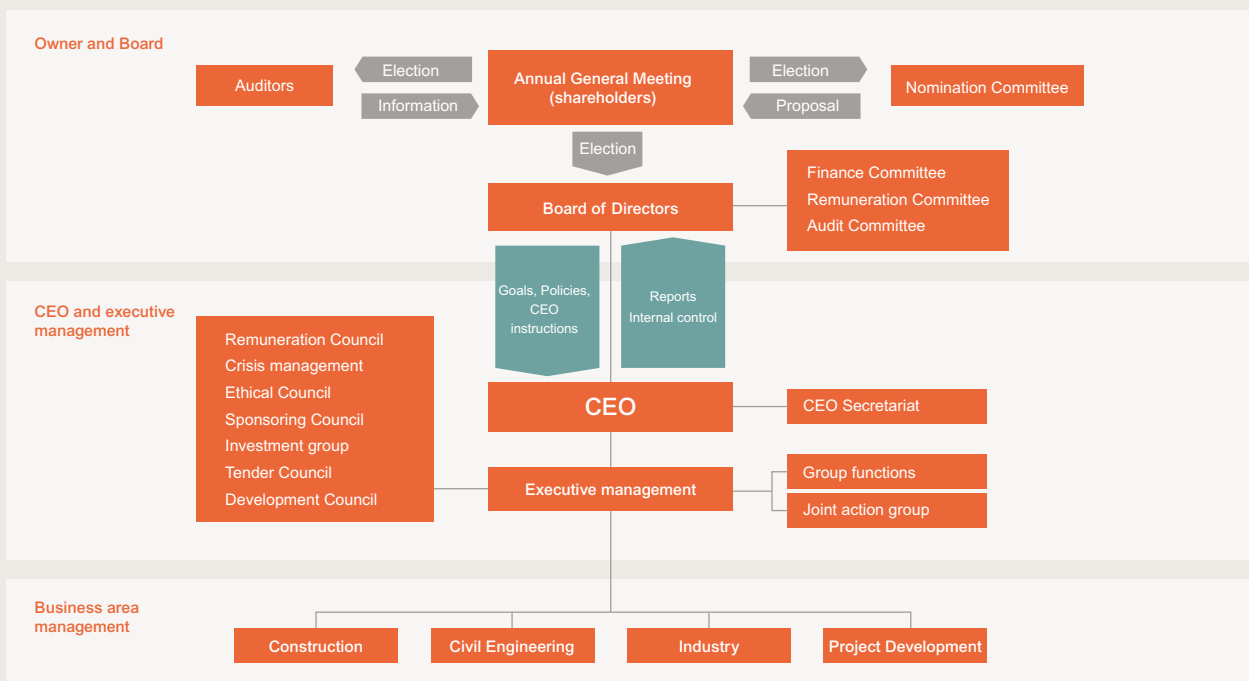
## SHAREHOLDERS, ANNUAL GENERAL MEETING, THE NOMINATION PROCEDURE AND DIVERSITY POLICY

The Annual General Meeting (AGM) is the highest decision-making organ in Peab. All shareholders can use their right to vote at the

AGM. The shareholders also have the right to ask the Chairman of the Board and the CEO questions and have opinions about Peab's business at the AGM.

The process of nominating members of the Board of Directors and the auditor to the AGM follows the nomination procedure established at the previous AGM. In order to create diversity and breadth in the Board regarding experience, expertise and background, the Nomination Committee applied the following diversity policy when nominating Board members to the 2018 AGM (consistent with wording in the Swedish Code of Corporate Governance, p 4.1): The Board should have a composition appropriate for the company's operations, phase of development and other relevant circumstances. Board members elected by the shareholders' meeting should collectively exhibit diversity and breadth of qualifications, experience and background. The company should strive for gender balance on the Board. Female members elected by the AGM made up 37.5 percent of the Board.

The AGM was held on 7 May 2018 at Grevieparken, Grevie. It was attended by 435 shareholders, representing over 73 percent



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 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 2018 AGM that the Board of Directors would consist of eight members chosen by the AGM and the following persons were elected as members of the Board of Directors:

- Karl Axel Granlund, reelected
- Göran Grosskopf, reelected
- Liselott Kilaas, reelected
- Kerstin Lindell, reelected
- Fredrik Paulsson, reelected
- Mats Paulsson, reelected
- Malin Persson, reelected
- Lars Sköld, 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 as members of the Board and, where applicable, as members of committees in accordance with the decisions taken by the AGM. Board member compensation is reported in note 10 in the Annual Report.

The following employee representatives were appointed by the employee unions at the 2018 AGM; Patrik Svensson, Kim Thomsen and Egon Waldemarsson (members), Torsten Centerdal and Annelie Söderlind (deputies).

The Board of Directors held eight meetings in 2018, of which five were ordinary Board meetings (including the constitutional meeting) and three additional Board meetings, of which two were held over the telephone and one was per capsulam.

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 and to evaluate the nominations to the 2018 AGM the Chairman of the Board produced and compiled an inquiry which all the Board members and deputies answered. Regarding the evaluation of the Chairman of the Board, the Chairman of the Nomination Committee has approved the inquiry's contents and compiled it. The result of the evaluation was reported at a Board meeting and Nomination Committee meeting in preparation for nomination.

#### THE AUDIT COMMITTEE

Members during 2018:

- Lars Sköld, Chairman
- Göran Grosskopf
- Kerstin Lindell
- Lisa Kilaas (as of 20180507)

The Audit Committee prepares the work of the Board of Directors by ensuring the quality of company financial reports and maintains regular contact with the company accountant regarding the scope and focus of their work as well as their view of company risks. In addition, the Audit Committee monitors what other services besides auditing are performed by the company accountants, it evaluates the auditing work and informs the Nomination Committee about the evaluation. It also assists the Nomination Committee in

## Board meetings, attendance 2018

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	No	8/8	M	4/4	C	4/4	C	8/8
Mats Paulsson	No	No	8/8			M	4/4		
Karl-Axel Granlund	Yes	Yes	8/8			M	4/4	M	8/8
Kerstin Lindell	Yes	Yes	8/8	M	4/4				
Fredrik Paulsson	No	No	8/8					M	8/8
Malin Persson	Yes	Yes	8/8						
Lars Sköld	Yes	Yes	8/8	C	4/4				
Nina Udnes Tronstad until AGM 18050	Yes	Yes	3/4						
Liselott Kilaas from AGM 180507	Yes	Yes	4/4	M	3/3				
<b>Employee representatives</b>									
Patrik Svensson, ordinary			8/8						
Kim Thomsen, ordinary			8/8						
Egon Waldemarsson, ordinary			8/8						
Torsten Centerdal, deputy			7/8						
Kristina Bengtsson, deputy until 180326			1/2						
Annelie Söderlind, deputy from 180430			5/5						

C – Chairman M – Member

proposals of auditors and remuneration for auditing work. Representatives of executive management give reports on relevant issues at Audit Committee meetings. The Audit Committee met four times in 2018. The principle company accountant participated in the relevant sections of two of these meetings. The Audit Committee regularly reports to the Board of Directors.

#### THE FINANCE COMMITTEE

Members in 2018:

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

The Finance Committee has the mandate to make decisions in between Board meetings on financial matters such as currency, interest and investment positions in accordance with the Finance Policy established by the Board of Directors. Representatives of executive management give reports on relevant issues at Finance Committee meetings. The Finance Committee met eight times during 2018. The Finance Committee regularly reports to the Board of Directors.

#### THE REMUNERATION COMMITTEE

Members in 2018:

- 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 makes proposals to the Board of Directors regarding the CEO's salary and other terms, according to 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. Representatives of executive management give reports on relevant issues at Remuneration Committee meetings. The Remuneration Committee met four times in 2018. The Remuneration Committee regularly reports to the Board of Directors.

#### REMUNERATION TO EXECUTIVE MANAGEMENT

The 2018 AGM approved the Remuneration Policy for executive management. The Remuneration Policy is available on Peab's website, [www.peab.com](http://www.peab.com). Information about salaries and other remuneration to the CEO and members of executive management can be found in note 10 in the Annual Report, 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 are elected by the AGM. At the AGM in 2018 KPMG was elected the company auditor with the authorized public accountant Dan Kjellqvist as principle company accountant until the AGM 2019.

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.

#### 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 2018

executive management consisted of the President and CEO, the CFO, the COO, the Business Area Manager of Construction, the Business Area Manager of Civil Engineering and Industry and the Business Area Manager of Project Development. As of 1 November 2018 CCO was included in executive management.

Executive management meetings are held once a month and focus on managing the business, following up the business plan and strategic matters. Heads of Group staff teams and other officers are called to attend meetings when needed.

#### 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 Business Area Manager and consisting otherwise of operational managers in the business area and staff members. The Business Area Managers are responsible for managing each operation and for running the line organization by delegating responsibility and authorizations. Business Area Managers are responsible for ensuring their business units in the Group maintain good internal control and follow relevant policies as well as other adopted documents, processes and tools.

#### GROUP FUNCTIONS

The Group functions, which support both executive management and operations in the business areas, strategically and in day-to-day operations, were divided into the following teams in 2018;

- Production oriented functions
- Finance and treasury oriented functions
- Communication

#### 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 make their own business plans.

To provide support for a cross-functional workflow within the Group executive management has delegated some work and decisions to a number of councils and groups consisting of representatives for different group functions and, in certain cases, representatives of business area management. Every council or group has a specific mandate and decision-making process, and they all report to executive management. In addition, executive management has formed a joint action group consisting of executive management, deputy business area managers and heads of Group functions. This joint action group meets around once a quarter and functions primarily as a reference group for change processes, strategic matters and frameworks as well as for anchoring decisions made by executive management.

#### INTERNAL CONTROL AND GOVERNING

The purpose of the governance and internal control process is to provide the Board, management and other stakeholders with a reasonable assurance that Peab's goals are met regarding business management and an appropriate and efficient organization, reliable internal and external reporting and that applicable laws, regulations and other rules are followed.

Peab's Board of Directors is responsible for ensuring that there are efficient procedures and systems managing and controlling financial reporting. The principles of this process are established in the Policy for internal governance and control and are based on COSO's (Committee of Sponsoring Organizations of the

Treadway Commission) framework for internal control and is described below.

#### CONTROL ENVIRONMENT

The control environment is founded on Peab's core values: Down-to-earth, Developing, Personal and Reliable and comprises our organization's structure, internal regulations and steering documents, delegation and limitation of responsibility, competence recruitment and monitoring internal governance and control. The Board is ultimately responsible for the general governance of Peab and control over the risks that accompany the business. Executive management is responsible for developing and implementing Peab's internal governance and control structure in operations, including our organization's structure, responsibility delegation and mandates, competence recruitment and follow-up. The Board, executive management and other senior officers should in word, deed and decision be models of integrity and ethics, follow Peab's core values and, in general, walk the talk.

#### INFORMATION AND COMMUNICATION

Executive management is responsible for communicating, in a way that is relevant and clear to our organization, Peab's goals and risk levels as well as how internal governance and control works. This is done through different information and communication forums like Peab's intranet, Peab's business management system, documented reporting channels regarding financial information etc.

#### RISK ANALYSIS

Risk analyses are carried out based on the established goals in different sections and levels of Peab's business. Risk analysis on an operational and project level is performed according to the process described in Peab's business management system. An overriding risk analysis that includes risk management of every identified material risk is performed annually in each business area and thereafter by executive management, after which it is reported to the Board. A detailed description of risks and risk management in Peab is found the section Risks and risk management.

#### CONTROL ACTIVITIES

Each year the Board adopts the Board's working program, instructions for the CEO and Board committees, Peab's Code of Conduct, Finance Policy, Information Policy and Policy for Internal Governance and Control. The AGM annually adopts the Remuneration Policy.

The other main control activities take place in daily operations based on each individual employee's responsibility for self-monitoring related to their position, defined work method, processes and steering documents that are available through Peab's business management system and Peab's intranet.

An example of steering documents are those concerning decision-making authorization for any kind of major decision, which includes requirements for special approval by executive management or a body appointed by executive management to handle the acquisition or divestment of property, operations and other major investments as well as the tender process, with predefined levels for each position. The principles for appointing board members and signatories in Group companies are adopted centrally.

Peab has a whistle-blowing system that is open for both employees and other stakeholders that makes it possible for the reporter to remain anonymous.

#### MONITORING

The Board regularly monitors and evaluates how effective Peab's internal governance and control structure is through the information the Board receives from executive management and Board committees. Every board meeting reviews Peab's financial situation and position as well as the resulting strategies. Before a board meeting members receive extensive financial reports regarding Peab's development. A corresponding review is made by executive management and business area management. Managing and monitoring financial reporting is evaluated 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 and concluded 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.

#### OTHER MANDATORY INFORMATION IN ACCORDANCE WITH CHAPTER 6, SECTION 6 OF THE ANNUAL ACCOUNTS ACT

- Direct and indirect shareholdings in the company that represent at least a tenth of the number of votes of all the shares in the company are presented in the Board of Directors' report under the Peab Share.
- There are no limits in articles of association regarding how many votes individual shareholders can have at the AGM, which is also made clear in the Board of Directors' report under the Peab Share.
- The articles of association stipulate that the appointment of Board members takes place at the company's AGM. The articles of association do not contain any stipulations regarding the dismissal of Board members or changes in the articles of association.
- Authorization of the Board by the AGM to decide on new issues of Peab shares is presented in the Board of Directors' report under the Peab Share.
- Authorization of the Board by the AGM to decide on the purchase of own shares is presented in the Board of Directors' report under Holdings of own shares.

#### 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 executive management.

##### Deviation

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

### **ENGAGEMENT AND RESPONSIBILITY**

It is the Board of Directors who is responsible for the Corporate governance report for the year 2018 on pages 124 –127 and that it has been prepared in accordance with the Annual Accounts Act.

### **THE SCOPE OF THE AUDIT**

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the Corporate governance report. This means that our examination of the Corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### **OPINIONS**

A Corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Förslov, March 28 2019

KPMG AB

**Dan Kjellqvist**

Authorized Public Accountant