

PEAB ANNUAL REPORT 2005

CONTENTS

- Net sales increased by 16 per cent to SEK 25 501 million (22 039)
- Operating profit amounted to SEK 747 million (577)
- Profit for the year amounted to SEK 855 million (389)
- Profit per share amounted to SEK 10.06 (4.56)
- Orders received increased by 12 per cent to SEK 24 227 million (21 559)
- Order backlog increased by 11 per cent to SEK 17 722 million (15 899)
- The Board proposes an increased dividend per share to SEK 3.00 (2.50)

Financial summary	**2005**	2004
Net sales, MSEK	25 501	22 039
Profit after net financial items, MSEK	824	521
Return on capital employed, %	17.1	13.4
Return on equity, %	28.7	15.4
Earnings per share, SEK	10.06	4.56
Dividend per share, SEK [1)]	3.00	2.50
Equity/assets ratio, %	24.4	23.1
Net debt, MSEK	1 893	1 666

1) For 2005, proposed by the Board to the AGM

Welcome to Peab's Annual General Meeting

Time and place

The Annual General Meeting (AGM) of Peab AB will be held at 3 pm on Wednesday, 17 May 2006 at Grevieparken, Grevie.

Notification

Notification of participation in the meeting must be submitted at the latest by 2 pm on Friday, 12 May 2006. Notification may be submitted by telephone on +46 431 890 00, by post to Peab AB, Information, SE-260 92 Förslöv, or via the company's website at www.peab.com/agm. To participate in the AGM shareholders must be registered in the share register kept at the Swedish Securities Register Centre, VPC AB, by Thursday, 11 May 2006 at the latest. Shareholders who have registered their shares in trust must have registered such shares in their own names at the latest by this date. Shareholders should request trustees to undertake such registering a few days in advance.

Dividend

The Board of Directors proposes to the AGM a dividend of SEK 3.00 per share for 2005. The proposed record day is Monday, 22 May 2006. If the AGM approves the proposals submitted, it is proposed to distribute dividends from the VPC on Friday, 26 May 2006.

»In general, costs can be reduced by up to 10 -15 per cent if we can exploit all the benefits of trust-based contracts«

Mats Paulsson
MD, Peab

We have more to give

2005 will be remembered as one favourable year to the Nordic building and construction market. Judging from the demand and order situation, 2006 may also develop in a positive direction, providing conditions in the environment are equivalent.

During the year orders received by Peab increased by 12 per cent compared with the previous year and the order backlog at the end of the year amounted to SEK 17.7 billion. For the first time in Peab's history sales exceeded SEK 25 billion during a single financial year, which together with the widening operating margins resulted in increased operating profit amounting to SEK 747 million (577).

Our order books look good and we are well positioned within the segment where we expect continued strong demand, i.e. in housing construction and civil engineering works. Our ambition is to further develop and enhance the efficiency of actual production while keeping costs under control.

The questions we at Peab sought to answer during the year were urgent in nature, such as how we could enlist the right skills for our projects, whether or not the profiles of our managers and leaders were right, whether we had adequate resources to provide what our customers could rightfully demand of us or whether we choose those assignments which are best suited for Peab.

Yet another constantly recurring subject was whether it is possible to further reduce the final price customers have to pay. I am convinced that we can if together with our customers, focus even more intensely on good long-term and more efficient planning of projects. In general, costs can be reduced by up to 10 -15 per cent if we can exploit all the benefits of trust-based contracts. In other words, by getting involved in projects at the earliest possible stage, using ready-made systems and series building, further developing logistics and learning the lessons of previous comparable projects. Working together in this way provides clear incentives both for customers and the contractor. Where trust-based contracts are concerned, we have for many years provided a 5-year guarantee, which today is the norm throughout the sector. You will find a more detailed account of Peab's trust-based contracts in Peab's Business on page 9.

At the end of the 1990s, we decided to retain our local branch offices, of which we have more than 100 around the country, as we operate in most municipalities in the country. Time has shown that we took the right decision back then and the contacts our employees enjoy with local networks are creating a firm foundation for an even larger share of trust-based contracts.

We are also intensifying our efforts to minimise the number of errors out on our building sites. Studies show that an unnecessarily large amount of time is spent correcting faults, so there is major potential for savings here which we need to exploit. We also have an ambition to achieve a zero tolerance of accidents or near accidents on our building sites, and therefore we are continually providing information and training tailored according to our employees areas of work. Such initiatives are primarily aimed at preventive work environment work.

During the past year we have also observed new phenomena in the building and construction market. Not only are foreign labour and foreign building materials slowly altering the picture, but we have seen foreign players taking an increasing share of the Nordic tender cake, and they have also displayed an innovative and interesting approach to development and construction technology. Naturally, we must learn from these good examples.

In my opinion, Peab must make demand on domestic suppliers first before we start seeking human resources and construction materials outside our borders. Consequently, it is extremely important for us to be an attractive enough company to recruit the best possible personnel. And recruitment will be one of the key issues in forthcoming years, as competition for manpower is going to be razor sharp.

In the future we must use our resources more efficiently. For example, during the summer half we could work shifts on road projects. This will provide major benefits for all concerned in the form of reduced costs, improved quality and less disruption to road traffic. Many will benefit if this can be done.

Mats Paulsson, MD Peab

The Peab share

Peab's B-share is listed on the O-list of the Stockholmsbörsen. As at 31 December 2005, share capital in Peab amounted to SEK 872 million divided into 87,195,944 shares with a par value of SEK 10. The share capital is divided between A- and B-shares.

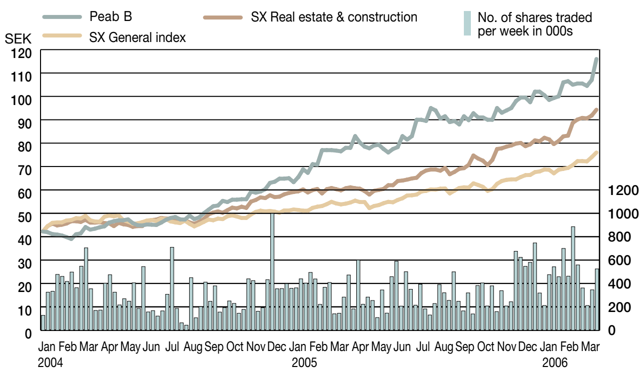
Trading in the Peab share

During 2005, 17.8 million shares (17.2) were traded, equivalent to 71,000 shares per trading day (68,000). At the end of 2005 the market price of the Peab B-share was SEK 102.00 (65.00), which is equivalent to a market value of SEK 8,894 million (5,668). A number of analysts monitor and make analyses of Peab. A list of these analysts can be found on page 79 and on our website at www.peab.com/analysts.

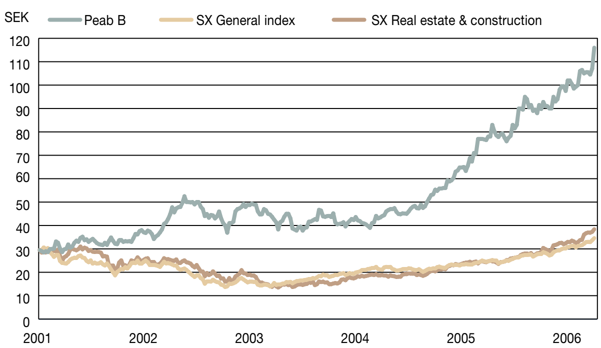
Dividend policy

The dividend should be in a reasonable proportion both to the long-term evolution of profits and the company's consolidation requirements, liquid funds and position in general. Peab's financial objective is that the dividend to shareholders should amount to at least 50 per cent of profit after tax. An increased dividend up to SEK 3.00 per share (2.50) is proposed for 2005. The dividend proposal corresponds to a direct return of 2.8 per cent based on the closing price on 15 February 2006. Calculated as a share of the Group's reported profit after tax, the proposed dividend is 30 per cent (55). Calculated as a share of the Group's reported profit after tax excluding the result of market valuation of the conversion rights in Brinova at SEK 146 million (26) and the non-recurring effect of a deferred tax receivable of SEK 211 million, the proposed dividend amounts to 51 per cent (59). Calculated based on the outstanding shares 31 December 2005, that entitle holders to dividends for the 2005 financial year, the proposed dividend implies a total dividend sum of SEK 255 million (212).

Peab B-share performance since 2004



Peab B-share performance since 2001



Incentive scheme

Peab has no share-related or option-related incentive schemes.

Convertible debentures to employees

During June 2005 all staff of the Group, excluding external Board of Directors and Managing Director, were offered the opportunity to acquire convertible debentures in Peab. The convertibles of nominal SEK 478.5 million were oversubscribed. A total of SEK 5.5 million convertible debentures were issued, each with a nominal value of SEK 87, to a total value of SEK 478.5 million. Of the 10,765 employees who received the offer, 1,932 subscribed for convertible debentures. The convertible debentures run from 16 June 2005 to 15 June 2008 with a coupon of 2.69 per cent. The debentures may be converted to B-shares from 1 to 15 October 2007 and from 1 to 15 April 2008.

Repurchase of own shares

As at the AGM of 12 May 2005, Peab's portfolio of own shares amounted to 2,209,800 B-shares. The AGM resolved to authorise the Board of Directors to repurchase a maximum of 8,700,000 shares in Peab AB during the period prior to the next AGM. This authorisation was not exercised during the year. Since the AGM, Peab has divested 116,600 B-shares, as part of the purchase price of a company acquisition. Peab's holding of own shares as at 31 December 2005 amounted to 2,093,200 B-shares, equivalent to 2.4 per cent of the total number of shares.

Data per share

	2005	2004	2003 [1]
Earnings, SEK	10.06	4.56	2.67
– after complete conversion	9.84	4.56	2.67
Equity, SEK	39.34	30.84	26.66
– after complete conversion	36.96	30.84	26.66
Cash flow before financing, SEK	6.33	3.62	-4.48
– after complete conversion	6.12	3.62	-4.48
Share price at year-end, SEK	102.00	65.00	43.60
Share price/equity, %	259	211	163
Dividend, SEK [2]	3.00	2.50	2.20
Yield, % [3]	2.9	3.8	5.0
P/E ratio [3]	10	14	16

1) For 2003, not adjusted in accordance with the IFRS
2) For 2005, proposed by the Board to the AGM
3) Based on closing price at year-end

Changes in share capital between 1974-2005

Year		Change, MSEK	Total, MSEK
1974	New issue	0.1	0.1
1978	Bonus issue 9:1	0.9	1
1983	Bonus issue 7:1	7	8
1986	Split 10:1	—	8
1986	Bonus issue 1:4	2	10
1987	New share issue 1:2	5	15
1989	Bonus issue 2:1	30	45
1992	Directed new share issue	63	108
1993	Directed new share issue	25	133
1994	New share issue 3:1	398.9	531.9
1997	New share issue 3:10	159.6	691.5
2000	Conversion	148.7	840.2
2000	Subscription	1.2	841.4
2002	Subscription	30.6	872

List of shareholders 28 February 2006

Shareholder	A-shares	B-shares	Total no. of shares	Prop. of capital, per cent [1]	Prop. of votes, per cent [1]
Erik Paulsson with family and company	3 487 890	3 699 514	7 187 404	8.3	22.0
Mats Paulsson with company	2 787 117	4 655 590	7 442 707	8.5	18.5
Mohammed Al-Amoudi with company		18 854 865	18 854 865	21.6	10.7
Fredrik Paulsson with family and company	1 186 429	1 476 750	2 663 179	3.1	7.6
Stefan Paulsson with family and company	1 186 430	1 461 356	2 647 786	3.0	7.6
Svante Paulsson with family and company	491 688	728 880	1 220 568	1.4	3.2
Sara Karlsson with family and company	508 040	348 019	856 059	1.0	3.1
Karl-Axel Granlund with company		4 025 000	4 025 000	4.6	2.3
Robur funds		1 479 445	1 479 445	1.7	0.9
Länsförsäkringar funds		1 054 200	1 054 200	1.2	0.6
Handelsbanken funds		777 665	777 665	0.9	0.5
Other	158 108	36 735 758	36 893 866	42.3	21.8
Total outstanding shares	**9 805 702**	**75 297 042**	**85 102 744**		
Peab AB [2]		2 093 200	2 093 200	2.4	1.2
Total registered shares	**9 805 702**	**77 390 242**	**87 195 944**	**100.0**	**100.0**

Source: VPC, Peab
1) Of total registered shares
2) As per 28 February 2006 a total of 2,093,200 B-shares had been repurchased

Shareholder agreement

As far as the Board is aware, there are no shareholder agreements between Peab AB shareholders.

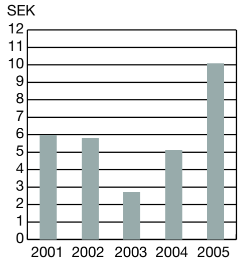
Distribution of shareholdings 28 February 2006

Number of shares	Number of shareholders	Number of shareholders, per cent	Proportion of capital, per cent	Proportion of votes, per cent
1– 500	8 383	51.1	2.1	1.0
501– 1 000	3 979	24.3	3.8	1.9
1 001– 5 000	3 179	19.4	8.8	4.4
5 001– 10 000	435	2.7	3.8	1.9
10 001– 15 000	126	0.7	1.8	1.0
15 001– 20 000	62	0.4	1.3	0.6
20 001–	237	1.4	78.4	89.2
	16 401	**100**	**100**	**100**

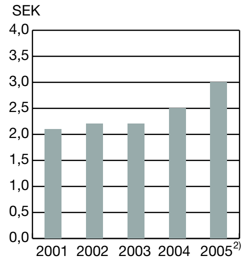
Distribution of shareholdings 28 February 2006

Share class	Number	Number of votes	Proportion of capital, per cent	Proportion of votes, per cent
A	9 805 702	10	11.2	55.9
B	77 390 242	1	88.8	44.1
	87 195 944		**100**	**100**

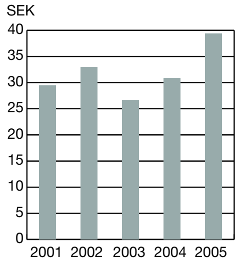
Earnings per share [1]



Ordinary dividend per share

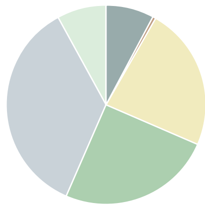


Equity per share [1]



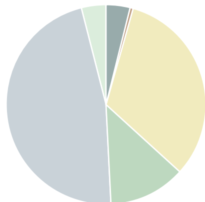
1) For 2001-2003, not adjusted in accordance with the IFRS
2) For 2005, proposed by the Board to the AGM

Owner categories, proportion of capital 28 February 2006



Financial companies and trust funds	7.8%
Central and local government	0.2%
Other Swedish legal entities	23.3%
Foreign resident owners	25.1%
Swedish private persons	35.6%
Other	8.0%

Owner categories, proportion of votes 28 February 2006



Financial companies and trust funds	3.9%
Central and local government	0.1%
Other Swedish legal entities	32.5%
Foreign resident owners	12.5%
Swedish private persons	47.0%
Other	4.0%

Source: VPC

Business concept

Peab is a construction and civil engineering company, whose guiding principle is total quality at all stages of the construction process. Through a combination of innovative thinking and sound professional skills, we aim to make our clients' interests our own and thereby build at all times for the future.

The business concept in six points

- Peab is an out-and-out **construction and civil engineering company** which does not compete with its customers who own the buildings. The Group consists of a chain of collaborating production resources capable of handling the entire construction process from start to finish. The companies of the Industry business area safeguard access to raw materials and services for the construction and civil engineering business. Peab's network of subcontractors and subsuppliers reinforces the company's stable and independent position in the Nordic construction market.
- Providing **total quality** at all stages of the building process is an important instrument in the competitive arena where Peab operates. Our customers must view the price-quality ratio we offer as being the best in the market. We strive to be a leading company as far as quality development and cost consciousness is concerned. The Peab brand must be associated with high quality.
- When developing construction methods and materials it is important to have a well-considered equilibrium between, on the one side, the tried and tested, and on the other, **innovation**. Together with our customers we concentrate on being in the vanguard both of planning and of project engineering. By developing logistics solutions and new purchasing channels we are creating the basis for reduced end-costs while retaining or improving quality.
- In order to provide the quality we promise and which our customers expect, we must have employees with a high level of **professional skills**. It is important for us to offer our employees opportunities for personal development and training. Professional expertise and professional pride are a matter of honour in the master builder company Peab. For us it is important to be an attractive employer, and therefore we train all managers in Peab's basic values and leadership.
- Peab's trust-based contracts are the ones where we complete the assignment in close cooperation with our **customers**, who participate in the entire planning and production process, thereby creating mutual trust, which usually results in long-term customer relations. All relations with customers must be marked by creativity and sensitivity to their needs, with the ambition to exceed expectations.
- Peab prioritises sustainable development and deep environmental awareness. For us building for the future means that what we build today must also meet tomorrow's demands for well considered environmental work. The strength of the Peab brand lies in our ability to **build for the future**.

Peab converted the Traneberg Bridge in Stockholm for the Swedish National Road Administration. The contract which was started back in 1999 was completed in the summer of 2005. The contract which was worth almost half a billion Swedish crowns included the conversion of the existing road and tube train bridges and connecting roads with viaducts, and the new construction of such items as a surface water reservoir and noise barriers.

At the dock area in Västra Hamnen, in Malmö, Peab is building a new district, kv Fyren. For this Peab, JM and Wihlborgs Fastigheter have set up a jointly owned company, Dockan Exploaterings AB, the main task of which is to plan and market the area.

Peab's business

Peab is a construction and civil engineering company with strong ties with the master builder companies of old, which stood for dedication, decisiveness, farsightedness and trust – the same ideals which apply today in the modern and much larger Peab. Just as the master builders of yore took good care of their customers, the Peab of today establishes stable relations based on respect and honesty.

Out-and-out construction company

Peab does not compete with its property-owning customers. This important stance lay behind the decision in 1999 to divest all buildings not owned for the purpose of improvements. Besides making the company more easily analysable by the capital markets, our customers know that we only have one core approach – to constantly work on optimising the relationship between end product and end price. We clearly focus on building and construction.

In order to constantly succeed in living up to our customers' expectations, within the group it is important to have access to significant parts of the product resources required by the construction process, to continue developing production methods and to employ skilled staff.

Peab's continued development will be based on providing the best possible foundation for the production units, among other things through increased cooperation between the various parts of the group under the motto of "One Peab". We are also working hard on improving the purchasing system and creating new sales channels. A third approach is to continue developing the down-to-earth and simple company, to fight against counterproductive red tape and administration.

Cost consciousness

Within Peab we seek to do things in a simpler way and thus also more worth its price. In this respect too, there are links going back to the old master builder tradition. There must be nothing "odd or remarkable" about things, just down-to-earth good common sense. The fact that Peab's head office is still located in Förslöv in north west Skåne is part of our cost conscious approach while also forming part of a long-term tradition. Peab first started up in Förslöv and this is as good a reason as any for staying put, and the fact that the costs involved are only a fraction of what they would be in central Stockholm is an added benefit.

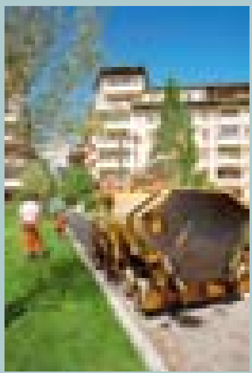
Simplicity pervades all our contacts with customers. It must be simple to deal with and get in touch with Peab. Peab must also act in partnership with customers to cut costs. This is particularly evident in trust-based contracts, where customers work together with Peab, consultants and subcontractors to create the best possible solutions both with regards to costs and engineering techniques. More efficient purchasing also saves money.

Trust-based contracts create added value

Peab works to establish long-term relationships both with customers and other business contacts, thereby building up mutual trust which is increasingly resulting in the signing of trust-based contracts. The traditional method of working in the building and construction industry has involved customers employing the services of architects and other consultants to create the bases of offers. Thus the

Peab has built 32 modern homes in the Najaden block in the attractive canal district of Trollhättan. All the apartments have varying views of the canal. They are uniquely located, calm but nevertheless central. Thanks to an efficient planning process construction could begin just one and a half years after the concept stage. Construction took 14 months.

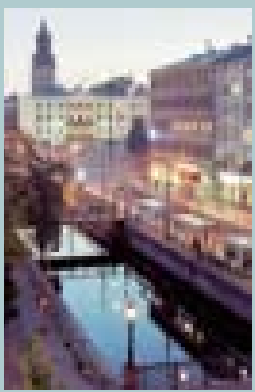
Peab Asfalt carries out all types of asphalt laying from small pedestrian and cycle paths to major motorway links.



Peab is installing district heating in the Helsingborg region and the surrounding municipalities for Öresundskraft.

Lund University has gathered all its various language and literature departments in the same building complex Peabs order consists of three conversion objects and a new library section which will tie the whole project together. The façade is of glass with elements of patented Rheinzink.

Brunnsparken in central Gothenburg is an important public transport hub with about 90,000 passengers daily. Accessibility for pedestrians, cyclists, trams and busses has been considerably increased by comprehensive conversion works carried out by Peab in the summer of 2005.



In November 2005 Kolbotn culture and activity centre Kolben was completed. Kolben is just one of several parts of a more comprehensive project which Peab is building in the municipality of Kolbotn just south of Oslo.

construction company could calculate its tender on this basis, the one offering the lowest price taking home the contract.

In a trust-based contract the customer, Peab, the architects, consultants and subcontractors all sit around the same table at an early stage to together produce the best basis for the project. By being involved from the start, Peab is better able to inject its knowledge and expertise into the project to the benefit of the customer both with regard to overall cost and quality. The construction time can also be reduced by planning as early as possible. Traditional tenders do not always involve Peab's expertise as a builder being fully exploited. Savings cannot be implemented as the project design is at too late a stage and thereby inflexible. Any changes during the performance of the project must be treated as additional work. The risk of subsequent disputes is acute.

In southern Sweden where Peab has been working longest with trust-based contracts, this type of partnership accounts for about half of all orders and the experience of both the customers and Peab has been good. Building is less costly and the quality higher while the risk of conflicts is drastically reduced. Trust-based contracts will also increase in numbers in the rest of Sweden and in Finland and Norway. However, the most important thing is that the parties involved understand and work in accordance with the model. For Peab the change in work method has pushed us towards providing more content, and not just a construction contract – and this fits in well with the way we view ourselves and our role in the construction chain.

Industrial building – standard with options

High home rental costs depend on many underlying factors, of which actual construction costs are but one. Others include land prices and municipal charges and taxes. Of the total cost of a house, Peab can only influence a minor part. Trust-based contracts where the customer and builder cooperate on a mutually satisfactory end result are one way of influencing the cost structure, and an increased industrial element in the construction process is another. Peab is more than eager to contribute to reducing costs. There is a shortage of housing in many parts of Sweden. We would like to build ourselves out of this situation.

Construction projects start from the base every time – and from two points of view. Peab is seeking to change this. Instead of re-inventing the wheel every time a new home is built, we must be able to build homes according to a previously established standard. Moreover, the system must be flexible enough for each apartment to be designed to the individual wishes of the purchaser or tenant both with regard to division of space, kitchen standards and colour design.

Peab's concrete element factory in Katrineholm is part of the increased commitment to industrial construction. The latest techniques and long-term automation means factories can produce high quality elements at the lowest possible cost. The increased industrialisation of construction sites will allow costs to be reduced while improving quality compared to houses built using traditional techniques. The reduced construction times will result in reduced costs and better quality, as, for example, exposure to poor weather conditions will be reduced thus reducing the risk of damp or fungus damage.

New purchasing system increasing competition

Increasingly industrialised building goes hand in hand with more efficient purchasing procedures. For maximum efficiency at the construction site, purchasing and deliveries must take place smoothly. In the longer term, in principle the purchasing process as a whole can be standardised depending on the type of building to be put up.

During the year, Peab's electronic purchasing and order system, PIA, was commissioned and this will result in savings at several levels. The work of purchasing involves comparing current purchasing agreements with each other and phasing out those with the poorest price and quality terms. What we must do is exploit Peab's size as a buyer and obtain improved prices through coordinated purchasing agreements. We must also find new suppliers in the Nordic countries or in new purchasing markets capable of offering better terms with regard to price, quality and delivery capacity. PIA facilitates the work of local purchasers by providing centrally agreed suppliers for a growing number of product groups and for construction sites provides opportunities for electronic ordering directly from the suppliers.

One important reason for the rapid developments in purchasing is the development in IT communications. Today, our workplaces can be linked to powerful IT support, which was impossible just a few years ago. The size of the savings the PIA system will bring us is hard to define, as it will be constantly expanded with more product groups, while we refine its use, applying it to more and more purchasers etc. However, no matter what, Peab believes it will bring about considerable savings, which will make themselves felt both in Peab's accounts and by our customers. One example of rationalisation is that Peab counts on reducing the number of material suppliers and subcontractors – from about 12,000 to about 5,000 – in just a few years.

Industry undertakings an important internal resource

The construction and civil engineering business has strong support from the companies in the Industry business area, which on the one hand guarantees capacity in the case of major projects and, on the other, tends to press down costs in certain sub-markets. Internal manufacturing resources boost flexibility to the benefit of customers too.

The Industry business area comprises four operating companies with subsidiaries. The nationwide concrete and rock materials company Swerock is one of Sweden's largest in its area; Skandinaviska Byggelement is a total supplier of concrete frames and is also responsible for the concrete element factory in Katrineholm and the floor slab and plate manufacturer S:t Eriks. Peab Asfalt deals with the manufacture and laying of asphalt, whilst the plant hire company Lambertsson provides Peab and other construction companies with machinery, cranes, sheds and other construction-related aids.

New recruitment an important question in coming years

Peab is facing a generational change over the next ten years. A significant number of white collar staff and craftsmen will be retiring while all too few newly trained students are leaving school. Overall, the situation is similar throughout the sector, so the lack of manpower is threatening to affect growth and also the possibilities of filling the needs which may arise in the market for newly constructed housing and buildings.

The increased industrialisation of the construction process is one way of boosting productivity. At the same time this results in demand for other types of expertise. Vacancies may also be filled through the import of manpower, from the new EU countries for example.

But it is not good enough to rely on these resources. For example, Peab and the construction industry must also work to attract people who today make up only a small part of staff. This involves long-term change work which has to begin at an early stage in school. But there are extremely important issues involved. Peab cannot turn down the knowledge and experience these large population groups possess. If Peab is to continue progressing as a company, it must be capable of attracting the very best staff, be they craftsmen, managers or administrators. The diversity of our employees is also a strength, not least since we ourselves are in a phase of change with regard to the content of the services we sell. Trust-based contracts clearly demonstrate the changes ahead towards concept-based sales with soft values and which are largely dependent on the ability to act as team organisations.

The Nordic construction market

Besides its Swedish operations, Peab has established its own subsidiaries in Norway and Finland, one important reason being that the Nordic construction market is undergoing a process of integration, largely as a result, for example, of Swedish, Norwegian and Finnish companies setting up in neighbouring countries. Examples would be various store chains such as Elgiganten, K-Rauta and Mekonomen. We have built for Norwegian Steen & Ström in Norway and followed up with the company when it wished to set up business in Sweden. We believe this state of affairs will continue.

The housing market in the respective countries is more local but certain experience and knowledge can be transferred from one country to another, even if various regulations hinder more extensive integration of the actual production process.

Another important reason for operating in the Nordic market is the special skills required to run a large

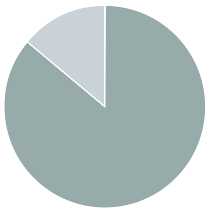
Anker student flats and hotel rooms in the centre of Oslo. Peab carried out the main contract work for the renovation of the existing building and the addition of new apartments/rooms and office space.

The library at the language and literature centre in Lund. The interior of the building is characterised by walls with birch planks and naked concrete surfaces and clinker slab and linoleum floors in the public parts. This building has been a real step forward for the employees and students of the language and literature faculties.

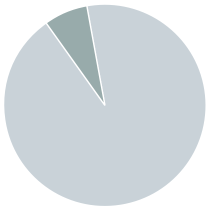
Ramlösagården in Helsingborg comprises 27 two-story apartments built by Peab. Each apartment is roughly 120 square meters. The ground floor consists of a hall, lavatory/shower, kitchen, sitting room and store room. Upstairs there is a bathroom/lavatory, three bedrooms, or two bedrooms and a living room. The apartments are generously endowed with windows including a large skylight over the workplace/stairs.

Peab's markets – share of sales

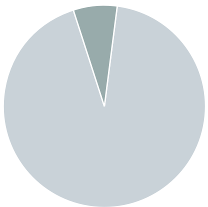
Sweden 86%



Norway 7%



Finland 7%



complex project. For example, large bridges require a large market if resources are to be deployed rationally.

Operational structure

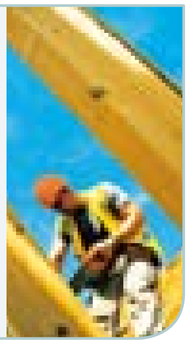
In order to increase the co-ordination and thereby diminish costs while maintaining high quality and market presence, the Group has an operational organisation. Focus is on production, which is why support functions and support resources are located as far out in the organisation as possible.

Operational structure

Business sector Construction

Sweden
- Southern Division
- Western Division
- Housing Division
- Stockholm Commercial Division
- North Eastern Division
- Project Development Division

Abroad
- Norway
- Finland



Business sector Civil Engineering/Industry

- Civil Engineering Division
- Swerock
- Skandinaviska Byggelement
- Peab Asphalt
- Lambertsson

Reporting structure

The Group reports in three business areas: Construction and Civil Engineering, Industry, Trust/Management.

Net sales and operating profit per business area

	Net sales		Operating profit		Operating margin	
MSEK	2005	2004	2005	2004	2005	2004
Construction and Civil Engineering						
Sweden	18 920	16 494	586	412	3.1%	2.5%
Abroad	3 510	2 775	–88	12	–2.5%	0.4%
Total	**22 430**	**19 269**	**498**	**424**	**2.2%**	**2.2%**
Industry						
Swerock/Asphalt	3 870	3 550	247	185	6.4%	5.2%
Plant/Cranes	650	580	133	123	20.5%	21.2%
Total	**4 520**	**4 130**	**380**	**308**	**8.4%**	**7.5%**
Trust/Management	**95**	**64**	**–131**	**–155**		
Elimination	–1 544	–1 424				
The group	**25 501**	**22 039**	**747**	**577**	**2.9%**	**2.6%**

Financial objectives

Peab's present financial objectives apply from and including 2005. These objectives are an expression of the company's financial goals as an out-and-out construction and civil engineering company.

Financial objectives

- Return on capital employed should amount to at least 12 per cent
- Return on equity should amount to at least 15 per cent
- Equity/assets ratio must exceed 25 per cent
- Dividend to shareholders should amount to at least 50 per cent of profit after tax
- Cash flow before financing should be positive and rising

Profitability is the overriding objective of the Group. Expressing profitability in the form of return on capital employed, takes the differences in tied up capital in the Group's operations and the differences in tied up capital depending on the type of project into consideration. For internal control, this objective is complemented by profitability requirements in the form of operating margin targets.

Return on capital employed amounted to 17.1 per cent (13.4) in 2005.

Return on equity is used as a key ratio at Group level and amounted to 28.7 per cent (15.4) in 2005.

The equity/assets ratio target is 25 per cent, which is a suitable capital structure for Peab after refinement of the company to an out-and-out construction and civil engineering company. If the equity/assets ratio is expected to exceed this level on a permanent basis, the capital should be transferred to the shareholders in the appropriate form. As at 31 December 2005, the equity/assets ratio totalled 24.4 per cent (23.1).

Dividend should be in a reasonable proportion to the development of Peab's profits and consolidation requirements. An increased dividend up to SEK 3.00 per share (2.50) is proposed for 2005. Calculated as a share of the Group's reported profit after tax, the proposed dividend amounts to 30 per cent (55). Calculated as a share of the group's reported profit after tax excluding the result of market valuation of the conversion rights in Brinova at SEK 146 million (26) and the non-recurring effect of a deferred tax receivable of SEK 211 million, the proposed dividend amounts to 51 per cent (59).

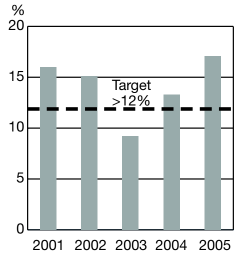
Cash flow before financing should be positive and rising. Earned cash should either be reinvested in the business or distributed to shareholders. Annual cash flow before financing amounted to SEK 538 million (307). The improved cash flow stems from improved profitability in the current operation and a positive change in working capital.

Seen from an investor's perspective, it is Peab's objective that shareholders enjoy a high return, partly as dividends and partly in the form of value growth on invested capital.

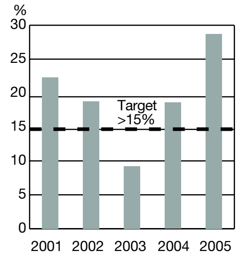
	Target	2005	2004	2003 [1]	2002 [1]	2001 [1]
Return on capital employed	>12%	17.1	13.4	9.2	15.1	16.0
Return on equity	>15%	28.7	15.4	9.2	18.8	22.3
Equity/assets ratio	>25%	24.4	23.1	21.8	28.2	24.8
Dividend [2]	At least 50% of profit after tax	30	55	82	38	36
Cash flow before financing, MSEK	Positive and rising	538	307	–379	808	633

1) For 2001-2003, not adjusted in accordance to the IFRS
2) For 2005, proposed by the Board to the AGM

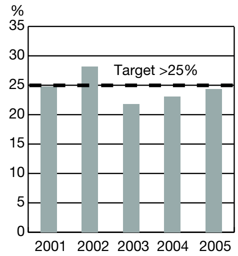
Return on capital employed [1]



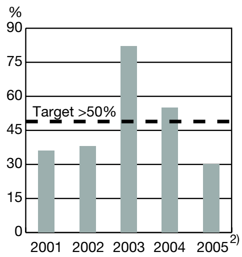
Return on equity [1]



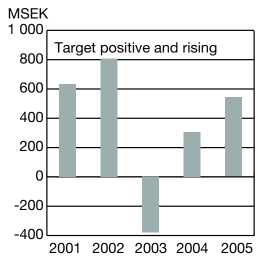
Equity/assets ratio [1]



Dividend/profit after tax [2]



Cash flow before financing[1]



1) For 2001-2003, not adjusted in accordance to the IFRS
2) For 2005, proposed by the Board to the AGM

Market and competitors

The Swedish construction market

In 2005, overall building and construction investment in Sweden increased by 7 per cent (according to the Swedish Construction Federation). This is a drastic increase and on several sides there are signs of shortages of resources, above all professionally trained craftsmen. This also applies to our subcontractors, for example water and sanitation engineers and electricians. The pace of increase was greater than had been forecast at the beginning of 2005, primarily because the expected interest increases during the year swung towards a major reduction in short-term rates. Above all, the total figure is being boosted by a continued sharp increase in residential housing construction. The differences between the various sectors of the construction market are marked.

In 2005, work started on some 32,000 new housing in Sweden, which represents a doubling of figures at the end of the last century. Above all, the construction of apartments in blocks has increased by some 170 per cent whilst the building of small houses increased by 70 per cent.

During 2005 in Sweden, Peab started on the construction of 3,700 internally developed homes and home contracts for external customers, which corresponds to a market share of 12 per cent. Much of Peab's construction work involves apartments in apartment blocks, and the market share within this segment is even higher. By the end of the year, Peab was working on the construction of 5,000 housing in Sweden.

For 2006, the Swedish Construction Confederation forecasts that the number of housing starts will further increase to some 33,500 from 32,000, with the increase roughly evenly divided between apartment blocks and small houses. Compared with 2005, this is equivalent to more than halving of the growth rate, one important reason being the rising interest rates expected in 2006, which if they materialise will restrain new building. Shortfalls in resources are also contributing to lower growth rates. The prospects for 2007 point to continued growth in residential building and the increase is expected to come from the likes of increased production of tenancy rights. Just over two thirds of home building companies quote a lack of manpower as being the biggest obstacle to production, which is a considerably higher figure than that quoted by civil engineering companies and local building companies. Increased construction material delivery times also exert considerable influence.

Other obstacles to the more rapid rise in new building is the lack of building land, among other things as a result of prolonged planning processes. The long-term need for new housing starts is run-

Close to the Traneberg Bridge is an area of great natural beauty with a centrally situated marina.

Everyday some 700 people visit the Huskvarna Care Centre, which has been designed to provide good cooperation between the county council, the municipality and the dispensary. Representatives of the various organisations had a major influence on the design of the building built by Peab. Accessibility, integrity, work environment, job satisfaction, a healthy indoor climate and flexibility were all important aspects.

Growth in building in Sweden

Sector	Investment volume SEK billion 2005	Percentage change in fixed prices Outcome 2005	Forecast 2006	Forecast 2007
Residential housing	**74.8**	**17**	**10**	**4**
New constructions	48.1	21	13	3
Conversions	26.7	10	5	5
Other non-residential housing	**56.0**	**10**	**3**	**4**
Private	36.0	15	3	4
Public	20.0	2	3	3
Industry	**7.2**	**–9**	**–5**	**–5**
Civil Engineering	**54.1**	**–4**	**3**	**7**
Private	26.5	–2	–2	4
Public	27.6	–6	7	10
Total building investments	**192.1**	**7**	**5**	**4**

Source: Swedish Construction Federation ning at about 40,000 – 50,000 a year in Sweden. To achieve this figure, home building must increase by an additional 50 per cent from the 2005 level, something which in the light of the production bottlenecks which are already making their effects felt requires major efforts on the part of all parties concerned.

Peab acquired large project properties during the year to ensure the supply of land for future building projects. These areas include among other things Ulriksdalsfältet in Solna, Steningehöjden in Sigtuna and the inside of the Kockum area of Malmö.

Along with new building, investment in conversions has grown as a consequence of major maintenance needs, low interest rates and the ROT tax allowance for building works. The effect of the ROT allowance throughout the country has been estimated at some SEK 2 billion annually. Peab is affected only very little by this, but feels the indirect effect as it increases shortages as far as e.g. craftsmen are concerned.

The Swedish Construction Confederation assesses that the increase in total building investment in Sweden will decline from 7 per cent in 2005 to 5 per cent this year. Investment in the housing sector will decline from 17 per cent growth to 10 per cent, of which most will stem from new building. Investment in other buildings besides housing will increase by 3 per cent (it increased by 10 per cent in 2005), of which public investment increases with 3 per cent. Private investment also is assessed to increase with 3 per cent compared to the previous year. The prospects for other residential building continue to look bright for 2007 with a rate of growth of 4 per cent.

Among private investments in the Other Building segment, a relatively large number of commercial projects are noticeable. Peab has been commissioned to build new IKEA stores in Haparanda and Kalmar, and a large number of shopping centres for Norwegian customers, among others.

Building investment in industry continues to decline, in 2006 the forecast is a reduction by 5 per cent. This will be the third consecutive year that industry building investment has declined.

Civil engineering investment declined by 4 per cent in 2005. This year investment is slightly positive due to a decline on the private side. Not until 2007 will investment start to increase more substantially, to 7 per cent, when rail investment starts to expand. Increased investment in road and rail is of great interest to Peab, as we are not just a civil engineering contractor but also, through our companies within the Industry business side, a supplier of intermediate goods. Peab supplies the whole chain of products and services – asphalt, concrete, rock and gravel and machinery – so as to be capable of taking complete responsibility for supplies.

The Norwegian and Finnish construction markets

In Finland and Norway, Peab engages in construction activities, though there are also modest civil engineering activities in Norway. The centres of operations are located in the metropolitan areas. Peab is a marginal player in the other building markets of the respective countries, which means we can develop in a manner which stands out from the general building market. Naturally, this is especially true when Peab offers the market something extra or unique. This added value may consist of constructive solutions in a building project or to fulfil the local needs of a customer, faster decision making pathways or cost-effective trust-based contracts. In 2005, the home construction market was extremely good both in Finland and Norway. The commercial building market was also in a phase of expansion. The prospects in the run-up to 2006 and 2007 look to be positive too with production expected to remain or exceed levels in 2005. This especially applies to the markets in the areas surrounding the capital cities where Peab mainly operates.

The construction project cost structure

Of total production costs for a housing project, two fifths or 39 per cent are not included in the cost of actual building, but stem from the purchase of land, municipal charges and taxes, various developer costs such as project design, control, insurance and interest costs during the construction period. In addition, we have VAT which amounts to 17 per cent of the total production cost.

By far the largest cost item in the remaining three fifths of the construction costs is for materials, which account for almost half or 45 per cent. The total wage and salary costs amount to 36 per cent, 27 per cent of which stem from subcontractors' building workers and craftsmen. Transport, machinery and other costs account for the remaining 19 per cent.

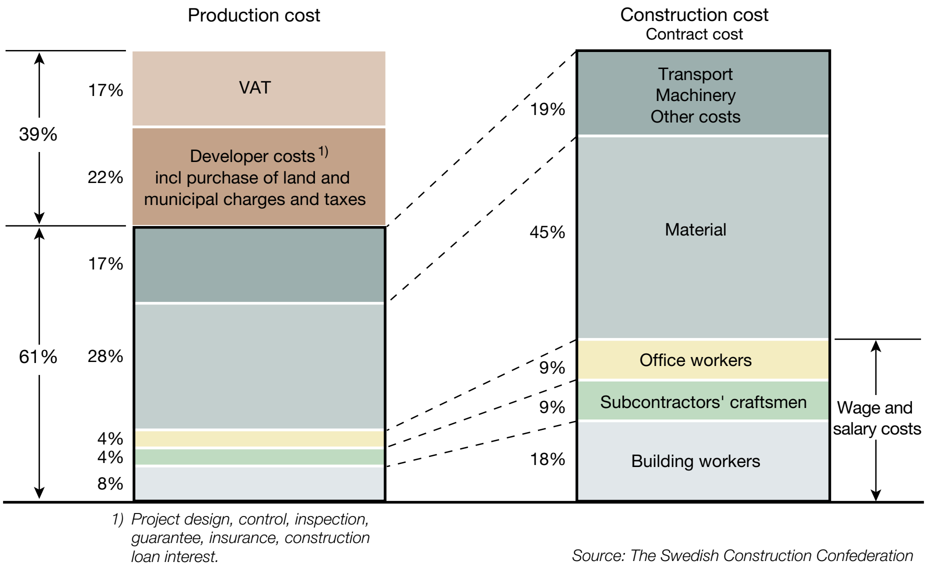
Peab has built Östra High School in Skogås in the Municipality of Huddinge – a modern high school with capacity for 600 pupils. This is Huddinge's largest school construction project since the seventies.

In August 2004, the first sod was cut by Peab for Töcksfors Shopping Centre in Värmland, ten kilometres from the Norwegian border. The building was built on a single level of 27,000 square meters intended for commercial activities and a basement parking area of the same size.

Finnforrest Modular Office in Esbo, Finland, is the highest timber building in Europe. It shows how wood can be used as a facing material even on large office blocks. The building is five storeys high and has a total floor space of 8,000 square meters. Peab was the main contractor.

Peab built Åre Station for Åre Centre AB. The building contains a waiting room, shops, a museum, a travel centre, parking facilities, a library and other installations.

Costs in a housing project



In 2005, Peab started to work with PIA, Peab's Purchasing and Ordering System, in order to reduce purchasing costs by coordinating them. This is the single largest cost item in a housing project and definitely the largest item which we builders are able to influence.

Asunto Oy Hämeenlinnan Vanajanranta in Finland is a good example of Peab´s high standard and good quality housing construction.

The competitive situation

Peab is Sweden's third largest building and construction company with total sales of SEK 25 billion. On the Swedish construction and civil engineering market external sales reached approximately SEK 22 billion, equivalent to a market share of about 10 per cent. The largest domestic competitors are Skanska and NCC, which have sales in excess of Peab's, whilst JM's are less.

The trend is towards ever larger numbers and greater trans-frontier tenders, which is increasing competition from major European building and construction companies too. In local and regional markets, in general competition comes from a large number of small and medium-sized construction companies. Continued consolidation is evident in the sector with larger companies buying up smaller ones. Peab is one of those players, buying up companies to strengthen its local presence in selected locations.

Like Peab, Skanska and NCC work throughout Sweden on all types of construction and civil engineering works. They also have similar resources to Peab's on the Industry side, though NCC has divested its own plant hire and concrete business. JM competes principally in the development of housing projects in the major towns and cities.

For many years the construction industry has suffered from narrow margins, intense pressure on prices and intense competition. Contributory factors have been the low entry barriers to the sector as a consequence of the large proportion of craftsmen's work involved and the fact that building has traditionally been financed by payment in advance or on account. The intense competition has also been reflected in tenders being submitted for high prestige projects where margins were intentionally narrow or where all too high risks have been accepted.

Peab carried out the dredging working in the Port of Smygehamn. Peab also built a pumping facility with conduits for the circulation of sea water in the harbour area.

In recent years an intensified focus has been taken to profitability. Like several other construction companies, Peab has chosen not to submit tenders for projects where the risks were inadequately documented or all too negative from the tenderer's point of view. All major construction companies engage in a variety of projects aimed at reducing costs and increasing the service content of the building process. For these measures to succeed, e.g. coordinated purchasing from new supplier countries, a certain volume and size is required. This may result in the largest companies starting to exploit the economies of scale as has been the case in other sectors of the business world.

Peab takes a positive view of the opportunities for increasing margins in the construction business over the forthcoming years through a combination of more qualified services, for example trust-based contracts, and reduced costs through progressive purchasing initiatives and increased industrial building, all of which will benefit the customers, the industry as a whole and the shareholders.

Peab’s employees

Ever since Peab was founded, staff have been at the centre of focus. By constantly striving to be the best employer in the sector over the years we have had good access to skilled personnel.

Age structure

Like most companies in Swedish industry, Peab is facing a comprehensive generational change among its employees. In just one five-year period more than 1,000 of Peab’s current workforce will have retired. A number of these employees today hold positions as managers. The age distribution diagram below shows that Peab is in the process of recruiting large numbers of employees whose age is less than 30. The age distribution also shows that the 41-50 age group is under-represented on the Peab staff. This is a residual effect of the reductions throughout the whole construction and civil engineering business in the nineties.

Recruitment needs

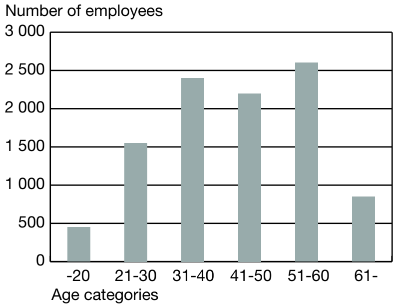
Plans for recruiting new employees to Peab over the next five years are based on the following foundations:

- old-age retirement considerations
- possible staff churn considerations (personnel turnover)
- possible volume change considerations
- possible business change considerations

Under the current plans which include an expected normal volume growth, in future Peab will have an average need of recruitment of more than 1,000 new employees per year.

Attractive employer

Peab’s progress towards being the Best workplace in the sector is well underway. To check the progress we have made up to now a comprehensive employee survey is being carried out. We have called the survey Handshake and it is intended for all the employees. Handshake is a tool for company control and development which is intended to result in proposals for action that Peab could take to become a better workplace at all levels and a more progressive company.



Peab has built a new old persons’ apartment block for SEB and BoViva at Danvikstull in Stockholm. The apartment block has been specially fitted out for old people, among other things with housekeeper service on the ground floor.

The library in Lund. This new structure may be divided into four parts: a basement section with technical installations room and laboratory, which among other things contains an echo-proof room, the only one in northern Europe for linguistics research, an entrance hall with dining and coffee break facilities and small study balconies, a library section on three floors, and a so-called “Reading House” with work space for employees.

Commissioned by the highways department of the City of Malmö, Peab has converted Centralplan and Norra Vallgatan during 2005. The conversion also comprised renovation of the foundations of the Mälar and Petri bridges and a new surface superstructure for the bridges.

Handshake is intended to check whether we in Peab live up to our values of being Down-to-earth, Developmental, Personal and Reliable. It is also a tool intended to ensure that in the longer term we succeed in our targets and visions, such as being the Best workplace in the sector.

For Peab to be more successful in future it is important that employees and leaders have the same picture of what working life at Peab looks like. The survey will clarify whether there are any discrepancies between how managers and other employees view working life at Peab. These discrepancies or conflicts between vision and reality must act as a driving force towards change in the forthcoming years in order to create an even stronger Peab.

Peab is also making real efforts to systematise contacts with schools throughout the country. From an organisation based on local initiatives without coordination and control, a common group organisation with specialist positions is being built up. Focusing on such target groups as colleges and universities, grammar schools and secondary schools Peab is raising its profile in an aggressive and quality conscious manner to deal with the challenges of the forthcoming generational change.

Working to reduce absence through illness and healthcare work

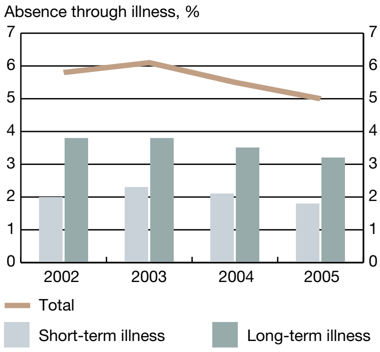
Peab is allocating major resources to preventing ill health among its staff and is much committed to reducing absenteeism through illness in the company. The preventive measures will mainly consist of the following:

- Collaboration with Previa where all employees are regularly invited to have a health check-up with motion analysis. Where necessary, checks will be followed up by specially agreed plans of action to motivate employees to live a healthier life in the future.
- Peab Leisure is a unique concept where staff with the support of the company are encouraged to make active use of their leisure. Peab's human resource policy is based on employees' needs to feel satisfied with their jobs, enjoy good health and improve in order to give of their best. Peab Leisure is an important part of the work of creating job satisfaction and solidarity at Peab. In order to succeed, Peab Leisure aims at satisfying varying interests and needs within the business areas of Sport & Health, Leisure & Hobbies and Culture & Entertainment. Examples of activities include exercise campaigns, hobby sections which employees themselves manage, art clubs, subsidised massage and exercise, pensioners' clubs and family activities.

Family activities are both an entertaining and important part of Peab Leisure. In Gothenburg, Peab Leisure made several hundred children extremely happy when it invited them to a film matinee.

We also have an ambition to achieve a zero tolerance of accidents or near accidents on our building sites, and therefore we are continually providing information and training tailored according to our employees areas of work. Such initiatives are primarily aimed at preventive work environment work.

Over the last year further work has been done at Peab on reducing absence through illness. Starting a few years ago absence through illness figures have tended to decline and compared with 2004 when absence through illness was 5.4 per cent, in 2005 this figure had dropped to 4.8 per cent.



One of the conference rooms at Peab's new offices in Solna. The architect was Archus and Tema was responsible for the interior decoration.

By further focusing on the following points absence through illness is expected to decline in 2006 too:

- Medical support, whereby all employees reporting sick receive immediate support from a doctor, who will provide advice on self care, help with writing prescriptions, help with healthcare contacts in general and other individually adapted measures intended to get the employee back to work as soon as possible.
- Peab Care, for employees who when needing surgical treatment for physical injuries find they have long waiting times in the ordinary public healthcare system. In such cases Peab offers immediate help via Peab Care.
- Special rehab action with the support of various external partners, the object of which is to get employees who have been off sick for a long time back to work as soon as possible.

Strategy inhouse personnel/subcontractors

Peab's target is to offer customers an organisation with skilled employees. Therefore the strategy is to use our own human resources as much as possible. Sometimes situations arise where Peab does not have all the right skills within its own organisation or lacks the necessary resources for a particular project. At such times we supplement our work using subcontractors in our projects and at our construction sites. We apply the agreement terms for subcontractors (UE 2000, UE 2004) of the Swedish Construction Confederation to agreements with subcontractors to ensure statutory requirements and collective agreement are complied with.

Strategy foreign manpower

Peab endorses free competition and freedom of movement in the labour markets. Therefore, when the need arises in Peab's projects or at Peab's construction sites Peab takes a positive view of the use of manpower across national borders:
Therefore, when skills or resources are lacking at home the problem has to be dealt with;

- firstly by agreement with contractors within the EU who have their own workforces
- and secondly by seconding manpower from Peab's foreign subsidiaries

In every case, Peab conforms with Swedish legislation and Swedish collective labour market agreements, and procedures are agreed with our customers. Peab does not accept the use of illegal manpower.

Training efforts – career opportunities

Peab is continuing its major leadership initiative for all managers, intended to anchor and further develop the common group value base so as to get all other employees involved in common efforts, which lays the foundation to Peab as the Best workplace in the sector. The leadership initiative runs over several years and more and more of our managers consider being able to manage oneself essential if one is to manage others. Other training initiatives are increasingly aimed at supporting the skills development needed to successfully engage in the activities in the group business plan. The view that Peab needs to describe which career routes are open to staff lies at the heart of the new training approach.

A group of Peab's size must have a clear and uniform human resource strategy and part of this is a skills development strategy. The human resource and skills development strategy must be associated with our fundamental values and the overall business objectives.

The skills development strategy cannot be exactly alike in all parts but is broken down into two parts, one for our craftsmen and one for our office workers. The common denominator and largely the foundation of an efficient skills development initiative is the performance appraisal interview (the per-

Our most important values

Today Peab has a staff of 11,000, a factor that makes it even more important to gather around a number of fundamental values; reliable, personal, down-to-earth and developmental.

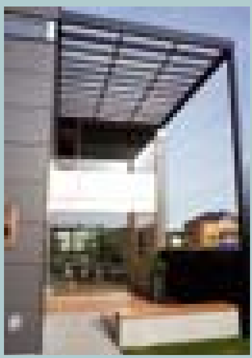
RELIABLE
Our customers must feel secure in entrusting work to Peab. Consequently, our work must reflect good business ethics, competence in what we do and professional expertise. We must plan well, we must act correctly right from the start to eliminate risks and meet promised deadlines. We must comply with laws and requirements, choose the best possible building techniques, prioritise renewable resources and avoid environmentally harmful substances.

PERSONAL
We wish to be the personal company. We must seek to create and maintain long-term good relations with our customers and suppliers through honest and confidence-inspiring dialogue. We must work towards reconciling our work assignments with family and leisure-time interests. We wish Peab to be pervaded by good communications, a happy atmosphere and respect for the individual.

DOWN-TO-EARTH
We wish to work close to our customers. Before taking on an assignment we need to be sure we have access to the resources required to do a good job. We seek to be recognised for our down-to-earth way of working with short decision-making pathways, and to be sensitive to the interests of our customers.

DEVELOPMENTAL
We must be innovative, flexible and constantly improving ourselves. We must appreciate our employees' skills and provide good opportunities for development, further education and training, transport and preventive healthcare. We wish our employees to be dedicated, to take an active part in the company and to contribute to its growing success. At Peab we must have opportunities to influence our work situation.

Ramlösagården Helsingborg. The entrance and terrace onto the garden are raised a little above ground level. A hardwood Bankirai tree is located on the terraces. The windows are set elegantly into the apartments providing generous illumination. The terrace and entrance are covered by a sunscreen.



Peab is the principal contractor for the technical construction work of building new administrative premises for the Finnish National Food Administration in Helsinki, so as to be able to directly present a smoothly functioning organisation. The construction work comprises office and laboratory buildings to high engineering requirements for food supervision and veterinary medical research.

The installation of distance heating requires meticulous work in restoring soil and ditches.

sonal self development interview) between managers and employees together with well thought out skills development options. Without a performance appraisal interview the rest of the structure is foundationless.

In the case of office workers, work is aimed at two main objectives: a program for preparing employees for their positions which takes account of risks and a structured exchange of staff between the various companies and regions where employees can in time develop and work within various parts of the company, according to the so-called learning organisation.

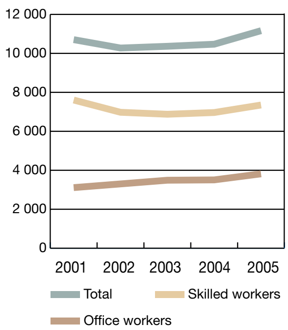
The former of these two objectives is aimed at staff who are expected to fill the various management positions which will be falling vacant in the forthcoming years. A young or new employee cannot produce the same quality of work as one with 25 years' experience despite the fact that the company will require this, but with preparatory training/programs of longer or shorter duration the transition can be made easier while at the same time we will attract new staff to choose Peab.

Many young employees are hesitant about taking the next step in their careers as they do not feel they have the skills needed. Competition for the few engineers trained for the construction industry will grow more intense. If Peab can point to good, well thought out development opportunities in the new recruitment field, we will increase our chances of getting "the best ones". The position preparation program makes life easier for everyone.

Not all knowledge can be acquired through study but work must be done on tangible issues in order to build up one's own experience. Through facilitating borrowing and lending of staff within the group, the company offers opportunities for developing its human resources and getting back a more highly skilled and more complete employee for new and varying assignments within the company.

Our craftsmen's skills need honing. Continued commitment to rolling out the value base and a new commitment to training in Peab's procedures and working methods is expected to result in a major commitment to Peab's progress towards the Best workplace in the sector. The next step is more focused action to improve the quality of team foremen and health and safety officers by offering employer tailored skills reinforcement.

Number of employees in the Peab Group



Personnel structure

At year-end 2005/2006, Peab employed about 11,000 distributed as below.

	Sweden	Norway	Finland	Total
Number of employees	10 074	391	700	11 165
- of which women	698	44	69	811
- of which office workers	3 288	243	285	3 816
- of which skilled workers	6 786	148	415	7 349
- of which below 30 years	21%	29%	35%	22%
- of which older than 57 years	20%	15%	8%	19%
- of which Construction and Civil Engineering	8 350	391	649	9 390
- of which Industry	1 688		51	1 739
- of which Central	36			36

The Directors' Report

Peab AB (publ) Swedish Corporate ID Number: 556061-4330
The board of directors and the managing director of Peab AB (publ) hereby submit the following annual report and consolidated accounts for the 2005 financial year

Operations

Peab is one of Scandinavia's leading companies in the field of construction and civil engineering. The Group primarily operates in Sweden, but also in Norway and Finland. Peab covers the whole of Sweden, while in Norway operations are restricted to the Oslo region and in Finland to the Helsinki region and also southern Österbotten. Moreover, and mainly in Sweden, operations also include supplementary construction-related Industry companies within ready-mixed concrete, concrete production and prefabrication, rock/gravel, transport, the manufacture and laying of asphalt, temporary electricity installations and plant and crane hire.

Sales

In 2005, the Group's net sales amounted to SEK 25,501 million (22,039). Of sales for the year SEK 3,763 million (3,027) corresponded to sales and production carried out outside Sweden, of which Norwegian production amounted to SEK 1,841 million (1,434) and Finnish to SEK 1,828 million (1,582).

Profit and financial position

Annual operating profits amounted to SEK 747 million, compared to SEK 577 million the previous year.

Shares in the profits of joint ventures are booked in accordance with the equity method. The year's share of profits in joint ventures amounted to SEK 23 million (2).

2005 profit after financial items amounted to SEK 824 million compared to SEK 521 million the previous year. Net financial expense was SEK 77 million (-56), of which net interest expense amounted to SEK -64 million (-66). The effect of valuing financial instruments at fair value was included in net financial items to the tune of SEK 151 million (27) (see note 9 and 33).

Annual profit amounted to SEK 855 million (389). Upon a divestment of convertible debentures in Brinova up to the booked value as at 31 December 2005 the potential tax gain should be neutralised through the exercise of previously recognised share fold losses (aktiefållanförluster) to the same amount. The annual tax cost on profit after financial items excluding the income from the Brinova convertible is estimated at approximately 27 per cent, excluding taxable one-off items. For 2005, this corresponds to tax costs of SEK 180 million. In 2005 deferred tax revenue of SEK 211 million was recognised as a result of decisions taken during the period concerning previous years' taxation, which has resulted in revaluation of deferred tax receivables. Net tax revenue of SEK 31 million was reported for 2005 compared with a net tax cost of SEK 132 million the previous year.

The equity/assets ratio was 24.4 per cent, compared with 23.1 per cent the previous year. Net debt amounted to SEK 1,893 million, compared with SEK 1,666 million the previous year. The average effective interest rate on the loan portfolio was 3.2 per cent (3.3)

The Group's liquid funds, including not utilised credit facilities, amounted to SEK 4,101 million at the end of the period, compared to SEK 3,635 million as at 31 December 2004. Liquid funds included commercial papers issued to a value of SEK 494 million compared with SEK 890 million as at 31 December 2004.

At the end of the period, the Group's contingent liabilities amounted to SEK 1,206 million compared with SEK 1,035 million as at 31 December 2004. This amount includes the SEK 167 million charge that the Swedish Competition Authority is demanding that Peab pay in the current asphalt cartel case. The Swedish Competition Authority which was demanding Peab pay SEK 227 million in its plaint reduced its demand to a total of SEK 167 million in January 2006. The main negotiations are planned to start in September 2006 and a judgement of first instance is expected in 2007. For further information see note 36.

Of other contingent liabilities obligations to tenant-owners' cooperatives under construction accounted for SEK 478 million compared with SEK 389 million at the end of 2004.

Cash flow

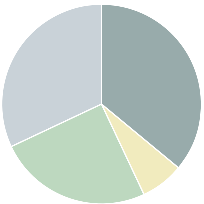
Cash flow from current operations before changes in working capital amounted to SEK 1,290 million (810). Cash flow from changes in working capital amounted to SEK -21 million (-274). The change in working capital included the divestment of project and development property to the value of SEK 86 million (acquisition 403).

Cash flow from investment activities amounted to SEK -731 million (-229), and the increase largely steams from acquisition of development land for future residential housing construction through company acquisitions.

Annual cash flow before financing amounted to SEK 538 million (307).

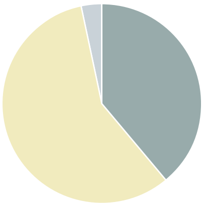
Distribution of sales Construction and Civil Engineering

Net sales per product type



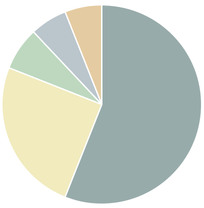
- Housing 36%
- Industry 7%
- Roads and Civil Engineering 25%
- Other non-residential building 32%

Net sales per type of customer



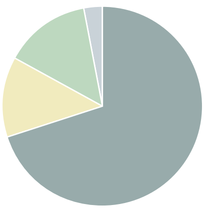
- Public 35%
- Private 52%
- Other 13%

Net sales according to type of operation



- New building 56%
- Conversion 25%
- Building services 7%
- Operation and maintenance 6%
- Other 6%

Proportion of Group net sales



- Construction and Civil Engineering, Sweden 70%
- Construction and Civil Engineering, Abroad 13%
- Industry, Swerock/Asphalt 14%
- Industry, Plant/Crane 3%

Investments

Net investment in tangible and intangible fixed assets amounted to SEK 621 million (348) during the period. The net change in shares and participations amounted to SEK 47 million (20). During the year SEK 185 million (499) net was invested in project and development properties.

Construction and Civil Engineering

The Construction and Civil Engineering business sector comprises the group's resources concerning construction and civil engineering related services. The construction business is local in nature, and is much affected by changing circumstances in the various geographical areas. Peab engages in building and construction activities throughout Sweden, and in Norway mainly around Oslo and in Finland mainly around Helsinki and southern Österbotten.

Net sales in 2005 for the Construction and Civil Engineering area amounted to SEK 22,430 million, compared to SEK 19,269 million the previous year, equivalent to a rise of 16 per cent.

2005 operating profits amounted to SEK 498 million, compared to SEK 424 million the previous year. Both the building and civil engineering markets in Sweden are enjoying increased volumes and widening margins. In 2005, the operating margin for the Swedish construction and civil engineering business sector was 3.1 per cent compared with 2.5 per cent for the whole of 2004. Successful residential building throughout the country contributed to the increased profitability. With a carefully chosen risk profile Peab's nationwide civil engineering division also help boost profitability.

Norwegian and Finnish activities reported 2005 operating profits of SEK -88 million (12). The construction business in Norway produced a small annual operating profit. The negative operating results stem entirely from Finnish construction activities in the Helsinki region. Operating results include a goodwill write-down on Finnish activities of SEK -18 million (0).

Capital employed in construction and civil engineering amounted to SEK 4,705 million (3,596). Return on capital employed in 2005 amounted to 13.0 per cent, compared with 14.1 per cent for the whole of 2004.

Sweden

Construction Sweden saw considerable growth in volume during the year with improved operating profits compared with 2004. All divisions made good progress during the year with few major problem projects. The Civil Engineering Division also made good progress during the year with good volume growth and improved operating profits. Orders received by both Construction Sweden and the Civil Engineering Division were stable throughout the year and we enter 2006 with a well-filled order book. Within Construction Sweden the driving force was housing production, primarily through internally developed construction. Residential housing construction continued to increase with extremely strong demand and is now the largest product segment for the Swedish business. Peab's efforts focusing on the construction of reasonably priced residential housing have borne fruit.

The conditions in the important Stockholm and Mälardalen markets have improved with a large range of projects. The market in the Öresund region remains strong with major demand for new housing and good growth within industry. The same also applies to the Gothenburg region. The country's other geographical markets are stable with certain regional differences.

The other high priority product segment in Sweden is road and civil engineering works and 2005 was a year of good growth and improved profitability. Market conditions are still assessed as favourable with major road and rail projects planned for the whole country. The market for infrastructure projects is particularly strong, whilst competition

Net sales and operating profit per business area

MSEK	Net sales 2005	Net sales 2004	Operating profit 2005	Operating profit 2004	Operating margin 2005	Operating margin 2004
Construction and Civil Engineering						
Sweden	18 920	16 494	586	412	3.1%	2.5%
Abroad	3 510	2 775	–88	12	–2.5%	0.4%
Total	**22 430**	**19 269**	**498**	**424**	**2.2%**	**2.2%**
Industry						
Swerock/Asphalt	3 870	3 550	247	185	6.4%	5.2%
Plant/Cranes	650	580	133	123	20.5%	21.2%
Total	**4 520**	**4 130**	**380**	**308**	**8.4%**	**7.5%**
Trust/Management	**95**	**64**	**–131**	**–155**		
Elimination	–1 544	–1 424				
The Group	**25 501**	**22 039**	**747**	**577**	**2.9%**	**2.6%**

within operations and maintenance is stiffening. Taking the country as a whole there are wide geographical variations in the supply of projects.

Important projects during the year included stores for IKEA in Haparanda and Kalmar, Polishuset in Helsingborg ordered by Fastighets AB Norrporten, offices on Blekholmen in Stockholm ordered by Jernhusen, Partille Shopping Centre for Steen & Ström Sweden, ongoing contracts on the Botnia Line, electrification of the Blekinge coast rail line commissioned by the National Swedish Rail Administration, continued construction of housing in the Dock area in the western harbour at Malmö, several internally developed housing projects such as Torshäll on Värmdö, Järla Sjö and in Nacka, the football stadium in Södertälje commissioned by a stadium company owned by the municipality of Södertälje, Leksand's ice skating hall for Leksands IF:s Fastighets AB and Musikens Hus in Uppsala for the municipality of Uppsala.

Norway

In 2005, Peab continued to show good growth in Norway. Much of the business is running smoothly but because of a couple of loss-making projects there was only a marginal improvement in the total profit.

Important projects during the year included several projects for the public sector such as a new school for 1,000 pupils in the Söndre Nordstrand suburb of Oslo, partial extensions to the University Hospital in Akershus outside Oslo and the work on Ullevål University Hospital. In addition, the commitment to housing development resulted in several major contracts such as 138 apartments in Pilestredet Park in Oslo, 53 apartments at Kolbotn Torg in the municipality of Oppegård and 154 apartments in Bueslaget in Drammen.

In 2005, the construction market in Norway grow further from an already high level. Contractors' order backlog are generally good, but there is still strong competition for both contracts and resources.

Finland

Peab in Finland are working within a larger market than previously with its centre of gravity in the Helsinki region and Southern Österbotten. The business is running satisfactorily in several regions whilst construction activities in the Helsinki region are running at a considerable loss. We take a long-term approach to Finland and we are consolidating the business while waiting for the measures we are taking to result in a strengthened organisation.

The market for housing construction in Finland remains positive. The somewhat higher interest rates have not had any major impact on demand, whilst the market is being restrained by a lack of development land. Peab invested in several project and development properties during the year. We believe that project development of residential housing is an important segment for the Finnish business in the future.

Important projects for the business include the commission to convert and extend the university hospital in Tammerfors for EUR 34 million ordered by Birkaland hospital care district, offices in Esbo for the Finnforest Group for a contract value of EUR 10 million, 214 apartments in Esbo for the Helsinki region student housing foundation, 85 student apartments for the Tammerfors region student housing foundation and internally developed housing projects involving a total of 82 apartments in Tavastehus.

Order backlog and orders received – Construction and Civil Engineering

Orders received by Construction and Civil Engineering during 2005 amounted to SEK 24,227 million (21,559), which is an increase of 12 per cent.

The order backlog at the end of the year amounted to SEK 17,722 million, compared to SEK 15,899 million the previous year. This represents an increase of 11 per cent. Of the total order backlog 24 per cent (26) is expected to be produced after 2006. Construction projects accounted for 76 per cent (74) of the order backlog. Swedish operations accounted for 83 per cent (84) of the backlog. A good order backlog in a rising construction market is providing good opportunities for the group to continue being selective in its choice of future projects.

Project development

Within its contracting operations, Peab also engages in internally developed construction of housing, comprising apartments and small houses sold directly to the end customer. In 2005,

Construction and Civil Engineering Sweden

Key figures

	2005	2004
Net sales, MSEK	18 920	16 494
Operating profit, MSEK	586	412
Operating margin, %	3.1	2.5
Number of employees	8 350	7 624

Construction and Civil Engineering Abroad

Key figures

	2005	2004
Net sales, MSEK	3 510	2 775
Operating profit, MSEK	–88	12
Operating margin, %	–2.5	0.4
Number of employees	1 040	1 119

The casting of Bridge 932 over the Pinnån river on the E4 at Örkelljunga. Bridge 932 is a plate frame bridge on a pile foundation. The Pinnån river which to day flows under the bridge previously ran in a different direction, so after the bridge was completed the course of the river was moved under the bridge. The bridge was rebuilt by Peab so as to allow people to walk under the motorway and to allow wild life to pass without danger from the traffic.

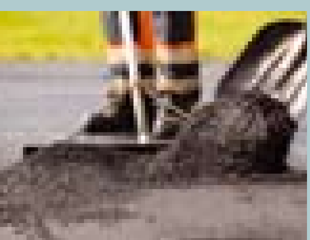
Peab is building apartments with itself as developer in Årsta in Stockholm. The picture shows Brf Närdingen 2. Ready for habitation in September 2006.

The Västra City district in Stockholm is undergoing alterations. In fact, it is impossible to imagine a more central location in Stockholm than the buildings in and around Central Station, with access to express trains, commuter trains, buses, airport buses, the Arlanda airport railway and taxis all at two minutes' walking distance. Here Jernhusen AB is going all out planning a conversion of new offices. The new offices will be located in the Klaraberg block between Kungsbron and Klarabergsviadukten. The building is visible from many directions and from inside the premises there is a fine view of Riddarfjärden and Klara lake.

Umeå is the centre of continuous expansion, which is constantly bringing Peab's Construction and Civil Engineering business new assignments.

Right in the centre of Handen in Stockholm, Peab is working on a new housing project in several stages called Haninge Park.

Asphalt laying is not just a job for machinery, it also requires sound professional expertise.



Peab started construction of 2,230 (1,122) internally developed homes, of which 698 (307) units were started in the fourth quarter. As at 31 December 2005, Peab had a total of 2,771 (1,731) internally developed homes under construction, of which 69 per cent (71) had been sold.

Under normal circumstances, Peab has an undertaking to purchase from the tenant-owners' cooperatives any tenant-owner rights that have not been sold six months after the final inspection. Repurchased tenant-owner rights are recognized in the balance sheet as project and development properties. By the end of the year 16 tenant-owner rights had been repurchased for a booked value of SEK 17 million, compared to 59 tenant-owner rights to a book value of SEK 115 million at the same time the previous year. The reduction is above all a result of sales of apartments in Hammarby Sjöstad in Stockholm.

As a result of the increased volume of internally developed projects, capital tied up in project and development properties has increased. Peab's ambition is to commit approximately SEK 2 billion to project and development properties. As at 31 December, the total holding of project and development properties in Construction and Civil Engineering amounted to SEK 1,784 million (1,599). As at 31 December, Peab's project portfolio contained 206 projects (171), corresponding to specifically planned building rights over a total of about 1.5 million square metres (1.5). The majority of these building rights were in the growth regions of Malmö, Gothenburg, Stockholm, and Mälardalen.

Industry

The Industry business segment comprises Swerock, Skandinaviska Byggelement, Peab Asfalt and Lambertsson, which are all construction-related companies with their own strong brands. From the standpoint of organisation the companies are coordinated with the civil engineering activities.

Peab's construction-related industrial companies made positive progress in 2005, enjoying another good year. Good building market conditions and cost-effective organisations resulted in increased volumes and improved results.

Net sales 2005 amounted to SEK 4,520 million (4,130), which is an increase of 9 per cent. Operating profit amounted to SEK 380 million (308). Of the business segment's overall sales, external invoicing accounted for 70 per cent.

Capital employed in the Industry business sector amounted to SEK 2,060 million (1,873). Return on capital employed amounted to 19.0 per cent, compared to 16.2 per cent for 2004.

Swerock

Peab's ready-mixed concrete and rock company Swerock with total solutions for the construction and civil engineering industry is, with its three nationwide regions, one of Sweden's leading suppliers of ready-mixed concrete, gravel and rock and of transport and machinery services. It mainly sells in Sweden. Swerock has three business segments:

Ready-mixed concrete

Swerock has just over 40 concrete factories and is one of Sweden's leading suppliers of ready-mixed concrete. Swerock develops concrete customised to our customers' construction requirements and special wishes.

Gravel & Rock

Swerock operates just over 100 active rock quarries and gravel pits distributed throughout Sweden. The high supply capacity provided by such a large number of quarries enhances competitiveness and guarantees close contact with the customer, for example in the case of major infrastructure projects. Swerock works actively on the opening of new quarries, especially within the regions around major towns and cities.

Transport & Plant

In southern Sweden under the Cliffton trademark the company supplies all transport and plant hire needs. In this business area, you will find the Group's overall transport and plant machinery resources and expertise.

Business in 2005

In 2005, Swerock continued to make positive progress with good growth and stable margin growth depending above all on high demand for ready-mixed concrete. Profitability was boosted

Construction and Civil Engineering
Order backlog to produce and orders received

MSEK	2005	2004
Coming financial year	13 413	11 757
Next financial year	3 534	3 210
Thereafter	775	932
Total order backlog	**17 722**	**15 899**
Orders received	**24 227**	**21 559**

Construction and Civil Engineering
Building rights

Thousand of sq-metres	2005	2004	2003
Housing	1 004	1 018	985
Commercial premises	335	361	405
Industrial premises	172	161	163
Total	**1 511**	**1 540**	**1 553**
Number of projects	**206**	**171**	**151**

by good volume growth while costs remained unchanged. During the period a new concrete factory was set up in Malmö in response to the rapid development in the region. Establishment work has been carried out in Örebro for the continued expansion of the infrastructure in central Sweden.

Skandinaviska Byggelement

Skandinaviska Byggelement is a total supplier of concrete building frames from concept to finished delivery. This includes everything from individual products, such as walls and flat concrete base courses to customised solutions for housing production. The company will intensify its focus on housing and infrastructure, including bridge systems. It also manufactures prefabricated elements for infrastructure and slabs for ground paving and environmental construction in the S:t Eriks subsidiary.

Building element factory in Katrineholm

In 2003, Skandinaviska Byggelement completed the construction of a plant for the manufacture of shell walls, solid concrete walls and flat decks in Katrineholm. The plant is the most modern of its kind in Europe. The investment is an important cornerstone in the development of a "Peabwide System Concept), the so-called PGS system (in Swedish, Peab gemensamt systemkoncept). Experience and expertise are linked together and result in an end product for which Peab can provide long-term guarantees both as regards quality and functionality.

S:t Eriks

S:t Eriks is Sweden's market leading supplier of ground paving and slabs and works towards the establishment of a holistic concept for the outdoor environment and also on product development. The company has a large number of supply agreements with chains of builders' suppliers. Within this company too there is comprehensive internal collaboration with Peab's civil engineering resources, working constantly towards developing enhanced products and production methods.

The business in 2005

The Katrineholm plant has steadily increased its efficiency and volumes are still growing. Sales primarily stem from projects carried out for other units within Peab. In the spring of 2006 production will be expanded with a third shift. Capacity utilisation is now increasing as products live up to the high quality requirements placed. The increase in building in forthcoming years is expected to result in a shortage of manpower and an increased demand for industrialised building.

In 2005, S:t Eriks increased both its sales and profit compared with previous years and in future demand is expected to continue increasing. There is a strong trend towards focusing on an attractive outdoor environment.

Industry

Key figures	2005	2004
Net sales, MSEK	4 520	4 130
Operating profit, MSEK	380	308
Operating margin, %	8.4	7.5
Number of employees	1 739	1 689

Peab Asfalt

Peab Asfalt is Sweden's third largest company dedicated to the production and laying of hot, warm and cold asphalt. The business is run in six regions with regional offices in Malmö, Gothenburg, Västerås, Stockholm, Sundsvall and Boden. Peab Asfalt consists of ten stationary asphalt plants, three semi-mobile asphalt plants for the manufacture of hot asphalt and five mobile plants for the manufacture of cold and warm asphalt. Through acquisitions and organic growth Peab Asfalt has become an important player in the Swedish asphalt market. About 90 per cent of sales are external.

The company engages in constant product development activities both with regard to the laying and composition of the surfacing material. In its efforts to minimise wastage of resources Peab Asfalt is committed to asphalt machinery for thin layer asphalting and heat recovery on roads (Swemix and Remixing).

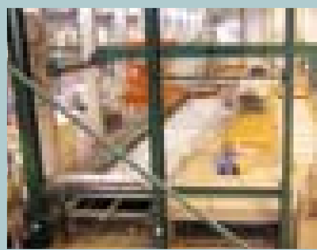
The business in 2005

Peab Asfalt's market is characterised by strong demand but also by price restraints and increased oil prices. In 2005, the image of improved market conditions became clearer, and this combined with continued production and plant efficiency enhancement initiatives is creating opportunities for improved profitability. The successful outcome of maintenance laying and an extremely good autumn season both from the point of view of weather and volume increased volumes. Peab Asfalt has an important base in the major infrastructure projects where Peab is contractor. Side by side with these, the greatest area of focus during the year was laying projects in local markets and maintenance agreements with local authority customers. The investment in a mobile heating plant was successful. During the year, Peab Asfalt continued to increase its market shares through strategic commitments and acquisitions.

The most important projects during the year was the asphalting of main road 50 past Falun, the E 4 north of Uppsala, asphalting works for the

Kv Brunkullan is a completely newly constructed district just east of Åre Fjällby offering high standard apartment living. There are two sizes of apartment, the larger type suitable for two families. The district consists of four buildings with shared ski room and ski wax store.

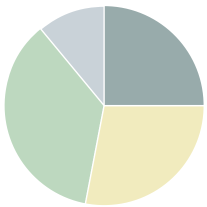
The concrete element factory in Katrineholm is one of the most advanced in Europe, which manufactures shell walls and concrete base courses with the help of digital information transfer directly from blueprints to robots.



Peab is in the process of completing the third stage of kv Saftstationen in the old sugar refinery district in Ängelholm for Melin Förvaltning AB. High quality and low rents are important concepts in the newly constructed apartments. The Swedish National Board of Housing is using the block as a reference project to show that it is possible to building tenancy right apartments to a high standard and quality which people can nevertheless afford to live in.

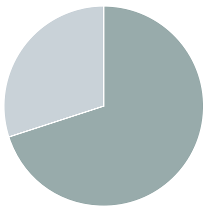
Net sales per operation

Swerock



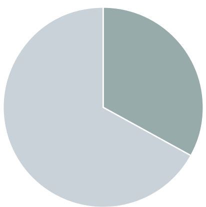
Gravel & Rock	26%
Transport & Plant	28%
Ready-mixed concrete	34%
Other	12%

Skandinaviska Byggelement



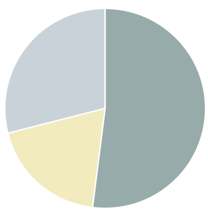
Paving products	70%
Elements	30%

Peab Asfalt



Contracts	33%
Manufacture	67%

Lambertsson



Plant	52%
Electricity	19%
Crane	29%

municipality of Västerås, warm asphalting work in the Mälardal region and reinforcement works in the Norrbotten region.

Lambertsson

Lambertsson is a complete supplier of construction site plant and equipment, providing everything from sheds, scaffolding and cranes to machinery and electrical equipment for both small and large projects. The business is organised into three divisions.

Plant

Plant and machinery activities are run from 13 depots in Sweden and involve the hire of such items as work sheds, scaffolding, building and civil engineering machinery and accessories, and the sale of materials for these activities. Norwegian and Finnish plant and machinery activities are coordinated with activities in Sweden.

Electricity

On the electricity side Lambertsson carries out work on temporary electricity installations at building and civil engineering sites. The hire of electrical equipment and materials and generators is also part of the business. Expertise within the area of temporary electricity installations is a strategically important resource for the company, where its knowhow is applied to such work as the establishment of asphalt plants and crushed stone plants. Electricity activities are run from 16 depots in Sweden.

Cranes

With more than 300 cranes and lifts in operation, Lambertsson's crane operations is one of northern Europe's leading crane operations. The business is dedicated to the hiring and sale of building cranes, building lifts and mobile cranes. In Sweden the business is run from Stockholm, Gothenburg, Malmö and Skellefteå and has nationwide geographical coverage. There are also crane activities in Finland.

The business in 2005

Lambertsson continues to utilise capacity well and make good profits. Lambertsson is utilising capacity well despite the fact that hiring capacity was increased through investment in 2004.

The years assignments include the installation of some 80 sheds and other machinery equipment at the Allum shopping centre in Partille, the Electricity Division´s commission to build and install medium and low voltage installations for timber irrigation in Byholma in Småland, one of the world's largest timber yards, after the Storm Gudrun and the Crane Division's order for cranes for the nuclear power plant at Olkiluoto in Finland. The project is Finland's largest construction site and is expected to take five years.

Trust/Management

The Trust/Management business sector comprises central companies, certain subsidiaries and joint ventures and other holdings. The central companies mainly consists of the parent company Peab AB, the activities of which comprise Group management and joint Group staff. The internal bank Peab Finans handles the Group's liquidity, debt management and financial risk exposure. The company is also a service function for the subsidiaries and draws up solutions with regard to internal loans and placings, project-related financing and currency risk hedging.

Operating profit 2005 amounted to SEK -131 million (-155). Joint Group costs were recognised at a total of SEK -135 million (-112).

Trust/Management

Key figures	2005	2004
Net sales, MSEK	95	64
Operating profit, MSEK	–131	–155

Operational and financial risks

Peab's operational business is sensitive to changes in such elements as volumes and margins. The Group is also exposed to financial risks, such as changes in debt and interest rate levels. For further information on financial risks see note 33. The sensitivity analysis below describes how profit after financial items is affected by changes in a number of variables important to the Group.

Sensitivity analysis

MSEK	Calculation base	Change	Effect on profit (before tax)
Construction and Civil Engineering			
Volume (operating margin constant)	22 400	+/– 10%	+/– 50
Operating margin (volume constant)	2.2%	+/– 1%	+/– 224
Material and subcontracts	19 400	+/– 1%	–/+ 194
Industry			
Volume (operating margin constant)	4 500	+/– 10%	+/– 38
Operating margin (volume constant)	8.4%	+/– 1%	+/– 45
Finance			
Net debt (interest rate constant)	1 900	+/– 10%	–/+ 6
Average effective interest rate [1] (net debt constant)	3.2%	+/– 1%	–/+ 11

1) The calculation has been based on the assumption that approx. SEK 1,100 million of net liabilities has a fixed interest term that is less than 1 year, and will therefore relatively soon be influenced by a change in market interest rates

Important events during the financial year

Peab acquired the Hamnen 21:149 block in Malmö from Saab. The property comprises the original inner Kockums area covering some 20 hectares. Peabs intention is to gradually develop the area.

Peab has acquired Steningehöjden in the Municipality of Sigtuna. The intention behind the acquisition is to build an entirely new municipal district dimensioned for approximately 900 homes. This acquired site covers 46 hectares and the purchase price was SEK 130 million.

Jonas Svantesson, deputy managing director of Peab AB, retired from his position at Peab. Jonas was appointed in 2001 and has been mainly responsible for group HR matters.

Jan Johansson was appointed deputy managing director of Peab AB. Jan started to work for Peab in 1986, and is the head of Construction Division South.

Peab has acquired the property denominated Tygelsjö 76:1 in Klagshamn. The area comprises 550 hectares of land and is partly planned for housing development. The purchase price was SEK 72 million.

Peab acquired the building rights at Ulriksdalsfältet and part of the Järva 4:11 property in Frösunda. The seller was Solna Town Council and the purchase price amounted to approximately SEK 860 million, which will be paid in stages as the area is developed. The agreement is conditional on approval by Solna's local councillors. The construction of 900 apartments and 500 town terraced houses is planned for Ulriksdal along with construction work for about 5,000 work places. The total area amounts to 265,000 square meters.

The chairman of the board of directors of Peab, Mr Ulf H Jansson, retired from the board of Peab on personal grounds. Ulf H Jansson was elected to Peab's board of directors in 1995, and had been chairman of the board since 2000.

Göran Grosskopf was appointed as the new chairman of the board of Peab. Göran Grosskopf was elected onto the board of directors in 2004, and he is also chairman of the boards of InterIKEA SA and Bergendahlsgruppen AB, and is a member of the boards of AB Ratos, Possio AB and others.

Important events after the period

For a description of important events after the report period see note 40.

Environment and environmental impact

We wish what we build to create added value for our customers, suppliers and ourselves, and to contribute to the sustainable development of society. As a major player in the construction and civil engineering sector we have an important role to play in creating the society of the future, a society that must be sustainable.

A part of our way of working

Our work towards sustainable development in society has been founded on the integration of environmental issues into our way of working. Our company policy incorporates the environment, sustainable development, quality, work environment and human resource issues. We have also developed a business management system (BMS) where we have integrated environmental issues in our processes. The business management system is based on the requirements in ISO 14001.

Identification of hazardous substances

The identification and removal of hazardous chemical substances from building materials is one of the priorities of our environmental work and consequently Peab plays an active part in the BASTA project. BASTA is a coordinated project in the construction industry which receives support from the EU life fund. BASTA focuses on environmental and harmful properties and is intended to phase out the most hazardous substances. BASTA's requirements are in line with the requirements of the Swedish Chemicals Inspectorate, national environmental targets and European legislation. More information about BASTA can be found at www.bastaonline.se.

Together with a number of property owners Peab also participates in the development of Milab, which is an environmental assessment system for building materials. Environmental assessments are based on criteria with regard to the environmental impact of specific materials during their entire life cycle. Milab provides us access to user-friendly tools and aids useful in the choice of good building materials from the environmental standpoint. Through our participation in the development of Milab we also contribute to creating a common approach to environmental requirements and assessment of building materials within the industry. More information about Milab can be found at www.milab.nu.

Preventive work

Skills development and environmental support are important parts of our internal environmental work. The crucial factor in deciding whether we are successful or not in our environmental work is what happens everyday out in our projects, and therefore Peab works constantly on skills development.

Peab has completed three stages in the ongoing expansion of Haninge Park. Haninge Park is located in the Municipality of Haninge about 20 km south of Stockholm city centre. The area is located next to the old Folkets Hus and a stone's throw away from Haninge Centre, with its wide range of services and shops.

At year-end 2005/2006, Peab moved its Stockholm district Construction and Civil Engineering activities to a common office on Gårdsvägen 6 in Solna, owned by Fabege. The picture is of the glass-roofed area at reception.

Peab has laid the foundations to Bergakungen's halls in Gothenburg, a gigantic subterranean cinema (close to Ullevi and Scandinavium) with room for 2,300 visitors in 14 cinemas. The cinema will open in the autumn of 2006.

In the Söder district of Helsingborg, Peab has built a new district court for the Swedish National Courts Administration. The district court covers 4,700 square meters on five storeys. There are 14 rooms on the two lowest floors, of which nine are courtrooms and five preliminary hearing rooms.

Peab has built Brf Ringsbergshöjden in a leafy environment a few minutes walk from the centre; the project consists of 42 tenancy rights in three buildings. The apartments vary in size between 76.8 square metres and 112.4 square metres. The four to five storey buildings are situated in a quiet cul-de-sac protected from traffic. Parking lots and carports are built onto the houses.

Hrf Fyren in the old Kockum district of Malmö. In the basement, which covers 3,950 square meters, there are good parking facilities, apartment storerooms and installation areas. In the inner yard, which is situated on the garage joists, residents can relax and watch the harbour peer through a large gate in the eastern façade of the building.

Yet another important aspect is risk elimination. We analyse and document risks involved in our projects and take preventive measures to minimise risks. Before submitting an offer we analyse the environmental aspects of each project in order to ensure that environmental requirements are being complied with and identify factors that are important from the environmental standpoint.

Environmental impact

Activities subject to licence and notification are carried out in the Swedish sub-groups Swerock, Skandinaviska Byggelement and Peab Asfalt.

The activities which must be licensed comprise rock and gravel pits, transport of waste and hazardous waste, and asphalt works. These activities mainly affect the environment through the extraction of a finite land resource, they affect future land utilisation, and affect discharge into the atmosphere, water, waste and sewage. The licensable activities correspond to about 25 per cent of Swerock's turnover, and about half of the volume handled by Peab Asfalt. Swerock engages in constant renewal and extension of licences.

Notification obligations apply to Swerock's concrete factories and Skandinaviska Byggelement's concrete goods factories. Notifiable activities account for 36 per cent of Swerock's turnover and the whole of Skandinaviska Byggelement's turnover.

Research and Development

Peab carries out constant development work aimed at enabling us to offer our customers improved products and services, while at the same time boosting the competitiveness of the Peab Group. Peab has no separate research and development organization; instead this work is performed within development projects in the ongoing production. Among development projects in continuous progress we might mention:

- Peab's commitment to industrialised construction of apartment blocks, PGS-Bostad, where the new Katrineholm factory is intended to act as a production base for the new construction system. The system is founded on using modularisation as a tool for creating increased efficiency. Our objective is to become that much more efficient in our working methods so as to reduce the price of new rented apartments and homes considerably below today's levels. The partnership with the Linköping College of Technology has started where three postgraduate students are working with quantitative logistics, organic electronics and computer graphics and virtual reality.
- Over the years, within Peab's purchasing and order system PIA we have built up and implemented the order part in some of our Swedish construction and civil engineering divisions. The number of suppliers integrated is steadily increasing.
- The SwePave concept, which is aimed at optimising the construction of a road in each individual case with options for checking that the desired results are obtained directly in the field. The concept is characterised by the road construction materials being used optimally and the stabilisation of soil using lime, cement, merit or other stabilising agents.

Branches abroad

Within the Industry business area, since December 2005 Swerock has a branch in Finland for the manufacture and sale of ready-mixed concrete.

Holdings of own shares

At the start of 2005, Peab's holding of own shares amounted to 2,209,800 B-shares, corresponding to 2.5 per cent of the total number of shares. In May 2005, the AGM resolved to authorise the Board of Directors to buy back a maximum of 8,700,000 shares in Peab AB during the period prior to the next AGM. There were no buybacks in 2005, whilst 116,600 B-shares were sold to a par value of SEK 10, corresponding to SEK 1.2 million, or 0.1 per cent of the share capital. The shares had a market value of SEK 9.0 million and constituted part of the purchase price of a company acquisition. Peab's holding of own shares at the end of the year amounted to 2,093,200 B-shares to a par value of SEK 10, corresponding to SEK 20.9 million or 2.4 per cent of the total share capital.

Peab's share buyback mandate for its own shares allows among other things for the option of buying back the number of B-shares that can be issued in conjunction with the conversion of convertible personnel debentures.

Expectations concerning future development

The Swedish construction market is strong at the moment and the prospects for the forthcoming years indicate continued good demand. The good market conditions are being felt in more and more of the country's municipalities. With its more than 100 offices and strong local presence Peab has good opportunities to continue its positive progress. A good market is also associated with risks in the form of, for example, a lack of resources and increased pressure on prices.

Housing construction continues to grow steadily, with new projects mainly in the low and medium priced segment. Rising interest rates may restrain growth somewhat but with a large accumulated need for new housing the impact of interest rates is assessed as limited, not least where Peab is concerned with its commitment to reasonably priced housing.

The prospects for Swedish road and civil engineering activities are still assessed as positive. Public road and civil engineering investment in Sweden is expected to remain stable with relatively expansive investment plans during the next few years. Much of the the volume expected for 2006 comes from rail investments.

We assess that market conditions in Norway and Finland will also be favourable during the forthcoming years.

Change of accounting policies

From 1 January 2005 the Peab group has applied the IFRS accounting principles approved by the EU Commission. The introduction of the new standard has resulted in a change to accounting principles and has had a considerable impact on the income statement and balance sheet. To provide a basis for comparison of the groups progress and position the comparable year has been re-calculated. IAS 39 – Financial instruments enters into force from 2005 and is not retroactive. The new provisions of the Swedish Annual Accounts Act on the valuation of financial instruments at fair value were applied during 2004. For Peab the changes in the Swedish Annual Accounts Act resulted in the application of the IAS 39 valuation rules already from 1 January 2004, with the result that they have had no effect on the opening balance for the 2005 consolidated accounts.

Corporate governance

For a detailed description of the work of the board of directors and corporate governance see page 73 Corporate governance report 2005.

The Parent Company

The activities of the parent company consist of group management and common group staff.

Proposed allocation of profits

The following profits are at the disposal of the AGM:

Profit carried forward	2 059 647 522
Profit for the year	471 066 769
	SEK 2 530 714 291

The board of directors proposes that profits be allocated as follows:

Dividends distributed to shareholders	
87 195 944 shares at SEK 3.00 per share	261 587 832
Carried forward	2 269 126 459
	SEK 2 530 714 291

In 2005, Peab completed the new building of Brf Concordia in central Malmö. The developer was Riksbyggen AB and shortly before Christmas the first expectant members moved into their new homes. The buildings consist of two units with a building overlooking the street and a tower block at the back.

Lambertsson Kran is active throughout the country and has a large range of cranes, lifts and cherry pickers, etc. Here we see a state-of-the-art building move.

Upon two occasions after the disbandment of the regiment the service stores of the Anrika Kronobergs Regiment have been converted and expanded for commerce. Peab carried out the latest addition, which consisted of 7,000 square metres and which has given the tenant City Gross a superstore covering some 13,500 square metres with shops and service space. The building which has sprinklers throughout has a prefabricated concrete frame, outer walls consisting of sandwich elements of the Paroc type which are clad with horizontal sinus plate. Cement mosaic floors cover the entire shop area for maximum durability.

Income statement for the Group

MSEK	Note	2005	2004
Net sales	2, 3	25 501	22 039
Production expenses		–23 402	–20 159
Gross profit		**2 099**	**1 880**
Selling and administrative expenses		–1 378	–1 332
Participation in profit of joint ventures	14	23	2
Result from participations in joint ventures sold		–	25
Result from participations in Group companies sold		3	2
Operating profit	3, 5, 6, 7, 8, 34	**747**	**577**
Financial incomes		202	87
Financial expenses		–125	–143
Net financial income/expense	9	**77**	**–56**
Profit before tax		**824**	**521**
Tax	11	31	–132
Profit for the year		**855**	**389**
Attributable to			
Shareholders in Parent company		856	387
Minority interest		–1	2
		855	**389**
Profit per share	26		
before dilution, SEK		10.06	4.56
after dilution, SEK		9.84	4.56

Balance sheet for the Group

MSEK	Note	2005	2004
Assets	4, 35		
Intangible assets	12	390	395
Tangible assets	13	2 048	1 779
Participations in joint ventures	14	248	192
Other securities held as fixed assets	16	7	16
Interest-bearing long-term receivables	18	576	432
Deferred tax recoverables	11	705	688
Other long-term receivables	19	25	33
Total fixed assets		**3 999**	**3 535**
Project- and development properties	20	1 784	1 599
Inventories	21	345	226
Accounts receivable	22	3 680	3 540
Interest-bearing current receivables	18	171	175
Income tax recoverables	11	63	56
Recognised but not invoiced income	23	2 809	1 656
Prepaid expenses and accrued income		178	184
Other short-term receivables	19	582	427
Short-term investments		1	3
Liquid funds		130	85
Total current assets		**9 743**	**7 951**
Total assets		**13 742**	**11 486**
Shareholders' equity	25		
Share capital		872	872
Other contributed capital		217	198
Reserves		61	5
Profit brought forward included profit for the year		2 198	1 545
Shareholders' equity attributable to shareholders in Parent company		**3 348**	**2 620**
Minority interest		**0**	**33**
Total shareholders' equity		**3 348**	**2 653**
Liabilities	4		
Interest-bearing long-term liabilities	27, 33	2 167	1 027
Other long-term liabilities	30	37	10
Provisions for pensions	28	9	8
Other provisions	29	91	84
Total long-term liabilities		**2 304**	**1 129**
Interest-bearing short-term liabilities	27, 33	595	1 326
Accounts payable		2 877	2 575
Income tax liabilities	11	47	4
Invoiced income not yet recognised	31	2 180	1 583
Accrued expenses and deferred income		1 865	1 605
Other short-term liabilities	30	515	607
Provisions	29	11	4
Total short-term liabilities		**8 090**	**7 704**
Total liabilities		**10 394**	**8 833**
Total shareholders' equity and liabilities		**13 742**	**11 486**

See note 36 for information about The Groups pledged assets and contingent liabilities

Summary of changes in group shareholders' equity

	Shareholders' equity attributable to shareholders in Parent company						
MSEK	Share-capital	Other contributed capital	Reserves	Profit brought forward included profit for the year	**Total**	Minority interest	**Total shareholders' equity**
Opening balance Shareholders' equity, 1 January 2004	872	198	–	1 126	2 196	63	2 259
Effect of changed accounting principles				209	209		209
Adjusted opening balance shareholders' equity, 1 January 2004	**872**	**198**	**–**	**1 335**	**2 405**	**63**	**2 468**
Annual change in translation reserve			5		5		5
Total changes in funds recognised directly in shareholders' equity excluding transactions with the company's owners			5		5		5
Profit for the year				387	387	2	389
Total changes in funds except for transactions with the company's owners			**5**	**387**	**392**	**2**	**394**
Cash dividend				–187	–187		–187
Disposal of own shares				10	10		10
Acquisition minority interest						2	2
Disposal minority interest						–34	–34
Closing balance shareholders' equity, 31 December 2004	**872**	**198**	**5**	**1 545**	**2 620**	**33**	**2 653**
Opening balance shareholders' equity, 1 January 2005	**872**	**198**	**5**	**1 545**	**2 620**	**33**	**2 653**
Annual change in translation reserve			56		56		56
Total changes in funds recognised directly in shareholders' equity excluding transactions with the company's owners			**56**		**56**		**56**
Profit for the year				856	856	–1	855
Total changes in funds except for transactions with the company's owners			**56**	**856**	**912**	**–1**	**911**
Cash dividend				–212	–212		–212
Issued convertible promissory notes		27			27		27
Deferred tax on temporary differences referring to the loan part of convertible promissory notes		–8			–8		–8
Disposal of own shares				9	9		9
Acquisition minority interest						–32	–32
Closing balance shareholders' equity, 31 December 2005	**872**	**217**	**61**	**2 198**	**3 348**	**0**	**3 348**

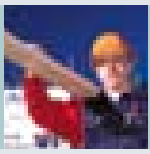
Cash flow statement for the Group

MSEK	Not	2005	2004
	39		
Current operations			
Profit before tax		824	521
Adjustments for non-cash items		477	316
Income tax paid		–11	–27
Cash flow from current operations before working capital changes		**1 290**	**810**
Cash flow from changes in working capital			
Increase (-) /Decrease (+) project– and development properties		86	–403
Increase (-) /Decrease (+) inventories		–113	2
Increase (-) /Decrease (+) current receivables		–771	–392
Increase (+) /Decrease (-) current liabilities		777	519
Cash flow from current operations		**–21**	**–274**
Cash flow from changes in working capital		**1 269**	**536**
Investment operations			
Acquisition of subsidiaries, net effect on liquid funds		–413	–246
Sale of subsidiaries, net effect on liquid funds		7	37
Acquisition of tangible fixed assets		–276	–237
Sale of tangible fixed assets		35	37
Acquisition of financial assets		–90	–43
Sale/reduction of financial assets		6	223
Cash flow from investment operations		**–731**	**–229**
Cash flow before financing		**538**	**307**
Financing operations			
Issue of convertible promissory notes		479	–
Amortization of loan		–759	–246
Dividend distributed to the shareholders of the parent company		–212	–187
Cash flow from financing operations		**–492**	**–433**
Cash flow for the year		**46**	**–126**
Cash at the beginning of the year		85	206
Exchange rate differences in cash		–1	5
Cash at year–end		**130**	**85**

Income statement for Parent Company

MSEK	Note	2005	2004
Net sales	2, 3	55	62
Administrative expenses		–113	–99
Operating profit		**–58**	**–37**
Result from financial investments	9		
Result from participations in Group companies		680	690
Result from securities and receivables accounted for as fixed assets		14	13
Other interest income and similar profit/loss items		2	9
Interest expenses and similar profit/loss items		–241	–123
Result after financial items		**397**	**552**
Appropriations	10	—	114
Profit before tax		**397**	**666**
Tax	11	74	3
Profit for the year		**471**	**669**

Balance sheet for Parent Company



MSEK	Note	2005	2004
Assets	35		
Fixed assets			
Tangible assets			
Machinery and equipment	13	4	4
Total tangible assets		**4**	**4**
Financial assets			
Participations in Group companies	38	6 077	5 849
Participations in joint ventures	15	17	17
Receivables from Group companies	17	344	134
Other securities held as fixed assets	16	–	1
Interest-bearing long-term receivables	18	263	263
Other long-term receivables	19	1	1
Deferred tax recoverables	11	–	2
Total financial assets		**6 702**	**6 267**
Total fixed assets		**6 706**	**6 271**
Current assets			
Project- and development properites	20	3	3
Short-term receivables			
Accounts receivables		13	0
Receivables from Group companies		6	11
Interest-bearing short-term receivables	18	71	51
Income tax recoverables	11	0	1
Other short-term receivables	19	2	3
Prepaid expenses and accrued income	24	3	3
Total short-term receivables		**95**	**69**
Liquid funds		4	0
Total current assets		**102**	**72**
Total assets		**6 808**	**6 343**
Shareholders' equity and liabilities			
Shareholders' equity			
Restricted equity	25		
Share capital		872	872
Share premium reserve		–	198
Statutory reserve		300	83
Non-restricted equity			
Profit brought forward		2 060	1 407
Profit for the year		471	669
Total shareholders' equity		**3 703**	**3 229**
Long-term liabilities			
Liabilities to Group companies		2 592	3 087
Convertible promissory notes	27	456	–
Deferred tax liabilities	11	3	–
Total long-term liabilities		**3 051**	**3 087**
Short-term liabilities			
Accounts payable		7	4
Liabilities to Group companies		13	1
Other short-term liabilities	30	4	5
Accrued expenses and deferred income	32	30	17
Total short-term liabilities		**54**	**27**
Total shareholders' equity and liabilities		**6 808**	**6 343**

Pledged assets and contingent liabilities for Parent Company

Pledged assets		–	–
Contingent liabilities		7 106	6 724

Summary of changes in the parent company's shareholders' equity

MSEK	Restricted capital Share capital	 Share premium reserve	 Statutory reserve	Non-restricted capital Profit brought forward	 Profit for the year	 Total shareholders' equity
Opening balance shareholders' equity, 1 January 2004	872	198	83	852	728	2 733
Appropriation of profits				728	–728	0
Group contribution received				6		6
Tax attributable to Group contribution				–2		–2
Total changes in funds recognised directly in shareholders' equity excluding transactions with the company's owners				**732**	**–728**	**4**
Profit for the year					669	669
Total changes in funds except for transactions with the company's owners				**732**	**–59**	**673**
Cash dividend				–187		–187
Disposal of own shares				10		10
Closing balance shareholders' equity, 31 December 2004	**872**	**198**	**83**	**1 407**	**669**	**3 229**
Opening balance shareholders' equity, 1 January 2005	872	198	83	1 407	669	3 229
Allocation of profits				669	–669	0
Group contribution received				259		259
Tax attributable to Group contribution				–72		–72
Total changes in funds recognised directly in shareholders' equity excluding transactions with the company's owners				**856**	**–669**	**187**
Profit for the year					471	471
Total changes in funds except for transactions with the company's owners				**856**	**–198**	**658**
Cash dividend				–212		–212
Issued convertible promissory notes		27				27
Deferred tax on temporary differences referring to the loan part of convertible promissory notes		–8				–8
Disposal of own shares				9		9
Transfer of premium reserve to reserve fund		–217	217			0
Closing balance shareholders' equity, 31 December 2005	**872**	**0**	**300**	**2 060**	**471**	**3 703**

Cash flow statement for Parent company

MSEK	Note	2005	2004
	39		
Current operations			
Profit after financial itmes		397	552
Adjustments for non-cash items		–574	–680
Income tax paid		0	0
Cash flow from current operations before working capital changes		**–177**	**–128**
Cash flow from changes in working capital			
Increase (-) /Decrease (+) project- and development properties		–	1
Increase (-) /Decrease (+) current receivables		6	9
Increase (+) /Decrease (-) current liabilities		14	–6
Cash flow from current operations		**20**	**4**
Cash flow from changes in working capital		**–157**	**–124**
Investment operations			
Sale of tangible fixed assets		–	4
Acquistion of financial assets		–266	–2 032
Sale/reduction of financial assets		0	95
Cash flow from investment operations		**–266**	**–1 933**
Cash flow before financing		**–423**	**–2 057**
Financing operations			
Issue of convertible promissory notes		479	–
Transfer of own shares		9	10
Borrowings		151	2 234
Dividend distributed		–212	–187
Cash flow from financing operations		**427**	**2 057**
Cash flow for the year		**4**	**0**
Cash at the beginning of the year		0	0
Cash at year-end		**4**	**0**

Notes to the financial reports

Note 1 Accounting policies

Compliance with standards and legislation

The consolidated accounts have been drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the Interpretation from International Financial Reporting Interpretations Committee (IFRIC) as approved by the EU Commission for application within the EU. This annual and consolidated accounts contain the first complete financial reports prepared in accordance with the IFRS. In connection with the transition from previously applied accounting policies to accounting in accordance with the IFRS, the group has applied IFRS 1 which is the standard describing how the transition to the IFRS should be managed in accounts. In addition, recommendation RR 30 Supplementary accounting rules for groups of the Swedish Financial Accounting Standards Council has also been applied.

The parent company applies the same accounting policies as the group except in the cases stated below in the section on The parent company's accounting policies. The inconsistencies between the parent company's and the group's policies stem from the limited opportunities for applying the IFRS to the parent company as a consequence of the Swedish Company Accounts Act and Tryggandelagen (the Act on Safeguarding Pension Obligations) and in some cases for tax reasons.

Note 43 contains a review with explanations of how the transition to the IFRS has affected the group's financial results and position and the cash flow reported.

Basis of preparation of the parent company's and the group's financial reports

The parent company's functional currency is the Swedish crown, which is also the currency in which the accounts of the parent company and the group are reported. Thus the financial reports are presented in Swedish crowns. Unless otherwise indicated all amounts are rounded off to the nearest million. Assets and liabilities are reported at historical acquisition values except for certain financial assets and liabilities which are assessed at fair value. Financial assets and liabilities valued at fair value consist of derivatives, financial assets classified as financial assets valued at fair value through the income statement or as financial assets available for sale.

Preparing the financial reports in accordance with the IFRS requires that the company management make estimates and assessments and make assumptions which affect the application of the accounting policies and the recognised amounts with regard to assets, liabilities, revenues and costs. Assessments and assumptions are based on historical figures and experience and a number of other factors which would seem reasonable under the reigning circumstances. The result of these assessments and assumptions are then used for assessing the recognised values of assets and liabilities which are not otherwise clearly apparent from other sources. The actual outcome may vary from these estimates and assessments.

Estimates and assumptions are regularly reviewed. Changes to estimates are entered in the accounts of the period the change is made if the change only affects this period or in the period the change is made and in future periods if the change affects both the current period and future periods.

Assessments made by the company management when applying the IFRS which have a significant impact on the financial reports and assessments made which could result in substantial adjustments to following years' financial reports are described in more detail in Note 41.

The accounting policies for the group described below have been applied consistently for all the periods presented in the group's financial reports unless otherwise stated below and in the preparation of the group's opening balance sheet in accordance with the IFRS as at 1 January 2004, which describes the transition from previously applied accounting policies to accounting polices in accordance with the IFRS. The group's accounting policies have been applied consistently to the reporting and consolidation of the parent company, subsidiaries and joint ventures.

The annual and consolidated accounts have been approved for publication by the board of directors on 6 April 2006. The consolidated income statement and balance sheet will be presented for adoption by the AGM on 17 May 2006.

Changed accounting policies

The transition to accounting in accordance with the IFRS for the group has been managed in accordance with IFRS 1 and is described in Note 43. The introduction of IAS 39 has not affected group opening equity for 2005, as during 2004 the group applied the new rules of the company accounts act on the valuation of financial instruments at fair value. In 2004 they were already applied to all identifiable financial instruments. The application of the rules on valuation of financial instruments at fair value stipulated by the annual accounts act resulted in the valuation rules of IAS 39 already being applied from 1 January 2004.

New IFRS and interpretations to be applied in future periods

It is not assessed that the new and revised standards and the pronouncement made by the IASB/IFRIC and approved by the EU which came into force on 1 January 2006 will affect Peab's financial reports except through requirements concerned with certain future information, primarily with regard to defined benefit pension plans.

Segment reporting

A segment is an identifiable accounting unit of the group which either provides products or services (business areas) or goods and services within certain economic surroundings (geographical areas) which are exposed to risks and opportunities which distinguish it from other segments.

In accordance with IAS 14, segment information is provided for the group only.

Classification etc

Fixed assets, long-term liabilities in the parent company and the group principally consist of amounts which may be expected to be recovered or defrayed later than 12 months after the balance sheet date. Current assets and current liabilities in the parent company and the group principally consist of amounts which may be expected to be recovered or defrayed within 12 months of the balance sheet date.

Consolidation principles

Subsidiaries

Subsidiaries are entities over which Peab AB exercises a controlling influence. The term controlling influence refers to a direct or indirect right to mould the company's financial and operating strategies in order to obtain financial benefits. When assessing whether a controlling interest is involved, potential share voting rights which can be exercised immediately or can be converted must be taken into account.

Subsidiaries are recognised using the purchase accounting method, under which acquisitions of subsidiaries are regarded as transactions through which the group indirectly acquires the assets of the subsidiary and takes over its liabilities and contingent liabilities. The consolidated acquisition value is calculated in an acquisition analysis in conjunction with the acquisition. The analysis establishes the acquisition value of the participations or the business, the fair value on acquisition date of the acquired identifiable assets and the liabilities and contingent liabilities taken over. The acquisition value of the subsidiary's shares and business consists of the fair values on handover date of assets, incurred or assumed liabilities and issued share capital instruments submitted as payment in exchange for the acquired net assets and transaction costs directly attributable to the acquisition. In the case of business acquisitions which exceed the net value of the acquired assets and the assumed liabilities and contingent liabilities, the difference is recognised as goodwill. Where the difference is negative this is recognised directly in the income statement.

When acquisitions of subsidiaries involve the acquisition of net assets which do not comprise operations, the acquisition cost of each identifiable asset and liability is divided based on its relative fair value at the time of acquisition.

The financial reports of subsidiaries are recognised in the consolidated accounts from the date the controlling influence arises and remain in the consolidated report until the date it ceases.

Joint ventures

For accounting purposes, joint ventures are entities where the group through co-operation agreements with one or more partners exercises a joint controlling influence over operational and financial management. From the date on which the joint controlling influence is assumed, participations in joint ventures are recognised in consolidated accounts in accordance with the equity method, whereby the value of participations in joint ventures recognised in the consolidated accounts corresponds to the group's participation in the equity of joint ventures and group goodwill and other possible residual group deficit and surplus values. The group's participations in joint ventures after tax and minorities adjusted for depreciation, writedowns or dispersal of acquired deficit and surplus values are recognised in the consolidated income statement as Participations in profit of joint ventures. Only equity earned after the acquisition is recognised in the consolidated shareholders' equity. Dividends received form joint ventures reduce the accounting value of the investment.

Upon acquisition, any differences between the acquisition value of the holding and the owner company's participation in the net fair value of the joint venture's identifiable assets, liabilities and contingent liabilities is recognised in accordance with IFRS 3 Business combinations.

The equity method is applied until the time the joint controlling influence ceases and any significant influence also ceases.

Transactions which must be eliminated upon consolidation

Intra-group receivables and liabilities, revenues or costs or unrealised gains or losses stemming from intra-group transactions between group companies are eliminated completely when preparing the consolidated accounts.

Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent these refer to the group's ownership participation in the company. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent there is no writedown requirement indicated.

Foreign currency

Transactions in foreign currency

Transactions in foreign currency are converted to the functional currency at the exchange rate on the transaction date. The functional currency is the currency of the primary financial surroundings where the company operates. Monetary assets and liabilities in foreign currency are converted to the functional currency at the exchange rate applying on the balance sheet day. Exchange rate differences arising during translation are recognised in the income statement. Non-monetary assets and liabilities which are recognised at historical acquisition value are converted at the exchange rate applying at the time of the transaction.

The financial reports of foreign business

Assets and liabilities in foreign entities including goodwill and other group deficit and surplus values are converted from the foreign company's functional currency to the group's reporting currency, Swedish crowns, at the exchange rate applying on balance sheet day. Earnings and costs in a foreign entity are converted to Swedish crowns at an average rate approximating to the rates applying on the respective transaction dates. Translation differences arising when converting the currency of foreign companies are recognised directly in shareholders' equity as a translation reserve.

Net investment in a foreign operation

Translation differences arising from the translation of a foreign net investment are recognised directly in the translation reserve in shareholders' equity. When a foreign subsidiary is divested, the accumulated translation differences attributable to the company are realised in the consolidated income statement.

Accumulated translation differences attributable to foreign companies are presented as a separate capital category and contain translation differences accumulated from 1 January 2004 onwards. Accumulated translation differences before 1 January 2004 are divided into other own capital category and are not recognised separately.

Income

If there is significant uncertainty with regard to payment, associated costs or risk and if the seller retains a share in business management which would normally be associated with ownership, income is not recognised. Income is recognised as the fair value of what has been received or is expected to be received minus any discounts conceded.

Construction contracts

Current construction contracts are reported in accordance with IAS 11, Construction contracts. Under IAS 11 income and expenses must be recognised in time with the performance of the contract. This principle is known as the percentage of completion method. Income and expenses are entered to the income statement in proportion to the percentage completion of the contract. The percentage completion of the contract is determined based on the defrayed project costs compared to the project costs corresponding to the project income for the whole contract. The application of the percentage of completion method is prerequisite on it being possible to calculate the outcome in a reliable manner. In case of contracts where the outcome cannot be reliably calculated, income is calculated in proportion to the costs defrayed. Feared losses are charged to income as soon as they become known.

The policy described above is also applied to housing projects for sale, but also allowing for unsold housing for which Peab has sales responsibilities. The result reported is estimated based on the percentage of the project completed which corresponds to the number of homes included in the contract sold. For example, this means that when the percentage of completion of the project reaches 50 per cent and 50 per cent of the homes are sold, 25 per cent of the estimated income and costs is reported.

In the balance sheet, construction contracts are entered project by project either as Recognised but non-invoiced income under current assets or as Invoiced income not yet recognised under current liabilities. Those projects with higher accumulated income than invoiced are recognised as assets whilst those projects which have been invoiced in excess of the accumulated income are recognised as liabilities.

Other income

Other income excluding construction contracts is recognised in accordance with IAS 18 Revenue. Income from the sale of goods is recognised in the income statement when the material risks and benefits associated with ownership of the goods has been transferred to the buyer. Crane and machinery hire income is recognised linearly over the hiring period.

Operating costs and financial income and expenses

The expenses of operating leasing agreements

Expenses for operational leasing agreements are recognised linearly in the income statement over the leasing period. Benefits obtained from the signing of an agreement are recognised in the income statement linearly over the term of the leasing agreement. Contingent rents are carried as expenses in the periods it occurs.

The expenses of financial leasing agreements

Minimum leasing charges are divided between interest costs and amortization of the outstanding debt. Interest costs are distributed over the leasing term such that an amount corresponding to a fixed interest rate for the debt accounted in the respective period is recognised in each accounting period. Contingent rents are carried as expenses in the periods it occurs.

Financial income and expenses

Financial income and expenses consist of interest income on cash at bank and receivables and interest-bearing securities, interest expenses on loans, dividend revenues, exchange rate differences, realised and unrealised gains on financial investments and derivatives used within the financial business.

Interest income on receivables and interest expenses on liabilities are calculated in accordance with the effective interest method. The effective rate is the rate which would make the net present value of all estimated future payments and disbursements during the expected fixed interest period the same as the reported value of the receivable or liability. The interest component in financial leasing payments is reported in the income statement through the application of the effective interest method. Interest income includes accrued amounts of transaction costs and possible discounts, premiums and other differences between the original value of the receivable and the amount received when it falls due.

Interest expenses are charged to income during the period to which they refer except to the extent that they are included in an asset's acquisition value. An asset for which interest can be included in the acquisition price is an asset which must necessarily require considerable time to prepare for the intended use or sale. Capitalisation of interest expenses is carried out in accordance with the alternative principle in IAS 23, Borrowing costs.

Interest rate swaps are used to hedge interest risks. Interest rate swaps are valued at fair value in the balance sheet. In the income statement, the coupon rate part is recognised on a current basis as interest income or interest expense and other changes in the value of interest rate swaps on a separate line under net financials.

Dividend income is recognised when the right to payment is established.

Financial instruments

Financial instruments are valued and recognised in consolidated accounts in accordance with the rules in IAS 39 from 1 January 2004.

On the assets side, financial instruments entered to the balance sheet include liquid funds, short-term investments, accounts receivable, securities holdings, loan receivables and derivatives. On the liabilities side, they include accounts payable, borrowing and derivatives.

Financial instruments are initially recorded at acquisition value corresponding to the instrument's fair value with the addition of transaction costs for all financial instruments except for those classified as financial assets, valued at fair value through the income statement which are recorded at fair value excluding transaction costs. Subsequent accounts depend on how the financial instruments are classified in accordance with the below.

Financial assets and financial liabilities are entered to the balance sheet when the company becomes involved in accordance with the instrument's contractual terms. Accounts receivable are entered to the balance sheet when the invoice has been sent. Liabilities are recognised when the counterparty has performed the service and there is a contractual payment obligation even if the invoice has not been received. Accounts payable are recognised when the invoice is received.

Financial assets are removed from the balance sheet when the rights of the agreement have been realised, fall due or the company loses control of them. The same applies to parts of financial assets. Financial liabilities are removed from the balance sheet when contractual obligations are discharged or have been otherwise extinguished. The same applies to parts of financial liability.

Acquisitions and divestments of financial assets are recognised on the settlement date.

Financial assets and financial liabilities are offset and recognised at a net amount in the balance sheet only where there is a legal right to offset the amounts and it is intended to adjust the items with a net amount or to at the same time capitalise the asset and adjust the liability.

The fair value of listed financial assets corresponds to the asset's listed purchase price on balance sheet day. The fair value of unlisted financial assets is established by applying evaluation techniques, for example recently completed transactions, the price of similar instruments and discounted cash flow.

Financial instruments are classified upon first recognition based on the object of the acquisition. Subsequent recognition depends on how the financial instrument has been classified in accordance with the below:

Financial assets valued at fair value through the income statement

This category consists of two sub-groups: financial assets held for trading and other financial assets which the company initially chose to place in this category. Financial assets are classified as held for trading if they were acquired for the purpose of sale in the near term. Independent derivatives and embedded derivatives are classified as held-for-trading unless they are used for hedge accounting. Assets in this category are constantly valued at fair value with value changes recorded in the income statement.

Loans and receivables.

Loans and receivables are financial assets which are not derivatives with fixed payments or with payments which can be determined and which are not listed in an active market. Receivables arise when the company provides money, goods or services directly to the debtor not to be claimed for the purpose of trading. The category also includes acquired receivables. Assets in this category are valued at amortized cost. The amortized cost is determined based on the effective interest rate which is calculated at the time of acquisition.

Financial assets available for sale

The financial assets for sale category includes financial assets which are not classified in any other category or financial assets which the company initially chose to classify in this category. Assets in this category are current valued at fair value with value changes recorded against shareholders' equity. At the time the investments are derecognised from the balance sheet previous accumulated gains or losses recognised in shareholders' equity are transferred to the income statement.

Financial liabilities valued at fair value through the income statement

This category consists of financial liabilities which are held for trading including derivatives (independent and embedded) and which are not used for hedge accounting. Liabilities in this category are constantly valued at fair value with value changes recorded in the income statement.

Other financial liabilities

Financial liabilities not held for trading are valued at amortized cost. The amortized cost is determined based on the effective interest rate which is calculated at the time of liability was acquired. This involves any surplus or deficit values and direct issue costs being accrued over the maturity of the liability.

Liquid funds

Liquid funds consist of cash and immediately available balances at banks and equivalent institutes and current liquid investments with maturities from the acquisition date of less than three months and which are exposed to only insignificant value fluctuation risks.

Financial investments

Financial investments consist either of financial fixed assets or current investments depending on the purpose of the holding. If the maturity or the expected holding time exceeds one year they are financial fixed assets and if less than one year they are short-term investments.

Convertible promissory notes in Brinova Fastigheter AB have been reported in parts. The convertible has been divided into conversion right and financial claim. The claim parts have been classified as loans and accounts receivable and are value at amortized cost which is calculated based on the implicit interest of the claim derived from the option valuation on subscription date. This implicit interest then constitutes the constant discount rate at respective valuation dates. The conversion right is classified as a financial asset held for trading and is valued by fair value through the income statement based on the market development for the underlying share. Gains from changes in the claim part value and changes in the value of the conversion right are recognised as Financial income.

Financial investments consisting of shares are either classified as financial assets valued at fair value through the income statement or as financial assets available for sale.

Interest-besting securities not to be held to maturity are classified as financial assets valued at fair value through the income statement or as financial assets available for sale.

When valuing at fair value through the income statement the change in value is recognised in the net financial item.

Long-term receivables and other receivables

Long-term receivables and other current receivables which arise when the company furnishes moneys not to be claimed for the purpose of trading. If the expected holding period exceeds one year they constitute long-term receivables and if it is less than one year other receivables. These receivables are classified as Loans and receivables.

Accounts receivable

Accounts receivable are classified as loans and accounts receivable. Accounts receivable are recognised at the amount expected to be paid in allowing for bad debts, which are assessed from case to case. The expected maturity of accounts receivable is short and therefore the value is recognised at the nominal figure without discount. Writedowns of accounts receivable are recognised in operating costs.

Debts

Debts are classified as other financial liabilities, and therefore initially they are recognised at the amount received minus the transaction costs. After the acquisition date loans are valued at amortized cost applying the effective interest rate method. Long-term debts have maturities in excess of one year whilst current debts have maturities of less than one year.

Issued convertible promissory notes

Convertible promissory notes can be converted to shares if the counterparty exercises the option to convert the claim to shares and are recognised as a compound financial instrument divided into a liability part and an equity part. The fair value of the liability is calculated by discounting future payment flows at the current market rate at the time of issue for similar liabilities without conversion rights. The value of the equity capital instrument is calculated as the difference between the issuing funds when the convertible promissory note was issued and the fair value of the financial liability at the time of issue. Interest expenses are recognised in the income statement and are calculated applying the effective interest rate method.

Accounts payable

Accounts payable are classified as other financial liabilities. Accounts payable have short expected maturities and are valued at nominal amount without discounting.

Derivatives

Derivates consist of interest and currency derivatives utilised to hedge the risk of exchange rate fluctuations and exposure to interest rate risks. Derivates are classified as financial assets or liabilities held for trading which are valued at fair value on balance sheet date. The valuation method involves the discounting of future cash flows. Hedge accounting has not been applied, and therefore value changes have been recognised in the income statement.

Tangible fixed assets

Owned assets

Tangible fixed assets are recognised as assets in the balance sheet if future financial benefits are likely to accrue to the company and the value of the asset can be reliably estimated.

Tangible fixed assets are recognised in consolidated accounts at acquisition value minus accumulated depreciation and amortization and any writedowns. The acquisition value consists of the purchase price and costs directly attributable to putting the asset in place in the condition required for utilisation in accordance with the purpose of the acquisition. Examples of directly attributable costs included in the acquisition value are delivery and handling costs, installation costs and costs of registration, consultancy services and legal advice. Borrowing costs are included in the acquisition value of internally produced fixed assets in accordance with one of the alternatives in IAS 23. The accounting policies applying to impairment loss are listed below.

The value of a tangible fixed asset is derecognised from the balance sheet upon scrapping or divestment or when no future financial benefits are expected from the use or scrapping/divestment of the asset. Gains and losses arising from divestment or scrapping of an asset consist of the difference between the sale price and the asset's booked value minus direct costs of sale.

Leased assets

Leasing is classified in the consolidated accounts either as financial or operating leasing. Financial leasing applies in circumstances where the financial risks and benefits associated with ownership are substantially transferred to the lessee. Where such is not the case, operating leasing applies.

Assets which are rented under financial leasing agreements have been recognised as assets in the consolidated balance sheet. Payment obligations associated with future leasing charges have been recognised as long-term and current liabilities. The leased assets are depreciated according to plan while leasing payments are entered under interest and amortisation of liabilities.

Operating leasing involves leasing charges being charged to income over the leasing time based on utilisation, which may differ from what is actually paid for leasing during the year.

Future expenses

Future expenses are only added to the acquisition value if it is likely that the future financial benefits associated with the asset will benefit the company and the acquisition value can be reliably estimated. All other future expenses are recognised as costs as they arise.

Depreciation policies

Depreciation in accordance with plan is based on the original acquisition value minus the calculated residual value. Depreciation is made linearly over the assessed useful life of the asset.

Buildings (operating buildings)	25–100 years
Land improvements	25-50 years
Vehicles and construction machinery	5-6 years
Computers	3 years
Other equipment and inventories	5-10 years

The useful life and residual value of assets are assessed annually.

Real estate

Group real estate holdings are divided as follows:

- Buildings and land entered under tangible fixed assets
- Project and development properties as inventories among current assets

Properties used in the Group's own operations consisting of office buildings and warehouses (operational buildings) are entered as buildings and land under tangible fixed assets. Valuation is made in accordance with IAS 16, Tangible fixed assets, at acquisition value deducted for accumulated depreciation and possible writedowns.

Direct and indirect holdings of undeveloped land and redeveloped tracts for future development, developed investment properties for project development, improvement and subsequent sale are entered as project and development property under current assets. Valuation is made in accordance with IAS 2, Inventories, at the lowest of either acquisition value or net sales value.

Intangible assets

Goodwill

Goodwill refers to the difference between the acquisition value of a business and the fair value of acquired assets, assumed liabilities and contingent liabilities.

Upon the transition to the IFRS, the rules of the IFRS have not been applied retroactively to goodwill in acquisitions made before 1 January 2004, rather the recognised value on that date will in future constitute the group's acquisition value after impairment test.

Goodwill is value at acquisition value minus any accumulated writedowns. Goodwill is divided between cash-generating units and is no longer depreciated but is tested annually for writedown requirements. Goodwill stemming from the acquisition of joint ventures is included in the recognised value of participations in joint ventures.

In the case of business acquisitions where acquisition costs are less than the net value of the acquired assets and the assumed liabilities and contingent liabilities, the difference is recognised directly in the income statement.

Research and Development

Research and development costs are recognised in accordance with IAS 38, Intangible assets. Peab has no separate research and development organization; instead this work is integrated into ongoing production, and therefore the group's research and development costs are limited. These costs are recognised as they arise, as they are not considered to fulfil the requirements for capitalisation.

Other intangible assets

Other intangible assets acquired by the group are recognised at acquisition value minus accumulated depreciation, amortization and writedowns.

Costs defrayed for internally generated goodwill and internally generated brands are reported in the income statement as the costs arise.

Depreciation

Depreciation is recognised in the income statement linearly over the estimated useful life of the intangible asset provided the useful life can be determined. Goodwill with an indeterminate useful life is tested for the need for writedown annually or as soon as there are indications that the asset in question has declined in value. Depreciable intangible assets are depreciated from the date when the asset became available for use. The estimated useful lives are:

Brands	10 years
Site leasehold agreements	During the term of the agreement

The useful life and residual value of assets are assessed annually.

Inventories

Inventories have been valued at the lowest of acquisition value and net sale value. The net sale value is the estimated sale price in the current business minus estimated costs of completion and bringing about the sale. In the case of own wholly and semi manufactured products, the acquisition value consists of the direct manufacturing costs and a reasonable share of manufacturing overheads.

Impairment loss

The recognised value of the Group's assets are checked each balance sheet day to assess whether there is a writedown requirement. IAS 36 is applied to the testing of writedown requirements for other assets besides financial instruments which are tested in accordance with IAS 39, assets for sale and divestment groups recognised in accordance with IFRS 5, inventories, plan assets used for financing of remuneration to employees and deferred tax receivables. The recognised value of the above-mentioned excepted assets is tested applying the respective standards.

Impairment test of tangible and intangible assets and participations in subsidiaries and joint ventures

If writedown requirements are indicated, the recovery value of the asset is estimated in accordance with IAS 36 as the highest of utility value and fair value minus cost of sale. When calculating utility value future cash flows are discounted at a pre-tax rate which allows for market assessment of the risk-free interest rate and the risks associated with the specific asset. Writedowns are charged to income.

The recovery value of goodwill and other intangible assets with an indeterminate useful life is estimated annually.

If it is not possible to establish materially independent cash flows for a certain asset, when testing for writedown needs the assets are grouped at the lowest level where it is possible to identify materially independent cash flow (a so-called cash-generating unit). Writedowns are recognised when the book value of an asset or a cash-generating unit exceeds the recovery value. Writedowns are charged to income.

Writedowns of assets attributable to a cash-generating unit (group of units) are firstly allocated to goodwill, followed by the proportional writedown of the other assets in the unit (group of units).

Impairment test for financial assets

Each time reports are drawn up the company assesses whether there are objective indications that a financial asset or a group of financial assets need to be written down. Objective indications partly consist of occurred observable circumstances which have a negative impact on possibilities of recovering the acquisition value and partly on significant or lengthy decreases in the fair value of an investment in a financial placing classified as a financial asset available for sale. In the case of writedowns of equity instruments classified as financial assets available for sale, previously recognised accumulated gains and losses are transferred from shareholders' equity to the income statement.

The recovery value of assets classified as investments held to maturity and loans and receivables recognised at amortized cost is estimated as the net present value of future cash flows discounted at the effective interest rate applying when the asset was recognised in accounts for the first time. Assets with short maturities are not discounted. Writedowns are charged to income.

Reversed writedowns

A writedown is reversed if there are both indications that writedown requirements no longer exist and assumptions upon which the calculation of the recovery value were based have changed. However, write-downs of goodwill is never reversed. Reversing is only performed to the extent that the recognised value after reversing of the asset does not exceed the recognised value which would have been recognised deducted for depreciation where necessary if writedown had not been made.

Writedowns of investments held to maturity or loans and receivables recognised at amortized cost are reversed if a subsequent rise in the recovery value may objectively be attributed to a circumstance occurring after writedown was made.

Writedowns of equity instruments which are classified as financial assets available for sale which were previously recognised in the income statement may not subsequently be reversed through the income statement. The written down value is the value upon which subsequent revaluations are based, which are recognised directly against shareholders' equity. Writedowns of interest-bearing instruments classified as financial assets available for sale are reversed through the income statement if the fair value increases and the increase may objectively be attributed to a circumstance occurring after writing down was performed.

Repurchase of own shares

Holdings of own shares and other equity instruments are recognised as a reduction in shareholders' equity. The acquisition of such instruments is recognised as a deduction item from shareholders' equity. Liquid funds from the divestment of equity instruments is recognised as an increase in shareholders' equity. Any transaction costs are charged directly to shareholders' equity.

Employee benefits

Defined contribution plans

Obligations relating to expenses for defined contribution plans are recognised as costs in the income statement as they arise.

Defined benefit plans

The group's defined benefit plans consist of the Swedish ITP Plan for Salaried Staff which is managed through insurance with Alecta, pension plans for a small number of executive personnel in Sweden and Norway and the AFP pension in Norway.

The group's net obligations relating to defined benefit plans are calculated separately for each plan through an assessment of the future payments which employees have earned through their employment both during the present and previous periods. Such payment is discounted to a net present value deducted for the fair value of any plan assets. The discount rate is the rate applying on balance sheet day to a blue-chip company debenture with a maturity corresponding to the group's pension obligations. If there is no market for such company debentures the market rate of government bonds of equivalent maturity is used instead. Calculations are performed by a qualified actuary applying the so-called projected unit credit method.

When payments in a plan are improved the part of the increased payment which refers to the employee's service during previous periods is recognised as a cost in the income statement divided linearly over the average period until the payments have been fully recovered. If payment has been fully recovered a cost is entered directly to income.

The so-called corridor rule is applied to actuarial gains and losses arising when estimating the group's obligations under the various plans. The corridor rule involves that part of the accumulated actuarial gains and losses which exceeds 10 per cent of the greatest of the obligation's net present value and the plan asset's fair value being recognised in the income statement over the expected average remaining working life of the employee covered by the plan. Otherwise account is not taken of actuarial gains and losses.

When estimates result in an asset for the group the recognised value of the asset is restricted to the net value of the unrecognised actuarial losses and the unrecognised costs for service during previous periods and the net present value of future repayments from the plan or reduced future payments to the plan.

When there is a difference between how pension costs are determined in the legal entity and group a provision or a claim is recognised relating to special payroll tax based on this difference.

Remuneration upon resignation or dismissal

A provision is entered in connection with dismissal of personnel only if it can be proved that the company is obliged to terminate employment before the normal time or when remuneration is offered to encourage voluntary resignation.

Provisions

Provisions are entered in the balance sheet when the group is subject to an actual or informal legal obligation as a consequence of a circumstance occurring and it is likely that financial resources will be required to meet the obligation and a reliable estimate of the amount can be made.

Taxes

Income tax consists of current tax and deferred tax. Income taxes are charged to the income except when the underlying transaction is charged directly to shareholders' equity, in which case the relevant tax is charged to equity.

Current tax is tax which must be paid or will be received during the current year applying the tax rates resolved upon or in practice resolved upon as at balance sheet day, when adjustment of current tax attributable to previous periods is also made.

Deferred tax is calculated according to the balance sheet method based on temporary differences between the accounted and tax values of assets and liabilities. The following temporary differences are not taken into account: temporary differences arising upon the first recognition of goodwill; differences at first recognition of assets and liabilities which are not business combinations and which at the time of the transaction did not affect either recognised or taxable profits; temporary differences attributable to participations in subsidiaries and joint ventures which are not expected to be written back in the foreseeable future. Valuation of deferred tax is based on how the recognised value of assets or liabilities is expected to be realised or regulated. Deferred tax is calculated applying the tax rates and tax rules resolved upon or in practice resolved upon on the balance sheet day.

When companies are acquired such acquisition either refers to business combinations or asset purchase. Asset purchase refers to, for example, the acquired company only owning one or more properties with tenancy agreements but the acquisition not comprising processes required to operate property business. When recognising asset purchase no deferred tax is recognised separately. The fair value of deferred tax liabilities is instead deducted from the fair value of the acquired asset.

Deferred tax receivables relating to deductible temporary differences and loss carry-forwards are only recognised to the extent it is likely they can be exercised. The value of deferred tax receivables is reduced when it is no longer assessed they can be utilised.

Contingent liabilities

A contingent liability is recognised in accounts when there is a possible obligation attributable to events occurred, the occurrence of which can only be confirmed by one or more uncertain future events, or when there is an undertaking not recognised as a liability or provision because it is not likely that the use of resources will be required.

The parent company's accounting policies

The parent company has prepared its annual accounts in accordance with the Swedish Company Accounts Act (1995:1554) and recommendation RR 32, Reporting of legal entities, of the Swedish Financial Accounting Standards Council. Under RR 32 the parent company in the annual accounts of the legal entity must apply all of the EU approved IFRS standards and statements provided this is possible within the framework of the Swedish Company Accounts Act and with due regard for the relationship between accounting and taxes. The recommendation states which exceptions and additions must be made to the IFRS.

Changed accounting policies

In accordance with the transition rules of RR 32, the parent company has chosen not to apply chapter 4 paragraphs 14a-e of the Swedish Company Accounts Act, which allows the valuation of financial instruments at fair value. From 1 January 2006 the provisions

of chapter 4 paragraphs 14§a-e of the Swedish Company Accounts Act will be applied. This will result in a change in accounting policies. The effect on the parent company will be that the convertible loan on Brinova Fastigheter AB will be valued at fair value in the same way as the group.

Differences between the group's and parent company's accounting policies

Differences between the group's and parent company's accounting policies are given below. The below stated accounting policies for the parent company have been applied consistently to all periods presented in the parent company's financial reports.

Subsidiaries and joint ventures

Participations in subsidiaries and joint ventures are recognised in the parent company applying the acquisition value method. Only dividends are recognised as income.

Tangible fixed assets

Leased assets

All leasing agreements in the Parent Company are recognised according to the rules for operating leasing.

Financial instruments

The parent company does not apply the valuation rules of IAS 39. In the parent company financial fixed assets are valued at acquisition value minus any writedowns, and financial current assets in accordance with the lowest value principle.

Employee benefits

Defined benefit plans

The parent company applies different assumptions for the calculation of defined benefit plans than those in IAS 19. The parent company complies with the provisions of the Tryggandelagen (the Act on Safeguarding Pension Obligations) and the instructions of the Swedish Financial Supervisory, as this is a precondition for tax allowance rights.

Taxes

Untaxed reserves including deferred tax liabilities are recognised in the parent company. On the other hand, in the group accounts, untaxed reserves are divided between deferred tax liabilities and shareholders' equity.

Group contributions and shareholders' contribution

Group's and shareholders' contributions is recognised in accordance with the pronouncement of the Emergency Issues Task Force of the Swedish Financial Accounting Standards Council (URA 7). Shareholders' contribution is recognised directly against equity at the recipient and is capitalised in shares and participations at the donor to the extent writedowns are not required. Group contribution is recognised according to the financial implications. As a result, group contributions submitted and received to minimise the group's total tax are recognised directly against retained earnings deducted for their actual tax effect.

Note 2 Incomes distributed by type

Incomes distributed by essential income item

	Group		Parent company	
MSEK	**2005**	2004	**2005**	2004
Revenues from contracting business	23 618	20 349	–	–
Sale of goods	1 179	1 020	–	–
Crane and plant rental	266	178	–	–
Services	411	419	–	–
Administrative services	–	–	55	62
Other	27	73	–	–
Total	**25 501**	**22 039**	**55**	**62**

Note 3 Segment reporting

Segment reports are prepared for the group's business and geographical areas. The group's internal reporting system is based on follow up of profits and returns on the group's various activity types and thus the primary division is into business areas.

The internal price between segments of the Group is based on the "arm's length" principle, in other words, the price is valid between parties who are not dependent on each other, who are well-informed and who are interested in that the transactions are fulfilled.

Segment results, assets and liabilities include directly attributable items which can be allocated to the segment in a reasonable and reliable manner. Non-allocated items consist of financial income and expenses and taxes. Assets and liabilities which have not been allocated by segment are interest-bearing long-term receivables and interest-bearing long-term liabilities.

Investments in tangible and intangible fixed asses for the segments included all investments, with the exception of investments in short-term inventories and inventories of minor value.

Business segments

Business segments constitute the primary basis for segments in the Group. The Group consists of the following Business segments.

- **Construction and Civil Engineering:** Including the operations new construction, reconstruction, buildning services, production and maintenance, and others. Operations are also divided into product types: housing, industry, roads and civil engineering, and other house buildning.
- **Industry:** Consists of industrial operations related to construction in concrete and prefab, rock/gravel, transports, asphalt, plant- and crane hire and temporary electricity.
- **Trust/Management:** Includes central companies with Group management and joint Group functions, certian subsidiaries and joint ventures, as well as other holdings.

MSEK	Construction and Civil Engineering 2005	Construction and Civil Engineering 2004	Industry 2005	Industry 2004	Trust/Management 2005	Trust/Management 2004	Elimination 2005	Elimination 2004	Total 2005	Total 2004
Income										
External sale	22 338	19 187	3 141	2 850	22	2			25 501	22 039
Internal sale	92	82	1 379	1 280	73	62	–1 544	–1 424	0	0
Total income	**22 430**	**19 269**	**4 520**	**4 130**	**95**	**64**	**–1 544**	**–1 424**	**25 501**	**22 039**
Operating costs	–21 946	–18 878	–4 147	–3 821	–231	–216	1 544	1 424	–24 780	–21 491
Participations in joint ventures	14	6	7	2	2	–6			23	2
Result from participations in joint ventures/subsidiaries		27		–3	3	3			3	27
Operating profit	**498**	**424**	**380**	**308**	**–131**	**–155**	**0**	**0**	**747**	**577**
Interest income									202	85
Interest expenses									–125	–141
Tax									31	–132
Net profit for the year									**855**	**389**
Other information										
Assets	9 355	7 724	2 900	2 553	1 124	961	–461	–376	12 918	10 862
Participations in joint ventures	154	99	45	45	54	53	–5	–5	248	192
Non allocated assets									576	432
Total assets	**9 509**	**7 823**	**2 945**	**2 598**	**1 178**	**1 014**	**–466**	**–381**	**13 742**	**11 486**
Liabilities	6 921	6 003	1 056	902	691	1 255	–450	–364	8 218	7 796
Non allocated liabilities									2 176	1 037
Total liabilities	**6 921**	**6 003**	**1 056**	**902**	**691**	**1 255**	**–450**	**–364**	**10 394**	**8 833**
Investments	64	161	393	341	0	7			457	509
Depreciations	61	62	231	266	44	47			336	375
Writedowns	87	61	10	1	68	20			165	82
Significant costs besides depreciation and writedowns not corresponding to payments	166	5	0	18	0	1			166	24

Geographic areas

Group segments are divided into the following Geographical Sectors, Sweden, Norway, Finland and Other Markets. Within the Geographic areas operations are conducted in Construction and Civil Engineering, as well as in Industry.

Geographic areas constitute the Group's secondary basis for segments. The information presented concerning segment income refers to the Geographic areas grouped according to where customers are located. The information concerning segment assets and investments for the period in tangible and intangible fixed assets is based on Geographic areas groups according to where the assets are located.

MSEK	Sweden 2005	Sweden 2004	Norway 2005	Norway 2004	Finland 2005	Finland 2004	Other markets 2005	Other markets 2004	Total 2005	Total 2004
External sale	21 738	19 012	1 841	1 434	1 828	1 582	94	11	25 501	22 039
Assets	11 303	9 866	1510	784	921	824	8	12	13 742	11 486
Investments	440	457	11	10	6	42	0	0	457	509

Parent company	Business segment		Geographic areas			
	Trust/Management		Sweden		Norway	
MSEK	2005	2004	2005	2004	2005	2004
Net sales	55	62	53	59	2	3

Notes to the financial reports

Note 4 Business combinations

Peab has during the year acquired 100 per cent of the shares in Markarbeten i Värmland AB, 100 per cent of the shares in Asfalt och Väg i Strängnäs AB, 100 per cent of the shares in Marttilan Betonirakennus Oy's and ASV Betoni's business, 100 per cent of the shares in Celsius Fastighets AB, 100 per cent of the shares in Göran Jonsson Markanläggningar AB, 100 per cent of the shares in Bromma Plattsättning AB, the remaining 67 per cent of the shares in Lenken og Bueslaget Utvikling AS, the remaining 50 per cent of the shares in Pilestredet Utsyn AS, the remaining 10 per cent of the shares in Flygstaden Intressenter i Söderhamn AB, 100 per cent of the shares in Gånarps Fastighets AB, 100 per cent of the shares in TGS Fastigheter Nr 2 AB, the remaining 50 per cent of the shares in KB S:t Jörgen AB and the remaining 50 per cent of the shares in Gruvgrus AB.

Individually, the above acquisitions have insignificant acquisition effects from viewed from the group perspective and information on acquisition effects is therefore provided in aggregate form.

In the time subsequent to the acquisitions the above subsidiaries contributed SEK 29 million to group after-tax profit for 2005. If the acquisitions had been made on 1 January 2005, they would have boosted group income by SEK 763 million and after-tax profit by SEK 62 million.

The acquisitions had the following impact on the group's assets and liabilities.

The acquired companies net assets at time of acquisition

MSEK	Recognised value of the acquired companies prior to acquisition	Adjusted fair value	Fair value recognised in the group
Tangible fixed assets	60	67	127
Project and development properties	164	185	349
Inventories	5		5
Accounts receivable and other receivables	590	26	616
Liquid funds	41		41
Interest–bearing liabilities	–222		–222
Accounts payable and other liabilities	–434	–74	–508
Net identifiable assets and liabilities	**204**	**204**	**408**
Previous holdings in joint ventures			–13
Acquired minority participations			32
Negative goodwill charged to income			–1
Goodwill			17
Purchase price			**443**
Less: Non–paid part of estimated additional purchase price			–13
Less: Payment with own shares			–9
Purchase price paid in cash			**421**
Less: Liquid funds in the acquired companies			–41
Effect on liquid funds			**380**

The purchase price includes transaction costs associated with the acquisitions amounting to SEK 4 million.

Goodwill includes such items as personnel resources and future synergies which do not meet the requirements for recognition as intangible assets at the time of acquisition.

Acquisitions subsequent to balance sheet day

On 18 January 2006, after approval by the Swedish Competition Authority Peab acquired 100 per cent of the shares in Midroc Construction AB. The company operates in southern Sweden, has some 500 employees and had sales of SEK 1,188 million in 2005. The company engages in construction and civil engineering activities.

Note 5 Government Grants

Group

Government grants received as compensation for operating costs amounted in 2005 to SEK 17 million (15), and have reduced costs in the income statement.

Note 6 Employees and personnel expenses

Expenses for remunerations to employees

Group

MSEK	2005	2004
Wages and remunerations etc.	3 593	3 366
Pension expenses, defined benefit plans	6	8
Pension expenses, defined contribution plans	298	295
Social insurance costs	1 087	931
Total	**4 984**	**4 600**

Average number of employees

	No. Of employees 2005	of whom men 2005 per cent	No. Of employees 2004	of whom men 2004 per cent
Parent company				
Sweden	29	69	30	67
Subsidiaries				
Sweden	10 131	94	9 838	94
Norway	379	89	387	89
Finland	763	91	608	89
Poland	10	70	4	50
Latvia	5	60	40	95
Total in subsidiaries	**11 288**	**94**	**10 877**	**94**
Group total	**11 317**	**94**	**10 907**	**94**

Distribution of Board of directors and Group management by gender

	2005 Percentage of women	2004 Percentage of women
Parent company		
The Board of Directors	11%	10%
Executive management	0%	0%
Group total		
The Board of Directors	11%	10%
Executive management	0%	0%

Wages, salaries, other remuneration and social security costs

MSEK	Wages, salaries and other remuneration 2005	Social insurance costs 2005	Wages, salaries and other remuneration 2004	Social insurance costs 2004
Parent company	25	28	25	26
(of which pension costs)		17 [1)]		16 [1)]

1) Of the Parent company's pension expenses, SEK 12 million (13) refer to the group of Managing Director and Deputy Managing Directors. No pension expenses refer to the Board of Directors. There are no outstanding pension commitments for these.

Wages, salaries and other renumerations distributed by country and between the Board of Directors, etc and other employees

MSEK	Board of Directors and MD (of which bonuses, etc.) 2005	2004	Other employees 2005	2004
Parent company	12 (0)	11 (1)	15 (1)	15 (–)
Subsidiaries in Sweden	16 (3)	15 (1)	3 087	2 913
Subsidiaries outside Sweden				
Norway	3 (0)	4 (–)	234	201
Finland	3 (–)	4 (–)	220	200
Other countries	0 (–)	0 (–)	3	3
Total in subsidiaries	**22 (3)**	**23 (1)**	**3 544**	**3 317**
Group total	**34 (3)**	**34 (2)**	**3 559 (1)**	**3 332 (–)**

In the Parent Company bonuses have in certain cases been paid as one-off pension premiums to the group of Managing Director and Deputy Managing Directors to the amount of SEK 7 million (3). To other employees have bonuses been paid as one-off pension premiums with SEK 1 million (-).

Absence through illness in the parent company	2005 per cent	2004 per cent
Total sick absence as a percentage of ordinary working hours	1.4	0.4
Proportion of total sick absence stemming from continuous absence of 60 days or more	78	–

Sick absence as a percentage of each group's ordinary working hours

Sick absence by gender:		
Men:	1.8	0.4
Women:	0.4	0.3
Sick absence by age category:		
29 or younger	0.8	–
30-49	0.1	0.3
50 or older	2.4	0.4

Personnel convertible debentures

In 2005, Peab offered all staff in the group except for the managing director and the members of the board the opportunity to subscribe to convertible promissory notes. A total 5.5 million convertibles were issued to a nominal value of SEK 478.5 million. The loan matures on 15 June 2008 and is subject to a fixed interest rate of 2.69 per cent. Each convertible entitles the holder to convert to one B share in Peab in from 1–15 October 2007 and 1–15 April 2008 at a conversion rate of SEK 87. Employees paid the market price for the convertibles received and the program is not subject to any terms concerning continued employment or performance on the part of employees.

The employees were offered external bank financing of the convertible promissory notes without any guarantees or undertakings on the part of Peab.

The purpose of the issue of personnel convertibles was to boost long-term financial commitment to Peab on the part of employees with increased motivation and reinforced loyalty to the group.

Reporting of the convertible promissory notes is shown in Note 27.

Note 7 Fees and cost remuneration to auditors

MSEK	Group 2005	2004	Parent company 2005	2004
KPMG				
Auditing assignments	7	7	1	1
Other assignments	2	2	0	1
Other				
Auditing assignments	0	0	–	–
Other assignments	0	–	–	–
Total	**9**	**9**	**1**	**2**

Auditing assignments refer to examination of the annual report, accounting and administration by the board of directors and the MD, other work which it is the business of the company auditor to perform and advice and other assistance stemming from observations made in connection with such examination or the performance of other similar work. Everything else comes under other assignments.

Note 8 Operating costs distributed by type of cost

MSEK	Group 2005	2004
Material	5 484	4 709
Subcontractors	7 438	6 045
Personnel costs	5 888	5 544
Other productions costs	4 997	4 484
Depreciations	336	351
Write-downs	165	66
Other operatings costs	472	292
Total	**24 780**	**21 491**

Note 9 Net financial income/expense

Group

MSEK	2005	2004
Interest incomes [1]	50	59
Change in value conversion rights convertible prommisory notes	146	26
Change in value interest rate swaps excluding accounted coupon interest	5	1
Other items	1	1
Financial incomes	**202**	**87**

MSEK	2005	2004
Interest expenses [2]	114	125
Net exchange rate fluctuation	11	4
Write-downs of short-term receivables	–	8
Other items	0	6
Financial expenses	**125**	**143**
Net financial income/expense	**77**	**-56**

1) Of which current interest income from the interest coupon part of interest rate swaps SEK 5 million (9).

2) Of which current interest expenses from the interest coupon part of interest rate swaps SEK 13 million (21).

Parent company

Result from participations in group companies

MSEK	2005	2004
Dividends	708	1 644
Write–downs	–28	–954
Capital gain on sale	–	0
Total	**680**	**690**

Result from securities and receivables accounted for as fixed assets

MSEK	2005	2004
Interest incomes, external	14	14
Capital gain on sale	–	–1
Total	**14**	**13**

Interest income and similar profit/loss items

MSEK	2005	2004
Interest incomes, external	2	4
Other items	–	5
Total	**2**	**9**

Interest expenses and similar profit/loss items

MSEK	2005	2004
Interest expenses, external	7	1
Interest expenses, Group	129	113
Exchange rate differences	100	9
Other items	5	–
Total	**241**	**123**

Note 10 Appropriations

MSEK	Parent company 2005	2004
Resolution of tax allocation reserve	–	114
Total	**–**	**114**

Note 11 Taxes

Reported in the income statement

Group

MSEK	2005	2004
Current tax expenses/income		
Year's tax expenses	–68	–11
Adjustment of tax attributable to previous years	0	2
	–68	–9
Deferred tax expenses/tax income		
Temporary differences	23	43
Capitalised value of tax loss carryforwards during the year	57	45
Utilisation of previously capitalised value of tax loss carryforwards	–198	–216
Utilised capitalised value of share pen losses (Swedish: aktiefållanförluster)	–41	–
During the year capitalised value of share pen losses (Swedish: aktiefållanförluster) from previous years	41	–
Revaluation of reported values of deferred tax receivables [1]	217	5
	99	–123
Total reported tax income/tax expenses in the group	**31**	**–132**

Parent Company

MSEK	2005	2004
Current tax expenses/income		
Tax income for the year	71	1
Adjustment of tax attributable to previous years	0	0
	71	1
Deferred tax expenses/tax income		
Temporary differences	3	2
	3	2
Total reported tax income in the parent company	**74**	**3**

Reconciliation of effective tax

Group

MSEK	2005	%	2004	%
Profit before tax	**824**		**521**	
Tax in accordance with tax rate for the parent company	–231	28.0	–146	28.0
Effect of other tax rates for foreign subsidiaries	–4	0.5	–3	0.4
Non-deductible expenses	–56	6.8	–30	5.8
Tax exempt income	11	–1.3	36	–6.9
Deductible non profit-influencing items	49	–6.0	17	–3.2
During the year capitalised value of share pen losses (Swedish: aktiefållanförluster) from previous years	41	–5.0	–	–
Value adjustment of previous years' deferred tax [1]	217	–26.3	–4	0.8
Utilised non-capitalised loss carryforwards	2	–0.2	6	–1.2
Tax attributable to previous years	0	0.0	2	–0.4
Increase in loss carryforwards without corresponding capitalisation of deferred tax receivables	–3	0.3	–5	1.0
Altered tax rates for foreign companies	–	–	–6	1.2
Standard interest on accrual fund	–1	0.1	–	–
Adjustment of net profit for joint ventures included in pre-tax profit	6	–0.7	1	–0.2
Effective tax	**31**	**–3.8**	**–132**	**25.3**

1) Of the amount referring to adjustment of the value of previous year's booked deferred tax of SEK 211 million refers to deferred tax income stemming from decisions taken during the year regarding previous years' taxes, which resulted in a revaluation of deferred tax receivables.

Parent Company MSEK	2005	%	2004	%
Profit before tax	**397**		**666**	
Tax in accordance with tax rate for the parent company	–111	28.0	–186	28.0
Non-deductible expenses	–13	3.3	–272	40.8
Tax exempt income	198	–49.9	461	–69.3
Effective tax	**74**	**–18.6**	**3**	**–0.5**

Tax items charged directly to shareholders' equity

Group MSEK	2005	2004
Exchange rate differences	12	0
Deferred tax attributable to convertible promissory notes	–7	–
	5	**0**

Parent Company MSEK	2005	2004
Current tax in received group contributions	–72	–2
Deferred tax attributable to convertible promissory notes	–7	–
	–79	**–2**

Reported in the balance sheet

Deferred tax receivables and tax liabilities

Group	Deferred tax receivables		Deferred tax liabilities		Net	
MSEK	2005	2004	2005	2004	2005	2004
Loss carryforwards	792	710			792	710
Share pen losses	41				41	
Untaxed reserves			–59	–67	–59	–67
Tangible fixed assets	12	5			12	5
Group surplus values			–104	–39	–104	–39
Convertible receivables			–41		–41	
Current receivables	7			–6	7	–6
Work in progress	20	46			20	46
Pensions	15	11			15	11
Other	22	28			22	28
	909	800	–204	–112	705	688
Offset	–204	–112	204	112		0
Net	**705**	**688**	**0**	**0**	**705**	**688**
Parent Company						
Pensions	3	2			3	2
Other			–6		–6	0
	3	2	–6	0	–3	2
Offset	–3		3			0
Net	**0**	**2**	**–3**	**0**	**–3**	**2**

When assessing deferred tax receivables from loss carryforwards allowance has been made for the current exchange of letters with the Swedish National Tax Board and the equivalent authority in Norway. Estimates have been made together with external tax experts on the right to deduct each loss carryforward. Deferred tax relating to deficits where tax deductions are uncertain have not be recognised as assets. As at 31 December 2005, the value of deferred tax on these loss carryforwards was SEK 190 million.

Temporary differences between reported and tax value of participations directly owned by the parent company

Normally there no temporary differences between reported and tax value of shares for business purposes directly owned by the parent company, i.e. neither upon divestment or distribution of dividend, as such transactions are not taxable. Therefore no deferred tax has been reported for these holdings.

Non-reported deferred tax receivables

Tax loss carryforwards for which deferred tax receivables have not been reported in the income statement or the balance sheet amounted to SEK 21 million in 2005 and SEK 18 million in 2004 and refer to the Polish and Latvian businesses. In the light of the losses of recent years by these companies and the extremely limited nature of future activities, it is unlikely that loss carryforwards can be utilised as offsets against future taxable profits.

Changes in deferred tax on temporary differences and loss carryforwards

Group MSEK	Amount as at 1 Jan 2005	Recognised in income–statement	Recognised in share-holders' equity	Acquisition/ divestment of companies	Amount as at 31 Dec 2005
Loss carryforwards	710	70	11	1	792
Share pen losses		41			41
Untaxed reserves	–67	16		–8	–59
Tangible fixed assets	5	7			12
Group surplus values	–39	5		–70	–104
Convertible receivables		–41			–41
Current receivables	–6	13			7
Work in progress	46	–16		–10	20
Pensions	11	3	1		15
Other	28	1	–7		22
Total	**688**	**99**	**5**	**–87**	**705**

Changes recognised directly in shareholders' equity also include price differences.

MSEK	Amount as at 1 Jan 2004	Recognised in income–statement	Recognised in share-holders' equity	Acquisition/ divestment of companies	Amount as at 31 Dec 2004
Loss carryforwards	779	–168		99	710
Untaxed reserves	–101	40		–6	–67
Intangible fixed assets	4	–4			0
Tangible fixed assets	5	6		–6	5
Group surplus values	–37	7		–9	–39
Current receivables	31	–37			–6
Work in progress	22	19		5	46
Pensions	9	2			11
Other	13	12		3	28
Total	**725**	**–123**	**0**	**86**	**688**

Parent Company MSEK	Amount as at 1 Jan 2005	Recognised in income statement	Recognised in share-holders' equity	Amount as at 31 Dec 2005
Pensions	2	1		3
Other		1	–7	–6
Total	**2**	**2**	**–7**	**–3**

MSEK	Amount as at 1 Jan 2004	Recognised in income statement	Recognised in share-holders' equity	Amount as at 31 Dec 2004
Pensions		2		2
Total	**0**	**2**	**0**	**2**

Note 12 Intangible assets

Group 2004 MSEK	Goodwill	Other intangible assets	Total
Acquisition values brought forward	328	16	344
Purchases	82	0	82
Sales/disposals	–4	–1	–5
Reclassifications	–6		–6
Accumulated acquisition values brought forward	**400**	**15**	**415**
Amortization brought forward	–	–4	–4
Amortization for the year 1)		–1	–1
Accumulated amortization carried forward	**–**	**–5**	**–5**
Write-downs brought forward	–	–	–
Write-downs for the year 2)	–15		–15
Accumulated write-downs carried forward	**–15**	**–**	**–15**
Book value carried forward	**385**	**10**	**395**

Group 2005 MSEK	Goodwill	Other intangible assets	Total
Acquisition values brought forward	400	15	415
Purchases	19	0	19
Sales/disposals	–3		–3
Translation differences for the year	7	0	7
Accumulated acquisition values brought forward	**423**	**15**	**438**
Amortization brought forward	–	–5	–5
Amortization for the year 1)		–1	–1
Accumulated amortization carried forward	**–**	**–6**	**–6**
Write-downs brought forward	–15	–	–15
Sales/disposals	3		3
Write-downs for the year 2)	–30		–30
Accumulated write-downs carried forward	**–42**	**–**	**–42**
Book value carried forward	**381**	**9**	**390**

1) Amortization for the year by income statement item:

	2005	2004
Selling and administrative expenses	–1	–1
2) Write–downs for the year by income statement item		
Production and management expenses	–30	–15
Specification other intangible assets		
Leasehold land	7	7
Trademark	2	2
Other	0	1
Total	**9**	**10**

Impairment test of goodwill in cash-generating units

The balance sheet of the Peab group as at 31 December 2005 included total goodwill of SEK 381 million (385). Cash-generating units with considerable recognised goodwill value compared with the group's total recognised value per segment are shown below:

MSEK	2005	2004
Construction and Civil Engineering		
Sam-Schakt Mark AB	33	33
Peab Seicon Oy group	68	104
Peab AS group	43	28
Other units - Construction and Civil Engineering	38	37
Industry		
Swerock AB group	80	80
Peab Asfalt, Southern Region	32	41
Other units - Industry	87	62
	381	**385**

Method for estimating recovery value

For all goodwill figures the recovery value has been based on estimation of the utility value for the cash-generating unit. The calculation model is based on the discounting of forecast future cash flows which together with the expected residual value are compared to the unit's reported value. These future cash flows are based on 5-year forecasts based on assessments made by the management of the respective cash-generating units. When testing goodwill normally a utility period of 10 years has been used through extrapolation of cash flow for the years after the forecast period (years 6-10). Growth in years 6-10 has been set to between 0 and 2 per cent. The residual value must reflect the expected value upon divestment after the end of the utlity period and has been calculated through a multiple valuation of operating profits at the end of the valuation period. The residual value must reflect the expected value upon divestment after the end of the utility period and has been calculated through multiple evaluation of the operating profit at the end of the valuation period.

Important variables when estimating utility value:

The following variables are significant and common to all cash-generating units when calculating utility value.

Sales: The competitiveness of the business, expected changes in the financial climate in the construction market, general economic conditions, the investment plans of public and municipal customers, interest rate levels and local market conditions.

Operating margins: Historic profitability levels and business efficiency, the supply of key personnel and qualified manpower, the ability to cooperate with customers/customer relations, supply of internal resources, growth in payroll, materials and subcontractor costs.

Working capital requirements: individual case assessment of whether the working capital reflects the company's needs or whether it should be adjusted for the forecast period. For future development following sales growth is a reasonable or careful assumption. A large proportion of internally developed projects may involve higher working capital needs.

Investment needs: The company's investment needs are assessed on the investments required to achieve the initially forecast cash flow, i.e. not including expansion investments. Investment levels have usually corresponded to the depreciation rate of tangible fixed assets.

Tax burden: The tax rate in forecasts is based on Peab's expected tax position in the respective countries with regard to tax rates, loss deductions etc.

Discount rate: The forecast cash flow and residual value are discounted to present value applying weighted-average cost of capital (WACC) based on the group's capital structure in the test case. Interest rates on borrowed capital is set at that for group net borrowing. The required return on equity is based on the Capital Asset Pricing Model. In the calculations made of utility value a discount rate before tax of approx. 10 per cent has been used.

Goodwill writedowns

In 2005, the group wrote down total goodwill of SEK 30 million (15 million). Of this, SEK 18 million referred to Peab's Finnish subsidiary Peab Seicon in the primary segment Construction and Civil Engineering. Poor profitability in 2005 resulted in the revision of forecast cash flow such that Peab Seicon's utility value was less that the book value. A SEK 9 million goodwill writedown was made on Peab Asfalt's southern region stemming from the acquisition of PNB Asfalt. The company is active in the local market with strong pressure on prices which resulted in the identification of a writedown requirement. These cash-generating unit is included in the primary segment Industry.

For the cash-generating units no writedown need has been identified the company management assesses that no reasonably possible changes in important assumptions would result in the recovery value being less than the recognised value.

Note 13 Tangible assets

Group 2004 MSEK	Buildings and land	Machinery and equipment	Construction in progress	Total
Acquisition values brought forward	816	2 464	11	3 291
Purchases	20	377	12	409
Purchases in acquired companies	16	52	—	68
Sales/disposals	–23	–220	0	–243
Reclassifications	–59	6	–9	–62
Translation differences	–1	0	—	–1
Accumulated acquisition values brought forward	**769**	**2 679**	**14**	**3 462**
Depreciation brought forward	–189	–1 289		–1 478
Accumulated depreciation in acquired companies	–4	–37		–41
Sales/disposals	7	172		179
Reclassifications	–2	—		–2
Depreciation for the year	–24	–307		–331
Accumulated depreciation carried forward	**–212**	**–1 461**		**–1 673**
Write-downs brought forward	–11	–2		–13
Reclassifications	4	—		4
Write-downs for the year	–1	—		–1
Accumulated write-downs carried forward	**–8**	**–2**		**–10**
Book value carried forward	**549**	**1 216**	**14**	**1 779**

Group 2005 MSEK	Buildings and land	Machinery and equipment	Construction in progress	Total
Acquisition values brought forward	769	2 679	14	3 462
Purchases	47	438	49	534
Purchases in acquired companies	19	157	—	176
Sales/disposals	–1	–248	–4	–253
Reclassifications	–6	–37	–7	–50
Translation differences	3	10	—	13
Accumulated acquisition values brought forward	**831**	**2 999**	**52**	**3 882**
Depreciation brought forward	–212	–1 461		–1 673
Accumulated depreciation in acquired companies	0	–57		–57
Sales/disposals	1	213		214
Reclassifications	2	36		38
Depreciation for the year	–25	–312		–337
Translation differences	0	–8		–8
Accumulated depreciation carried forward	**–234**	**–1 589**		**–1 823**
Write-downs brought forward	–8	–2		–10
Translation differences	–1			–1
Accumulated write-downs carried forward	**–9**	**–2**		**–11**
Book value carried forward	**588**	**1 408**	**52**	**2 048**

MSEK	2005	2004
Residual value according to plan of properties in Sweden	525	446
Tax assessment value of buildings in Sweden	200	138
Tax assessment value of land in Sweden	163	153

Parent company MSEK	Machinery and equipment 2005	2004
Acquisition values brought forward	7	23
Purchases	0	0
Sales/disposals	—	–16
Accumulated acquisition values brought forward	**7**	**7**
Depreciation brought forward	–3	–14
Sales/disposals	—	12
Depreciation for the year	0	–1
Accumulated depreciation carried forward	**–3**	**–3**
Book value carried forward	**4**	**4**

Financial lease in the group

Companies in the group lease vehicles, construction machinery and other production equipment through many different leasing agreements. When the leasing agreements terminate the company has options to purchase the equipment at an advantageous price. The leased assets are security for leasing liabilities.

Notes to the financial reports

Note 14 Participations in joint ventures

MSEK	Group 2005	Group 2004
Booked value brought forward	192	147
Purchases	37	25
Sales	0	–16
Dividends	–3	–6
Result from participations after tax	23	2
Reclassifications	–2	40
Translation differences	1	–
Book value carried forward	**248**	**192**

Specification of Group´s holdings of shares and participations in joint ventures

Company, Registered office Corp.ID.no	Share per cent	Book value 2005	Book value 2004
Dockan Exploatering AB Malmö, 556594-2645	33	40	41
Fastighets AB Medicinaren Huddinge, 556315-0399	40	36	35
Fältjägaren Fastigheter AB Östersund, 556688-3517	50	25	–
Fastighets AB Solskensgården Stockholm, 556573-9330	40	19	18
Koy Alvar Aallonkatu Seinäjoki, 1575383-0	46	21	14
Vendels Grus KB Uppsala, 917600-5636	49	15	16
Brunnshögs Bostad AB Helsingborg, 556612-0852	50	11	10
Kungsörs Grus AB Kungsör, 556044-4134	50	10	10
Kolbotn Torg AS Oslo, 984 178 425	50	10	5
Byggutveckling Svenska AB Linköping, 556627-2117	50	8	–
F5 Ljungbyhed AB Klippan, 556545-4294	35	6	6
AB Vendels Grustag Uppsala, 556025-8383	50	6	6
Svenska Fräs & Asfalts-återvinning SFA AB Markaryd, 556214-7354	30	5	5
Expressbetong AB Halmstad, 556317-1452	50	4	4
Fastighets AB Bryggeriet Göteborg, 556141-6115	50	4	4
I Tolv AB Eksjö, 556513-2478	35	4	3
Ale Exploatering AB Ale, 556426-2730	50	4	2
KB Älvhögsborg Trollhättan, 916899-2734	50	4	–
Gransångaren AB Västerås, 556591-2994	46	3	–
Peab I5 AB Örebro, 556679-4276	50	3	–
Deamatris Förvaltning AB Stockholm, 556518-6896	50	2	3
Gottåsa Fastighets AB Alvesta, 556499-2948	50	2	2
HB Gladökrossen Uppsala, 969615-7917	50	2	1
PeWi Bostadsutveckling AB Båstad, 969687-5492	50	2	–
Smiejordet AS Oslo, 984 930 011	50	0	1
Pilestredet Utsyn AS Oslo, 986 130 268	33	–	4
Other not specified items		2	2
Total		**248**	**192**

The group's financial reports include the below items which constitute the group's ownership holding in the joint venture company's groupwise value of assets, liabilities, income and expenses.

MSEK	2005
Incomes	237
Expenses	–214
Profit	**23**
Fixed assets	617
Current assets	791
Total assets	1 408
Long-term liabilities	711
Short-term liabilities	449
Total liabilities	1 160
Net assets/Net liabilities	**248**

Note 15 Parent company´s participation in joint ventures

MSEK	2005	2004
Acquisition values brought forward	17	–
Reclassifications	–	17
Book value carried forward	**17**	**17**

Specifications of Parent company´s holdings of shares and participations in joint ventures

Company, Registered office, Corp.ID.no.	Share per cent	No. Of partici-pations	Book value 2005	2004
Fastighets AB Solskensgården Stockholm, 556573-9330	40	401	17	17
Total			**17**	**17**

Not 16 Other securities held as fixed assets

MSEK	Group 2005	Group 2004	Parent company 2005	Parent company 2004
Acquisition values brought forward	22	41	1	19
Assets added	0	4	–	0
Assets removed	–3	–4	–1	–1
Reclassifications	–7	–19	–	–17
Translation differences	1	0	–	–
Accumulated acquisition values brought forward	**13**	**22**	**–**	**1**
Write-downs brought forward	–6	0	–	–
Reclassifications	5	0		
Write-downs for the year	–4	–1		
Translation differences	–1	–5		
Accumulated write-downs carried forward	**–6**	**–6**	**–**	**–**
Book value carried forward	**7**	**16**	**–**	**1**

Note 17 Receivables from Group companies

Parent company MSEK	2005	2004
Acquistion values brought forward	134	72
Added receivables	338	125
Settled receivables	–128	–63
Book value carried forward	**344**	**134**

Note 18 Interest-bearing receivables

Interest-bearing long-term receivables

	Group		Parent company	
MSEK	2005	2004	2005	2004
Receivables from joint ventures	102	109	–	–
Other interest-bearing long-term receivables	17	17	10	10
Convertible promissory notes Claim part	240	234	253	253
Convertible promissory notes Conversion right	217	72	–	–
Total	**576**	**432**	**263**	**263**

Interest-bearing short-term receivables

MSEK	2005	2004	2005	2004
Receivables from joint ventures	133	87	56	32
Other interest-bearing short-term receivables	38	88	15	19
Total	**171**	**175**	**71**	**51**

In June 2003, Peab AB subscribed for convertible promissory notes in Brinova, series 2003/2008, for nominal SEK 253 million. The promissory notes mature on 15 June 2008 at an interest of 5.5 per cent. The interest is paid quarterly in arrears. Each promissory note entitles the holders to a right to convert to a B share in Brinova Fastigheter AB. After the new issue carried out by Brinova Fastigheter AB in December 2005, the conversion terms have been recalculated, after which Peab AB then has 4,931,773 promissory notes, which entitle to conversion to a similar number of shares at SEK 51.30. Conversion may be exercised in special quarterly divided notification periods between 6 June 2004 and 30 March 2008.

These promissory notes are recognised in parts where the claim part is classified as loans and accounts receivable and valued at amortized cost whilst the conversion right is classified as a financial asset held for trading and is valued at fair value by the income statement. Valuation is based on the option value model based on the official market price of the Brinova Fastigheter B-share.

Note 19 Other receivables

Other long-term receivables

	Group		Parent company	
MSEK	2005	2004	2005	2004
Receivables from joint ventures	13	25	–	–
Other long-term receivables	12	8	1	1
Total	**25**	**33**	**1**	**1**

Other short-term receivables

	Group		Parent company	
MSEK	2005	2004	2005	2004
Receivables from joint ventures	75	124	–	–
Receivables from closely related legal entities	47	70	–	–
Other short-term receivables	460	233	2	3
Total	**582**	**427**	**2**	**3**

Note 20 Project- and development properties

	Group		Parent company	
MSEK	2005	2004	2005	2004
Directly owned project- and development properties	1 519	1 310	3	3
Advance project- and development properties	16	8	–	–
Participation in Finnish housing companies	215	141	–	–
Bought-back participations in in tenant-owner´s associations	17	115	–	–
Other	17	25	–	–
Total	**1 784**	**1 599**	**3**	**3**

Recovery

Of booked value in project- and development properties of SEK 1,784 million (1,599) approx. SEK 980 million (1,000) is expected to be recovered through production start or sales after more than 12 months after the balance sheet day. The outstanding part is expected to be recovered within 12 months after the balance sheet day.

Note 21 Inventories

	Group	
MSEK	2005	2004
Raw materials and consumables	45	30
Products in progress	118	19
Finished products and goods for resale	182	177
Total	**345**	**226**

Note 22 Accounts receivable

Accounts receivable were written down for actual and feared bad debts to the tune of SEK 43 million where of actual bad debts in the group amounted to SEK 12 million (5). The losses arose from the bankruptcy of some of the company's customers.

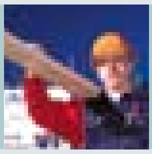
The parent company had no bad debts.

Note 23 Recognised income not yet invoiced

	Group	
MSEK	2005	2004
Recognised income on uncompleted contracts	15 990	14 396
Invoicing on uncompleted contracts	–13 181	–12 740
Total	**2 809**	**1 656**

Recognised income from contracts in progress is reported with the application of percentage of completion method. The calculation of the degree of recognition is made on the basis of the project costs incurred at the end of the period in relation to the project costs for the total contract.

Contract assignments are reported in the balance sheet on the basis of gross project for project, either as Recognised but non-invoiced income in current assets or as Invoicied but non-recognised income in short-term liabilities. Projects that have higher recognised incomes than what has been invoiced are reported as assets, while projects that have been invoiced for more than recognised income are reported as liabilities. Net receivables from customers increased during the year among other things as a result of acquired housing projects in Norway.



Note 24 Prepaid expenses and accrued income

MSEK	Parent company 2005	2004
Accrued interest income	2	1
Prepaid overhead expenses	1	2
Total	**3**	**3**

Note 25 Shareholders' equity

The Group
Specification of shareholders' equity item reserves

Translation reserve

MSEK	2005	2004
Opening translation reserve	5	–
Translation differences for the year	56	5
Closing translation reserves/reserves	**61**	**5**

Repurchased own shares included in the shareholders' equity item retained earnings including profit for the year

MSEK	2005	2004
Opening repurchased own shares	88	98
Divestments during the year	–9	–10
Closing repurchased own shares	**79**	**88**

Share capital	Number of issued fully paid shares	Amount
A shares	9 805 702	98 057 020
B shares	77 390 242	773 902 420
	87 195 944	**871 959 440**

An A share entitles the holder to 10 votes and a B share to 1 vote.

Other contributed capital

Refers to equity contributed from the owners. This includes premium reserves recognised in reserve funds as at 31 December 2005. Provisions for the premium reserve will also be recognised as contributed capital from 1 January 2006 onwards.

Reserves

Translation reserve

The translation reserve comprises all exchange rate differences arising when translating financial reports of foreign companies which have prepared their financial reports in a different currency to that which the group's financial report is presented in. The parent company and the group present their financial reports in Swedish crowns.

Retained earnings including profit for the year

Retained earnings including profit for the year includes earnings in the mother company and its subsidiaries, associated companies and joint venture companies. Previous provisions for reserve funds, excluding transferred premium reserves and previous investment reserves are included in this shareholders' equity item.

Repurchased shares

Repurchased shares comprise acquisition costs deducted for sales income from own shares owned by the parent company. As at 31 December 2005, the group's holding of own shares was 2,093,200 units (2,209,800).

Dividends

After balance sheet day the board of directors and the MD proposed the following dividend. The dividend is subject to ratification by the AGM on 17 May 2006.

SEK 3.00 per share, in total SEK 261,587,832.

SEK 2.50 per share was distributed in 2005.

The Parent Company

Restricted reserves

Restricted reserves may not be impaired by the distribution of dividends.

Reserve fund

The purpose of the reserve fund is to retain a part of the net profit which is not allocated to cover balanced losses. The requirement to make provisions to the reserve fund from part of the net profit has been discontinued from 2006 in the Swedish Companies Act.

Premium reserve

When shares are issued at a premium, i.e. when more must be paid for the shares than their par value, an amount equivalent to amount received in excess of the par value of the shares is transferred to the share premium reserve.

Non-restricted equity

Retained earnings

Consist of the previous year's non-restricted equity after any reserve provisions and after profit distribution. Together with profit for the year this constitutes the total non-restricted equity, i.e. the amount available for distribution to the shareholders.

Note 26 Earnings per share

Earnings per share

SEK	Before dilution 2005	Before dilution 2004	After dilution 2005	After dilution 2004
Earnings per share	**10.06**	**4.56**	**9.84**	**4.56**

Earnings per share before dilution

The calculation of earnings per share for 2005 was based on annual profit attributable to the parent company's ordinary shareholders amounting to SEK 856 million (387) and on a weighted average number of outstanding shares in 2005 of 85,059,000 (84,906,000).

Earnings per share after dilution

Potential future ordinary shares refer to 5.5 million convertible debentures issued on 29 June 2005 and subscribed for by Peab staff.

The calculation of earnings per share after dilution for 2005 was based on annual profit attributable to the parent company's ordinary shareholders amounting to SEK 864 million (387) and on a weighted average number of outstanding shares in 2005 of 87,862,000 (84,906,000). The two components were calculated as follows:

Profit attributable to the parent company's ordinary shareholders after dilution

MSEK	2005	2004
Profit attributable to the parent company's ordinary shareholders	856	387
Interest rate effect on convertible promissory notes 2005/2008 (after tax)	8	0
Profit attributable to the parent company's ordinary shareholders after dilution	**864**	**387**

Weight average number of outstanding ordinary shares after dilution

Thousands of shares	2005	2004
Weighted average number of outstanding ordinary shares before dilution	85 059	84 906
Effect of converting convertible promissory notes 2005/2008	2 803	0
Weighted average number of outstanding ordinary shares after dilution	**87 862**	**84 906**

Repurchased shares are not included in the calculation.

Note 27 Interest-bearing liabilities

MSEK	Group 2005	Group 2004
Long-term liabilities		
Bankloan	1 285	625
Convertible prommisory notes	456	–
Financial leasing liabilities	423	358
Loan from joint venture	1	–
Other	2	44
Total	**2 167**	**1 027**
Short-term liabilities		
Bankloan including overdraft facilities	0	293
Commercial papers	465	887
Short-term part of leasing liabilities	130	146
Total	**595**	**1 326**

Convertible promissory notes 2005/2008

MSEK	Group/ Parent Company 2005	Group/ Parent Company 2004
Value after issue of 5,500,000 convertible promissory notes	479	–
Amount classified as shareholders' equity	–27	
Capitalised interest	4	
Liability reported as at 31 December	**456**	**–**

The convertible debenture loan runs from 16 June 2005 to 15 June 2008 with a coupon of 2.69 per cent. Conversion to B-shares can be made between 1 and 15 October 2007 and 1 and 15 April 2008. The nominal conversion rate is SEK 87 for one convertible promissory note.

Financial leasing liabilities

Financial leasing liabilities fall due for payment as follows:

Group MSEK	Minimum leasing charge 2005	Interest 2005	Capital amount 2005	Minimum leasing charge 2004	Interest 2004	Capital amount 2004
Within one year	143	13	130	160	14	146
Between one and five years	363	33	330	290	25	265
Later than five years	102	9	93	102	9	93
Total	**608**	**55**	**553**	**552**	**48**	**504**

Note 28 Employee benefits

Defined benefit plans

Group

MSEK	2005	2004
Present value of fully or partially funded obligations	26	14
Fair value of plan assets	–18	–14
Net fully or partially funded obligations	8	0
Present value of unfunded obligations	5	7
Net present value of obligations	13	7
Non-recognised actuarial gains (+) and losses (–)	–7	1
Effect of limitation rule on net assets	3	0
Net reporting of defined benefit plans recognised as provisions for pensions	**9**	**8**

Review of defined benefit plans

Defined benefit plans consist of the Swedish ITP plan for salaried staff managed through insurance with Alecta, pension plans for a few leading officials in Sweden and Norway and the AFP pension in Norway. As Alecta cannot submit the information required to account for the ITP plan as a defined benefit plan, this has been recognised as a defined contribution plan (see below)

Changes in net obligations recognised in the balance sheet for defined benefit plans

MSEK	2005	2004
Net obligations for defined benefit plans as at 1 January	8	14
Paid out remunerations	–1	–1
Paid up contributions	–4	–2
Expenses charged to income	6	8
Redemption of obligations	—	–8
Reclassification	—	–3
Net obligations for defined benefit plans as at 31 December	**9**	**8**

Expenses charged to income statement

MSEK	2005	2004
Expenses for work during current period	3	5
Interest expenses on obligations	1	1
Expected return on plan assets	–1	–1
Recognised actuarial gains (-) and losses (+)	1	0
Effects of reductions and adjustments	2	3
Total net expense in the income statement	**6**	**8**

Expenses are recognised in the following lines in the income statement

MSEK	2005	2004
Sales and administration expenses	6	8
Financial income	–1	–1
Financial expenses	1	1
Total costs	**6**	**8**
Actual return on plan assets	1	0

Assumptions for defined benefit plan obligations

The most important actuarial assumptions on balance sheet day	2005	2004
Discount rate	4.00%	5.00%
Expected return on plan assets	4.50%	5.50%
Future pay increases	3.00%	3.00%
Future increases in pensions	2.00%	2.75%
Personnel turnover	5.00%	3.00%

Old-age pension and family pension obligations for salaried staff in Sweden are managed through insurance with Alecta. Under pronouncement URA 42 of the of Emergency Issues Task Force of the Swedish Financial Accounting Standards Council this is a defined benefit plan which comprises several employers. In the 2004 and 2005 financial years the company did not have the necessary information required to recognise this plan as a defined benefit plan. According to ITP the pension plan managed through insurance with Alecta is thus recognised as a defined contribution plan. Annual charges for pension insurances taken out with Alecta amounted to SEK 103 million (100). Alecta's surplus may be distributed among the policyholders and/or the insured. At the end of 2005 Alecta's surplus in the form of the collective consolidation level amounted to 128.5 per cent (128). The collective consolidation level consists of the market value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's insurance estimate assumption, which do not accord with IAS 19.

Defined contribution plans

The group has defined contributed plans which are entirely paid for by the company. Payments to these plans are made on a current basis in accordance with the rules in each plan.

	Group		Parent company	
MSEK	2005	2004	2005	2004
Expenses of defined contribution plans [1]	298	295	17	10

1) This includes SEK 103 million (100) referring to an ITP plan financed by Alecta, see above.

Incentive program

The Peab group has no commitments to share-related or option-related remuneration of staff

Remuneration and other benefits during the year

Remuneration and other benefits during the year

Thousands, SEK	Basic salary/ board fees	Variable remune-ration	Variable board fees for 2004	Other benefits	Pension expenses	Total
Previous chairman of the board, Ulf H Jansson	300	50				350
Current chairman of the board, Göran Grosskopf	120		20			140
Other members of the board	480	75	80			635
Managing Director	3 387	2 065				5 452
Other Senior management	10 016	4 695		400	4 762	19 873
Total	**14 303**	**6 885**	**100**	**400**	**4 762**	**26 450**

Comments on the table

Variable remuneration to the board refers to committee work.Variable remuneration to the MD and leading officials refers to 2005 bonuses. Variable board fees for 2004 refer to bards fees for 2004 paid out in 2005 Other benefits refer to company cars. Pension expenses refer to the expenses charged to 2005. See below for additional information on pensions.

The board of directors

The AGM in 2005 decided that remuneration for the external members of the board of directors should amount to a maximum of SEK 1,025,000 (800,000). Of this amount, the previous chairman of the board of directors received SEK 350,000 (250,000). Fees to the external members of the board consist of board fees to a maximum of SEK 900,000 and SEK 125,000 for committee work in the remuneration and finance committees.

During the year fees paid amounted to SEK 1,125,000 (850,000). Of the fees paid during the year SEK 100,000 refers to the 2004 financial year.

Fees are not paid to members of the board who are permanent employees of the group. There are no agreements on future pension/retirement remuneration or other benefits either for the chairman of the board or for other members of the board besides the managing director.

The preparation and decision-making process for remuneration

The remuneration committee appointed by the board of directors is made up of chairman of the board Göran Grosskopf, member of the board Jan Segerberg and the managing director Mats Paulsson. The remuneration committee excluding the managing director negotiates his salary and other terms of employment with the managing director. The board of directors decides on the managing director's salary and other terms of employment. The managing director must negotiate the salary and terms of employment with the deputy managing directors. The remuneration committee decides on the salary and other terms of employment of the deputy managing directors.

Bonuses for the managing director and other leading officials relate to the meeting of profit targets for the group. Bonuses for the 2005 financial year could not exceed a maximum of SEK 2,200,000 (2,200,000) for the managing director and a total of SEK 5,100,000 (4,250,000) for the Other Senior management.

Bonuses are adjusted the year after being earned and may either be paid out as salary or as a one-off pension premium. If bonuses are paid out as a one-off pension premium, certain adjustments are made so as to neutralise the total cost for Peab.

The managing director

In 2005, the managing director of Peab AB received a salary including benefits of SEK 3,387,000 (3,324,000) in all. In addition, his bonus in 2005 amounted to SEK 2,065,000 (1,575,000).

In 2004, during which the managing director celebrated his sixtieth birthday, all pension obligations to the managing director were finally adjusted, after which no pension premiums will be paid. After final adjustment all pension obligations to the managing director are part of a defined contribution plan. All pension benefits are unassailable.

The company has commitments to an early retirement pension to the managing director which involves payment of 75 per cent of his pensionable salary between the ages of 60 and 65. The pension premium for retirement at 65 amounts to 35 per cent of the pensionable salary but to a maximum of 10 basis amounts. The pensionable salary consisted of the basic salary and the average of the last three years' bonuses prior to 2005. No pension premiums were paid for the managing director during the year (previous year SEK 6,070,000). Of the previous year's premium SEK 1,629,000 refers to regular pension premiums until 30 April and SEK 4,441,000 refers to final adjustment both of the pension to be paid between the ages of 60 and 65 and the pension to be paid from 65.
The payment of the agreed pension has been postponed from 60 to the time the managing director leaves his post.

If the managing director is given notice by the company, he is entitled to receive the agreed pension. If the managing director resigns, the period of notice is six months.

Other Executive management

The term Other Executive management refers to the six (five) deputy managing directors of Peab AB, of which one resigned his post in 2005.

Salary and other remuneration including benefits for Other Executive management amounted to SEK 10,416,000 (8,680,000). In addition, bonuses in 2005 amounted to SEK 4,695,000 (2,688,000). Pension premiums paid out for other Executive managers amounted to SEK 4,762,000 (3,847,000) during the year.

There are early retirement pension commitments for other Executive managers. All pension benefits are unassailable.

For one of the Other Executive managers this involves commitments which involve pensions amounting to 75 per cent of salary for pensions paid between the ages of 60 and 65. This pension commitment is gradually earned in and will be paid out to the full amount if employment continues to the agreed pension age. These pensions involve defined benefit plans. The pension premium for retirement at 65 amounts to 35 per cent of the pensionable salary but to a maximum of 10 basis amounts. These pensions involve defined contribution plans. The pensionable salary consists of the basic salary and the average of the three most recent years' bonuses.

There are pension commitments for the other four leading Executive managers which involve pensions being paid from the ages of 62 to 65. Annual pension premiums are paid for these commitments based on a percentage of salaries at the various age intervals for the respective officials. The pension premium for retirement at 65 amounts to 25 per cent of the pensionable salary but to a maximum of 10 basis amounts. The pensionable salary is the basic salary. These pensions are part of defined contribution plans.

If dismissed by the company other Executive managers are entitled to a maximum of two annual salaries deducted for salaries from new employers. If Executive managers resign, the period of notice is six months.

Notes to the financial reports

Note 29 Provisions

Provisions which are long-term liabilities MSEK	Group 2005	 2004
Guarantee risk reserve	58	43
Close-down costs	2	1
Restructuring reserve	–	14
Re-establishment costs	22	22
Social insurance costs on provisions for pensions	8	4
Other	1	–
Total	**91**	**84**

Provisions which are current liabilities MSEK	Group 2005	 2004
Guarantee risk reserve	11	4
Total	**11**	**4**

Provisions which are long-term liabilities

Group MSEK	Guarantee risk reserve	Close-down costs	Restru-turing reserve	Re-establish-ment costs	Social insurance costs on provisions for pensions	Other
Book value brought forward	43	1	14	22	4	–
Provisions set aside during the year	22	1		4	4	1
Amounts requisitioned during the year	–7		–14	–4		
Book value carried forward	**58**	**2**	**0**	**22**	**8**	**1**

Provisions which are current liabilities

Group	Guarantee risk reserve
Book value brought forward	4
Provisions set aside during the year	9
Amounts requisitioned during the year	–2
Reveresed unutilized provisions during the year	0
Book value carried forward	**11**

Guarantee risk reserve
Refers to the calculated cost of remedying faults and deficiencies relative to finished projects which may occur during the term of the guarantee. Resources are consumed during the guarantee period of the project which is generally two years.

Close-down costs
Refers to the remaining calculated termination costs for the company in Poland.

Restructuring costs
Residual provisions that were allocated in companies acquired during 1999 relative to additional staff costs upon conversion of local government activities to independent subsidiary companies. Remaining amounts are expected to be used in 2005-2006.

Re-establishment costs
Refers to the calculated re-establishment costs for rock and gravel quarries after operations are wound up. The size of provisions increases with the quarried amount and is charged back after re-establishment has been carried out. The provision is expected to be used gradually once the break is complete. Restoration can take between 1 to 15 years.

Payroll tax on pension provisions
Refers to payroll tax (or the equivalent in Norway) on provisions for defined benefit plan pensions.

Note 30 Other liabilities

MSEK	Group 2005	 2004
Other long–term liabilities		
Additional purchase price	14	–
Advance	13	–
Interest rate swaps	3	3
Other long–term liabilities	7	7
Total	**37**	**10**
Other short–term liabilities		
Liabilities to joint ventures	5	2
Liabilities to closely related legal entities	6	1
Value added tax	238	411
Tax at source, social security costs	109	92
Other short–term liabilities	157	101
Total	**515**	**607**

MSEK	Parent company 2005	 2004
Other short-term liabilities		
Additional purchase price	3	3
Value added tax	–	1
Tax at source	1	1
Total	**4**	**5**

Note 31 Invoiced income not yet recognised

MSEK	Group 2005	 2004
Invoiced sales on uncompleted contracting project	21 005	18 853
Recognised income on uncompleted contracting projects	–18 825	–17 270
Total	**2 180**	**1 583**

Recognised income from contracts in progress is reported with the application of percentage of completion method. The calculation of the degree of recognition is made on the basis of the project costs incurred at the end of the period in relation to the project costs for the total contract.

Contract assignments are reported in the balance sheet on the basis of gross project for project, either as Recognised but non-invoiced income in current assets or as Invoicied but non-recognised income in short-term liabilities. Projects that have higher recognised incomes that what has been invoiced are reported as assets, while projects that have been invoiced for more than recognised income are reported as liabilities.

Note 32 Accrued expenses and deferred income

MSEK	Parent company 2005	 2004
Accrued payroll expenses	17	10
Accrued social security expenses	5	6
Accrued interest expenses	7	–
Accrued overhead expenses	1	1
Total	**30**	**17**

Note 33 Financial risks and finance policy

Financial management

The Group's finance management is managed in accordance with the applicable finance policy established by the board of directors of Peab. The board of directors have appointed a finance committee which can take decisions subject to the applicable finance policy between meetings of the board of directors. The finance committee must account for decisions taken at the next meeting of the board. The Economy/Finance support function and the group's internal bank Peab Finans AB manage coordination of the group's financial activities. Centralised finance management ensures good control and efficient handling of the group's cash flow and financial risk exposure. The group's expertise in the financial area is concentrated at one level in the company which through active intervention in the capital markets creates contact interfaces and optimises the group's conditions.

Financial risks

The group is exposed to a variety of financial risks such as exchange rate, interest rate, financing and credit risks. Under Peab's finance policy the group's financial risks must be adjusted to a risk mandate tailored to the business concept established by the board of directors. Risks relative to exchange rate, interest rate, financing and financial credit risks are managed by Peab Finance, whilst credit risks relative to current operations are assessed and managed in the respective subsidiaries in accordance with current credit policy.

Currency risks

Financial exposure

The Group's borrowing is made in local currencies to decrease operational currency exposure. Assets and liabilities in foreign currency are converted at the rate applying on balance sheet date. Of interest-bearing liabilities as at 31 December 2005, borrowing including leasing but exclusive of currency derivatives was as follows:

	Local currency in millions	MSEK
SEK	2 086	2 086
EUR	25	236
NOK	381	449
Total		**2 771**

Currency swaps have been entered to minimise risks associated with liquidity requirements in Peab's foreign businesses. The maturities of currency swaps are often less than three months. When closing books for the year currency swaps are reported at fair value and value changes are reported as unrealised exchange rate differences in the income statement and as current receivables and liabilities in the balance sheet. At the end of the year the group held the following outstanding currency swaps:

	Bought (+) / Sold (-) Local currency in millions	
	31-12-2005	31-12-2004
EUR	–2	–11
NOK	–	–40

Exchange rate differences in net financials from financial exposure amounted to SEK -11 million (-4) during the year. Exchange rate differences in operating profits from financial exposure amounted to SEK 0 million (0) during the year.

Exposure of net assets in foreign currency

Currency exposure arising from investments in foreign net assets can be hedged through the taking out of loans in foreign currency or through forward contracts. No such hedging was performed in 2004 and 2005.

Foreign net assets

Local currency in millions	31-12-2005	31-12-2004
NOK	185	204
EUR	24	21
PLN	2	2
LVL	0	1

Annual exchange rate differences in equity (net assets in foreign subsidiaries) amounted to SEK 56 million (5).

Commercial exposure

International purchases and sales of goods and services in foreign currency are limited in scope but may be expected to increase in time with the Group's expansion and the increasing competition surrounding the purchasing of goods and services. Contracted or budgeted currency flows can be hedged for the following 6 months. At the end of the year there was no commercial exposure hedging.

Interest rate risks

As at 31 December 2005 net debt amounted to SEK 1,893 million (1,666). Total interest-bearing liabilities amounted to SEK 2,771 million (2,361), of which SEK 595 million (1,326) were short-term. Under the finance policy, the average fixed interest period on total borrowing must not exceed 24 months. At the end of the year, the average fixed interest period excluding derivatives on exercised credits was 7 months (2), on non-exercised credits it was 0 (0), and on total conceded credits it was 3 months (1).

Fixed interest period on exercised credits excluding derivatives as at 31 December 2005

Fixed interest period	Amount, MSEK	Average effective interest rate per cent	Share, per cent
2006	2 287	2.7	82
2007	–	–	–
2008	466	4.7	17
2009	–	–	–
2010-	18	5.1	1
Total	**2 771**	**3.1**	**100**

Interest rate swaps have been entered to obtain the fixed interest period required. As at 31 December 2005 outstanding periods were distributed as follows:

Fixed interest period	Amount MSEK	Effective interest rate per cent
2006	100	4.1
2007	–	–
2008	100	4.4
2009	–	–
2010-	–	–
Total	**200**	**4.2**

Peab pays fixed interest annually and receives floating rates (Stibor 3 months) on interest rate swaps. The swap agreements are reported at fair value in annual accounts and the effects are recognised as interest income in the income statement and as other long-term and current liabilities in the balance sheet.

As the table below shows, SEK 2,187 million of the group's total interest-bearing liabilities including derivatives have fixed interest periods of less than 1 year. Interest-bearing assets items of SEK 638 million have short fixed interest periods, with the result that SEK 1,069 million of the group's net debt including derivatives have fixed interest periods of less than 1 year and are thus relatively immediately susceptible to changes in market interest rates.

Fixed interest period on exercised credits including derivatives as at 31 December 2005

Fixed interest period	Amount, MSEK	Average effective interest rate per cent	Share, per cent
2006	2 187	2.8	79
2007	–	–	–
2008	566	4.7	20
2009	–	–	–
2010-	18	5.1	1
Total	**2 771**	**3.2**	**100**

Financing risk

Under the finance policy the group's net debt is mainly covered by conceded loan undertakings with maturities of between 1 and 7 years due to the fact that construction and civil engineering activities tie up relatively little capital while the company's financial assets are considerable. At the end of the year, the average loan period on exercised credits was 24 months (21), on non-exercised credits it was 34 months (48), and on total conceded credits it was 30 months (37).

At the end of the year, Peab's base financing consisted of bilateral borrowing agreements to a total of SEK 3,000 million with eight banks. At the start of 2005, the loan agreements, which are not subject to amortization, had remaining maturities until September 2009. The loan agreements were renegotiated in January 2006, and as a result the maturities were extended to a final due date of February 2013 and the number of banks was reduced from eight to seven. Otherwise terms and volumes are unchanged. The bilateral loan agreements have the same basic documentation and contain financial covenants in the form of interest cover and equity/asset ratio which the group must comply with as is normal for this type of loan agreement. At the end of the year, Peab complied with these key ratios by a wide margin.

Peab has set up a lending program for commercial papers. Under the program, Peab is able to issue commercial papers up to a maximum amount of SEK 1,500 million. The borrower is Peab Finans AB with guarantees from Peab AB. At the end of the year, Peab had outstanding commercial papers worth SEK 494 million.

In June 2005, Peab issued a convertible mortgage loan to all employees. A total of 5.5 million convertible debentures were issued for a total nominal sum of SEK 478.5 million. The rate of interest on the convertible debentures is fixed at 2.69 per cent during their term. The convertible debentures run from 16 June 2005 to 15 June 2008. Each one entitles the holder to convert to one B share in Peab in October 2007 and April 2008 at a conversion rate of SEK 87. At the end of 2005, the reported liability amounted to SEK 456 million.

The total authorised lending ceiling excluding non exercised leasing lines and excluding that part of the certificate program which has not been exercised amounted to SEK 6,742 million (5,914) as at 31 December 2005. Of the total authorised lending SEK 2 771 (2 361) were utilized.

Loan period on exercised credits 31 December 2005

Loan period	Amount MSEK	Share, per cent
2006	1 299	47
2007	52	2
2008	996	36
2009	300	11
2010-	124	4
Total	**2 771**	**100**

Credit risk

Credit risk refers to the risk of losing money due to the counterparty failing to meet his commitments. In the construction industry credit losses are normally small due to an extremely large number of projects and customers. A large number of customers also implies that there are no concentration of credit risks. All the Group's subsidiaries work according to a centrally established credit policy which enables them to determine the financial soundness of their customers and suppliers. Total actual credit losses within the construction business amounted to SEK 12 million (5) The credit risks experienced by financing activities are extremely small, as Peab deals with counterparties of high credit rating. In 2005, Peab suffered no financial credit losses.

Fair value

IAS 39, Financial instruments, is applied only to consolidated accounts and thus not to legal entities. Under IAS 39, Financial instruments, financial instruments are valued either at amortized cost or fair value depending on which category they belong to. Classification largely depends on the purpose of the holding. Those items which have been subject to valuation to fair value are the conversion part of convertible promissory notes in Brinova Fastigheter AB and interest rate and currency swaps.

When calculating the fair value of the conversion rights of claim in Brinova Fastigheter AB, an option assessment model was used based on the official market price of the Brinova Fastigheter class B-shares. Besides the current coupon interest the net financials item increased by SEK 146 million (26) relating to the market valuation of convertible rights in Brinova and SEK 5 million (5) relating to the adjustment of the claims part of the convertible promissory notes.

When computing the fair value of interest rate swaps future cash flow was discounted to the listed market interest for the remaining term to maturity and when computing the value of currency swaps spot rates on balance sheet day were used.

The table below shows booked value compared to fair value by type of financial asset and debt.

Financial instruments

The Group 31 December 2005 MSEK	Booked value	Fair value
Financial assets		
Other long-term securities	7	7
Interest-bearing long-term receivables	576	578
Other long-term receivables	25	25
Accounts receivable	3 680	3 680
Interest-bearing current receivables	171	171
Other current receivables	477	477
Short-term investments	1	1
Liquid funds	130	130
Total financial assets	**5 067**	**5 069**
Financial liabilities		
Interest-bearing long-term liabilities	2 167	2 164
Other long-term liabilities	23	23
Interest-bearing current liabilities	595	595
Accounts payable	2 877	2 877
Other current liabilities	142	142
Total financial liabilities	**5 804**	**5 801**

The effects of valuing financial instruments at fair value are included in profit with the total of SEK 151 million (27), where the effects of the market valuation of the convertible rights in Brinova are included in profit to the tune of SEK 146 million (26) and the market valuation of interest rate swaps are included in profit to the tune of SEK 5 million (1).

Note 34 Operational lease contracts

Group

Lease payments carried as an expense during the period

MSEK	2005	2004
Minimum lease payments	152	152
Contingent rent	–	–
Total	**152**	**152**

Non deductible lease payments amounts to:

MSEK	2005	2004
Within a year	163	134
Between one and five years	142	111
Later than five years	–	–
Total	**305**	**245**

Home computers for employees, rental of premises and office inventories are classified as operating leasing agreements.

Most of leasing costs refer to rental of premises under operating lease agreements. Leasing agreements run without special restrictions with an option to renew. Other agreements on operating leasing are divided among a number of lesser agreements.

Only a marginal amount of leasing income for items which are sublet is entered.

Note 35 Investment undertakings

In 2005, the group signed agreements on acquisition of tangible fixed assets for SEK 53 million (5).

Joint ventures made undertakings of investments of SEK 7 million (8). It is expected that these undertakings will be adjusted during the next financial year. The parent company signed no agreements on the acquisition of tangible fixed assets.

Note 36 Pledged assets and contingent liabilities

Pledged assets	Group		Parent company	
MSEK	2005	2004	2005	2004
For own liabilities and provisions				
Related to long-term liabilities to credit institutions:				
Real estate mortgages	562	281		
Floating charges	1	5		
Shares	3	12		
Assets with attached liens	160	140		
Restricted bank balance	1	3		
Related to current liabilities to credit institutions:				
Real estate mortgages	86	82		
Shares	58	135		
Other	5	–		
Total related to own liabilities and provisions	**876**	**658**	**–**	**–**
For own contingent liabilities and guarantees				
Other	16	15		
Total for own contingent liabilities and guarantees	**16**	**15**	**–**	**–**
Other	**42**	**13**		
Total pledged assets	**934**	**686**	**–**	**–**

Contingent liabilities	Group		Parent company	
MSEK	2005	2004	2005	2004
Shared obligations as part-owner in limited partnerships	357	159	–	–
Obligations in consortia for other part-owners' liabilities	1	1	–	–
Guarantees and contracting guarantees for Group companies	–	–	6 454	6 122
Guarantee liabilities in favour of joint ventures	63	78	53	59
Other guarantees and contingent liabilities	785	797	599	543
Total contingent liabilities	**1 206**	**1 035**	**7 106**	**6 724**

Other guarantees and contingent liabilities refer in the main to commitments in relation to tenant owners' associations, guarantees to Brinova Fastigheter regarding deficit deductions for tax purposes and lawsuits in progress in the Group concerning competition damages charges.

In conjunction with the disposal of Brinova Fastigheter, Peab issued a guarantee that the tax related deficit of SEK 250 million incurred in Brinova Fastigheter during 2002 through the issue of Group contributions would be approved during taxation. The reported value of the deficit deduction amounted to SEK 70 million. In a petition to the County Administrative Court at the end of 2004, the tax authorities applying the law against tax evasion have urged that Brinova be denied deductions for SEK 250 million in tax losses which arose through payment of Group contribution. Brinova have petitioned the County Administrative Court to deny the petition of the tax authorities. If Brinova is refused the right to deduct the losses, Peab will have to honour the SEK 70 million guarantee submitted in accordance with the above while the loss deduction of SEK 250 million can be exercised by Peab. Thus Peab's results will not be affected.

In the current asphalt cartel suit the Swedish Competition Authority is demanding that the companies in question shall pay competition damages. The amount the Authority claims that Peab shall pay amounts to a total of SEK 167 million. Former Authority claims amounted to SEK 227 million. The Stockholm City Court will in the first instance examine the claim concerning asphalt cartels and the magnitude of the damages. The lawsuit is due to be heard during the autumn of 2006. In view of uncertainty concerning the outcome of this legal

process it is not possible to make a reliable estimation of a possible commitment. The full amount of SEK 167 million has been reported as a contingent liability in accordance with IAS 37.

Note 37 Related party disclosures

Related parties

The group is under controlling influence of brothers
Mats and Erik Paulsson together with family and company. As at 31 December 2005 these together held 60 per cent of the votes in the group's parent company.

Brinova
The Brinova group is under the controlling influence of brothers Mats and Erik Paulsson together with family and company through their holding in the company. Mats Paulsson is a member of the board of directors of Brinova Fastigheter.

Wihlborgs Fastigheter
Erik Paulsson is chairman of the board of directors of Wihlborgs and has a significant influence.

Skistar
The Skistar group is under the controlling influence of brothers Mats and Erik Paulsson together with family and company. Erik Paulsson is chairman of the board and Mats Paulsson is a member of the board of Skistar.

Fabege
Erik Paulsson is chairman of the board of Fabege and has a significant influence.

Subsidiaries
Besides the related parties above stated for the group the parent company has a close relationship with its subsidiaries,which means a controlling influence, see Note 38.

Summary of transactions with related parties

Group MSEK	2005	2004
Transactions with joint ventures		
Sales to joint ventures	439	186
Purchases from joint ventures	32	51
Liabilities to joint ventures	5	2
Receivable from joint ventures	323	345
Dividends from joint ventures	3	6
Transactions with Brinova		
Sales to Brinova	42	91
Purchases from Brinova	5	7
Liabilities to Brinova	0	1
Receivables from Brinova	2	–
Convertible claims at Brinova, nominal sum	253	253
Contingent liabilities referring to Brinova, see Note 36	70	70
Transactions with Skistar		
Sales to Skistar	63	56
Purchases from Skistar	2	1
Receivables from Skistar	2	3
Transactions with Wihlborgs		
Sales to Wihlborgs	103	621
Purchases from Wihlborgs	8	18
Purchase of property from Wihlborgs	8	119
Liabilities to Wihlborgs	1	0
Receivables from Wihlborgs	21	67
Transactions with Fabege		
Sales to Fabege	493	–
Purchases form Fabege	11	–
Purchase of property from Fabege	210	–
Liabilities to Fabege	5	–
Receivables from Fabege	22	–

Parent Company MSEK	2005	2004
Transactions with subsidiaries		
Sales to subsidiaries	54	61
Purchases to subsidiaries	10	9
Liabilities to subsidiaries	2 605	3 088
Receivables from subsidiaries	350	145
Dividends from subsidiaries	708	1 644
Transactions with joint ventures		
Receivable from joint ventures	56	–
Transactions with Brinova		
Convertible claims at Brinova, nominal sum	253	253
Transactions with Skistar		
Purchases from Skistar	1	0

Leading officials

See Note 6 and 28 for information on salaries and other remuneration to the board of directors, the MD and Other Executive management along with information on costs and obligations relating to pensions and similar benefits and agreement on retirement remuneration.

Transaction terms
Transactions with related parties were priced on general market terms.

Note 38 Group companies

Holdings in subsidiaries

Company	Corp.ID.no.	Registered office	Share of equity [1)]	Book value in parent company 2005	2004
Peab Finans AB	556552-1324	Båstad	100%	1 616	1 616
Peab Sverige AB	556099-9202	Båstad	100%	1 540	1 472
Peab Bau GmbH	DE 811 771 570	Germany	100%		
Peab Sp.Zo.o	40 624	Poland	100%		
KB Muraren 134	916837-9841	Gothenburg	100%		
KB Möllevarvet	969639-7877	Sollentuna	100%		
City Förvaltnings AB	556083-3492	Ängelholm	100%		
Granit & Beton Trean HB	916621-3802	Karlskrona	100%		
Mölletofta i Klippan AB	556069-3953	Klippan	67%		
KB Snickaren 203	969684-0975	Gothenburg	100%		
KB Snickaren 207	969684-1023	Båstad	100%		
Interoc Projekt AB	556519-7091	Malmö	100%		
Peab Brunnshög AB	556649-9116	Båstad	100%		
Memark AB	556485-4932	Växjö	100%		
Vägbetong C & H Ljung AB	556428-5905	Gothenburg	100%		
Sam-Schakt Mark AB	556297-2314	Gothenburg	100%		
Utveckling av Boende i Ängelholm AB	556509-6392	Ängelholm	100%		
Peab Grundläggning AB	556154-7364	Gothenburg	100%		
Peab Elevbyggen AB	556101-0355	Alingsås	100%		
Peab Projektutveckling Väst AB	556092-9852	Gothenburg	100%		
AB St Jörgen	556341-8887	Gothenburg	100%		
KB St Jörgen	916840-0407	Gothenburg	100%		
KB Elfhögsgatan	969678-8000	Gothenburg	100%		
KB Muraren 125	916837-9767	Gothenburg	100%		
KB Muraren 126	916837-9775	Gothenburg	100%		
KB Muraren 127	916837-9783	Gothenburg	100%		
KB Muraren 128	916837-9791	Gothenburg	100%		
Peab Trading Väst AB	556594-9590	Båstad	100%		
Peab Högsbo AB	556594-4583	Gothenburg	100%		
Bearsden AB	556462-3550	Gothenburg	100%		
Peab Projektutveckling Mellersta AB	556114-2448	Örebro	100%		
Peab Förvaltning Nyköping AB	556632-7747	Stockholm	100%		
KB Åskan i Uppsala	969672-8808	Eskilstuna	100%		
Interoc AB	556058-5837	Örebro	100%		
Rörman Installation & Service Sverige AB	556026-0316	Sundbyberg	100%		
Bromma Plattsättning AB	556129-8562	Stockholm	100%		
Peab Bostad AB	556237-5161	Stockholm	100%		
HB Märsta 24:21 förvaltning	916625-1331	Sollentuna	75%		
Haninge Park KB	916637-2590	Nacka	100%		
KB Lövängen i Barkarö	969680-6315	Stockholm	100%		
KB Valutan 1 i Tumba	969680-6323	Stockholm	100%		
KB Legeringen	969680-6265	Stockholm	100%		
Ekuddens Exploatering och Parkerings AB	556602-3429	Stockholm	100%		
Peab Projektfastigheter AB	556202-6962	Stockholm	100%		
Fastighetsförvaltningsbolaget Gasellen 2 HB	916563-4271	Stockholm	100%		
Olsson & Zarins Baltinvest AB	556439-3592	Uppsala	100%		
J.O.Z. Peab Group SIA	40 003 136 462	Lettland	100%		
Kungsfiskarens Bygg & Fastighets AB	556471-2296	Stockholm	100%		
Stockholm Entreprenad AB	556569-4386	Stockholm	100%		
Siljan Anläggning AB	556540-6211	Orsa	100%		
NeTel AB	556592-4056	Stockholm	100%		
NeTel AS	983 096 514	Oslo	100%		
PB Prefabmontage AB	556597-7138	Stockholm	100%		
Enköpings Företagspark AB	556408-7145	Enköping	100%		
AB Faresta Grus	556166-1819	Örnsköldsvik	100%		
Peab Projektutveckling Nord AB	556421-1091	Sundsvall	100%		
Skillingenäs AB	556587-0192	Karlskrona	100%		

Company	Corp.ID.no.	Registered office	Share of equity [1)]	Book value in parent company 2005	2004
Ekenäs i Ronneby AB	556641-9924	Ramdala	100%		
Riksten Friluftsstad AB	556547-8764	Stockholm	100%		
Berg & Väg Maskin AB	556130-4972	Stockholm	100%		
Göran Jonsson Mark-anläggningar AB	556499-9612	Strängnäs	100%		
Prodakviolett AB	556076-9241	Stockholm	100%		
Projektfastigheter Falun AB	556243-7219	Falun	100%		
Markbyggen i Kalmar AB	556239-0491	Kalmar	100%		
Kipsala Service Center SIA	40 003 729 343	Latvia	100%		
Gamla Varvet AB	556274-5090	Båstad	100%		
TGS Fastigheter Nr2 AB	556680-5106	Linköping	100%		
KB Klagshamn Exploatering	916563-4412	Båstad	100%		
AB Grundstenen 106930	556689-5537	Stockholm	100%		
Peab Seicon Oy	1509374-8	Helsinki	100%	311	193
Lambertsson Suomi Oy	1773022-9	Helsinki	100%		
Lambertsson Tehovasara Oy	0937993-4	Turku	100%		
Oy Seicon Construktion International LTD	0925347-7	Seinäjoki	100%		
Peab AS	981 032 411	Oslo	100%	97	97
Bestum Prosjektutvikling AS	952 669 826	Oslo	51%		
Lambertsson Norge AS	985 129 738	Oslo	100%		
Idrettsveien 13 AS	981 544 080	Oslo	100%		
Peab Boligutvikling AS	987 099 011	Oslo	100%		
Bekkestua Park AS	984 492 048	Oslo	67%		
Pilestredet Utsyn AS	986 130 268	Olso	100%		
Lenken og Bueslaget Utvikling AS	983 025 757	Drammen	100%		
Byggservice & Vedlikehold AS	986 346 384	Oslo	100%	88	88
Follo Bergrom AS	963 923 066	Ski	100%		
Peab Invest AS	981 704 665	Oslo	100%	1 137	1 137
Fastighets AB Skeppsdockan i Malmö	556563-0711	Ängelholm	100%	1	1
Fastighets AB Grisen	556466-1055	Stockholm	100%		
Peab International AB	556568-6721	Båstad	100%	348	348
Peab International B.V.	3411.9597	Amsterdam	100%		
Lambertssons Kran Holding AB	556329-5244	Båstad	100%		
Peab Industri B.V	3412.4635	Amsterdam	100%		
Peab Industri Finland AB	556687-9226	Helsingborg	100%		
Marttilan Betonirakennus Oy	077 212 0-6	Ollila	100%		
Rebux B.V.	3323 8644	Amsterdam	100%		
Peab Asfalt Holding AB	556389-8328	Malmö	100%		
Peab Asfalt AB	556098-8122	Båstad	100%		
Svenska Beläggning-aktiebolaget, SBB	556187-3828	Hyltebruk	100%		
KPK Entreprenader AB	556117-7238	Tyresö	100%		
Asfaltbeläggningar i Boden AB	556279-8768	Boden	100%		
Peab Asfalt Beläggnings-maskiner AB	556244-8257	Båstad	100%		
Peab Asfalt Syd AB	556198-4070	Malmö	100%		
Asfalt & Väg i Strängnäs AB	556545-6034	Strängnäs	100%		
Lambertsson Sverige Holding AB	556094-5072	Båstad	100%		
Lambertsson Sverige AB	556190-1637	Båstad	100%		
LKME i Förslöv AB	556543-5293	Båstad	100%		
Lambel AB	556577-8890	Båstad	100%		
Lambertsson Nosturit Oy	456.106	Helsinki	100%		
Nosturiasennus Virtanen Oy	424.516	Leppävesi	100%		
KB Muraren 100	916837-9544	Mölndal	100%		
Krantorp KB	969623-0540	Mölndal	100%		
Swerock Holding AB	556565-2947	Båstad	100%		
Swerock AB	556081-3031	Uppsala	100%		
Swerock Uppsala AB	556031-3289	Uppsala	100%		
AB Uppsala Grus	556206-6281	Uppsala	100%		
AB Sunes Betongpumpar	556265-5596	Järfälla	100%		
Svealands Betongpumpnings AB	556059-8921	Järfälla	100%		
Rådasand AB	556042-8699	Lidköping	100%		
Pumpcenter i Västsverige AB	556091-0746	Helsingborg	75%		
Peab Transport & Maskin AB	556097-9493	Örkelljunga	100%		

Notes to the financial reports

Company	Corp.ID.no.	Registered office	Share of equity [1]	Book value in parent company 2005	Book value in parent company 2004
KB Terminalen 5	969654-8131	Helsingborg	100%		
AB G-stöd	556077-1486	Växjö	100%		
Grusbolaget Svenska Centralgrus AB	556313-9608	Örebro	100%		
Byggbetong i Norrland AB	556072-7876	Umeå	100%		
Betongcentralen i Sundsvall AB	556114-0988	Umeå	100%		
Örnbetong i Ö-vik AB	556423-7815	Umeå	100%		
Scanballast AB	556267-7905	Umeå	100%		
Vilhelmina Cementvarufabrik AB	556498-2154	Vilhelmina	100%		
Vasa Betongstation AB	1509160-3	Vasa	100%		
AB Roler	556100-0729	Örebro	100%		
Kalmar Byggsystem AB	556563-3152	Kalmar	100%		
Skandinaviska Byggelement Holding AB	556397-3071	Ystad	100%		
Skandinaviska Byggelement AB	556034-2148	Uppsala	100%		
St: Eriks AB	556203-4750	Hudiksvall	100%		
Gånarps Fastighets AB	556469-9600	Hässleholm	100%		
SB Betong AB	556089-1805	Örnsköldsvik	100%		
Nordmarkens Betongprodukter AB	556546-8229	Årjäng	100%		
Br Paulsson Peab AB	556113-4114	Båstad	100%	157	157
Stadiongatans Lokaluthyrning AB	556141-1736	Malmö	100%		
Norrviken Exploaterings AB	556245-3356	Båstad	100%		
JK Komplementär AB	556442-7432	Halmstad	100%		
Vejby Transport & Miljö AB	556240-2742	Ängelholm	100%	0	0
Peab Byggkonstruktion AB	556059-0910	Stockholm	100%	51	58
Peab Konstruktion AB	556061-1500	Stockholm	100%		
Peab Utvecklings AB	556511-5408	Båstad	100%	171	192
Fastighets AB Skånehus	556371-3816	Helsingborg	100%		
Peab Holding AB	556594-9533	Båstad	100%	0	0
JaCo AB	556554-6487	Ängelholm	100%		
Varvstaden AB	556683-1722	Båstad	100%		
Peab Förslöv AB	556594-9558	Båstad	100%	0	0
Peab Treasure AB	556594-9624	Båstad	100%	0	0
Birsta Fastigheter AB	556190-3765	Helsingborg	100%	60	60
Peab Norden AB	556134-4333	Stockholm	100%	16	1
Peab Skandinavien AB	556568-8784	Båstad	100%	139	138
Markarbeten i Värmland AB	556332-9373	Karlstad	100%	29	–
Flygstaden Intressenter i Söderhamn AB	556438-9665	Båstad	100%	272	247
Flygstaden AB	556551-4667	Söderhamn	95%		
Stockholms Kommersiella Fastighets AB	556105-6499	Stockholm	100%		
Skånska Stenhus AB	556233-8680	Helsingborg	100%		
Fastighets AB Anaset	556536-1895	Stockholm	100%		
Maintech Industripartner AB	556114-9773	Helsingborg	100%	8	8
Camsof AB	556077-8499	Helsingborg	100%		
Premab Mekaniska AB	556234-0371	Göteborg	100%		
Knowmore Utvecklings AB	556591-2267	Helsingborg	100%		
Skåne Projektfastigheter AB	556471-9143	Helsingborg	100%	36	36
AB Kampenhof	556453-1688	Uddevalla	80%		
Hyresmaskiner Gösta Pettersson AB	556082-6470	Stockholm	100%		
KB Kampenhof	916849-5365	Göteborg	80%		
Mauritz Larsson Byggnads AB	556036-8242	Stockholm	100%		
Projektfastigheter Mellersta AB	556104-1533	Stockholm	100%		
Bomi AB	556470-0176	Helsingborg	100%		
Fastighetsbolaget Viken HB	916606-5137	Stockholm	100%		
HB Muraren 126	916837-9759	Göteborg	100%		
Projektfastigheter Väst AB	556044-1866	Stockholm	100%		
Projektfastigheter Götaland AB	556259-3540	Klippan	100%		
Högvakten i Helsingborg AB	556341-7228	Helsingborg	100%		
Projektfastigheter Ystad AB	556066-3675	Ystad	100%		
Vimmerby fastigheter AB	556107-0003	Vimmerby	100%		
Pleiad Speyer GmbH		Speyer	100%	0	0
Total Parent company				6 077	5 849

1) The share of equity agree with the share of voting power

Parent company MSEK	2005	2004
Acquisition values brought forward	7 611	5 680
Purchases	74	247
Shareholder´s contribution	182	1 696
Sales	–	–12
Accumulated acquistion values brought forward	**7 867**	**7 611**
Revaluations brought forward	100	100
Accumulated revaluations carried forward	**100**	**100**
Write-downs brought forward	–1 862	–912
Sales	–	5
Write-downs for the year	–28	–955
Accumulated write-downs carried forward	**–1 890**	**–1 862**
Book value carried forward	**6 077**	**5 849**

Participations in Group companies have been written down in the Parent Company accounts to an amount of SEK 28 million (955). These write-downs refer to dormant companies or companies with negligible operations, where write-downs have been made to a value corresponding to equity. Writedowns for the year are reported in the income statement on the line ”Result from participations in Group companies”.

Note 39 Cash flow statement

Interest paid and dividend received	Group		Parent company	
MSEK	2005	2004	2005	2004
Dividends received	3	6	–	–
Interest received	52	82	27	23
Interest paid	119	114	139	115

Adjustments for non–cash items	Group		Parent company	
MSEK	2005	2004	2005	2004
Participation in joint ventures	–23	–2	–	–
Dividends received from joint ventures	3	6	–	–
Depreciation/amortization and write-downs	501	417	29	956
Unrealized exchange rate difference	6	1	100	8
Gain on sale of fixed assets	–18	–37	–	–
Gain on sale of business/ subsidiary	–7	–28	–	–
Provisions	1	–5	–	–
Change fair value financial instruments	–152	–32	5	–
Accrued expenses and provisions	166	–	–	–
Income negative goodwill	–	–4	–	–
Dividends from subsidiaries	–	–	–708	–1 644
Total	**477**	**316**	**–574**	**–680**

Transactions involving no payments	Group		Parent company	
MSEK	2005	2004	2005	2004
Aquisition of assets by financial leasing	210	156	–	–
Aquisition of subsidiaries financed by loan from the seller	13	20	–	–
Aquisition of subsidiaries with own shares	9	10	–	–

Aqcuisition of subsidiaries and business	Group	
MSEK	2005	2004
Fixed assets	135	100
Current assets	1 039	343
Liquid funds	72	201
Minority interests	32	2
Provisions	–92	–20
Long-term liabilities	–544	–64
Current liabilities	–135	–85
Purchase prices	507	477
Loan from the seller	–13	–20
Aquisition with own shares	–9	–10
Paid purchase price	485	447
Less: Liquid funds in acquired companies	–72	–201
Effect on liquid funds	**413**	**246**

Disposal of subsidiaries	Group	
MSEK	2005	2004
Fixed assets	–	74
Project- and development properties and inventories	96	74
Current receivables	1	17
Liquid funds	–	2
Minority interests	–	–
Borrowings	–61	–63
Current liabilities	–36	–45
	0	**59**
Received purchase price	7	39
Less: Liquid funds in divested companies	–	–2
Effect on liquid funds	**7**	**37**

Note 40 Events after the period

On 18 January 2006, Peab acquired the shares in the construction and civil engineering company Midroc Construction AB and its subsidiary Midroc Construction i Göteborg AB. Peab will thus take over the construction and civil engineering business within Midroc Construction. The company operates in southern Sweden and has some 500 employees. In 2005, it had sales of SEK 1,188 million.

Peab has rescheduled bilateral loan agreements totalling SEK 3,000 million with seven banks. As a result of the rescheduling the loan agreements signed in September 2004 which ran until to September 2009, the loans will now mature in February 2013. The loans are not subject to amortization, and otherwise loan terms remain unaltered.

Note 41 Important estimates and assessments

The company management makes assessments and assumptions for the future. The result of these assessments and assumptions are applied to assessing the book value of assets and liabilities. The actual outcome may vary from these estimates and assessments. Some assessments and asumptions that can imply a risk for adjustments of recognised values for assets and liabilities during the next financial year are described below.

Percentage of completion method

The results reported for ongoing contracts are calculated based on percentage of completion method. This requires that project revenues and costs can be calculated reliably, and is prerequisite on an efficient system of calculation, forecasting and project monitoring. Forecasts of the final outcome of the project are critical estimates crucial for results reporting during the progress of the project. There may be a risk that final results for a project will differ from reported based on the percentage of completion method.

Testing of goodwill writedowns

When calculating the recovery value of cash-generating units to estimate any goodwill writedown needs, several assumptions concerning future conditions and estimates of parameters have been made. There is an account of these in Note 12. As Note 12 explains, changes during 2006 of the preconditions of these assumptions could have impact on goodwill value.

Project and development properties

The book value has been estimated based on reigning price levels per property at the respective location. Changes in supply and demand may have impact both on book values and an write-down requirement can appear.

Disputes

The actual outcome of disputed amounts may vary from the amounts estimated the accounts. See Note 36 and others, Pledged assets, contingent liabilities and contingent assets.

Taxes

Changes in tax legislation and changed interpretation practice with regard to tax legislation may considerably affect the size of recognised deferred tax receivables.

Note 42 Information on parent company

Peab AB is a Swedish registered limited company domiciled in Båstad. Peab AB's shares are listed on the Stockholmsbörsen. The address of the head office is Margretetorpsvägen 84, 260 92 Förslöv.

The consolidated accounts for 2005 consist of the parent company and its subsidiaries, together referred to as the group. The group also includes shares of holdings in joint ventures.

Note 43 Explanations concerning the transition to the IFRS

From 1 January 2005, consolidated accounts have been drawn up in accordance with the IFRS standards and interpretations adopted by the EU Commission. This is the first annual report to apply these standards.

Conversion of the 2004 accounts has been made in accordance with IFRS 1, which regulates the way in which companies drawing up complete group accounts for the first time in accordance with the IFRS should make the transition to the new set of rules. The principal rule is that all IFRS applying to 2005 should be applied retroactively. Comparative figures for 2004 have been converted in accordance with the standards applying as at 31 December 2005.

Below is an account of how the new accounting policies have affected comparison with 2004 and the opening balance as at 1 January 2004.

IFRS 3 – Business Combinations

Goodwill is no longer amortised according to plan. It is compulsory to examine the need for possible writedowns at least once a year and in addition whenever the need for writedowns is indicated. Writing down must be carried out in those cases where the accounting value or fair value reduced by sale cost is lower than the utility value. Applied in 2004 this has involved the writing back of planned depreciation for SEK 69 million while write-downs would have been recognized at SEK 15 million. Goodwill was tested for writedown needs as at 1 January 2004 (the date of transition to the IFRS) even if at that time writedown needs were not indicated.

In the case of acquisitions the minority participation must be calculated based on shareholders' equity and the deficit and surplus values of identifiable net assets. Thus 2004 acquisitions have been recalculated.

IAS 12 – Income Taxes

With the introduction of IFRS, the previous Swedish recommendations on so-called asset acquisitions will no longer apply. This means that in the case of acquisitions involving deferred tax, this deferred tax must be valued as usual at nominal value. Therefore acquired deferred tax receivables attributable to tax deductions for losses have been reassessed at nominal value, where previously they had been recognized at acquisition value. This value is expected to be utilized within an reasonable future. Thus the requisitioning of acquired deferred tax receivables will be accounted as a tax cost at par.

IAS 17 – Leases

Leasing agreements applying mostly to motorcars were previously classified under operational leasing. These leasing agreements have been reclassified as financial leasing agreements and entered as tangible fixed assets and interest-bearing liabilities, respectively.

IAS 11 – Construction Contracts

To adapt to IAS 11, Construction contracts, housing projects for sale will be recognised in profits based on actual degree of sales based on binding agreements with the home buyer. Thus completion is recognised in profit as the degree of completion multiplied by degree of sales on each individual project. Previously, revenue was recognized based among other things on prior booking agreements. The regulations follow the Swedish Construction Confederation's supplement to the industry recommendation concerning "Percentage-of-completion revenue recognition in housing projects for sale."

IAS 1 – Presentation of Financial Statements

Minority participations in annual profits are no longer recognized in the income statement. Results are instead specified in connection with the income statement divided between majority and minority interests.

IAS 27 – Consolidated and Separate Financial Statements

Minority interests are recognized under shareholders' equity as a separate item.

IAS 31 – Interest in joint ventures

The Group's participations in the after-tax profits of joint venture are reported on a line in the income statement in accordance with the equity method. The Group's share of tax was previously reported along with group tax.

IAS 39 – Financial instruments

The recommendation entered into force from 2005 and is not retroactive. The new provisions of the Swedish Annual Accounts Act on the valuation of financial instruments at fair value were applied during 2004. For Peab the changes in the Swedish Annual Accounts Act resulted in the application of the IAS 39 valuation rules already from 1 January 2004, with the result that they had no effect on the opening balance for the 2005 consolidated accounts.

The effect the transition will have on the income statements, balance sheets, certain key figures and the cash flow statement is shown in the tables below.

Balance sheet 01-01-2004 according to IFRS

MSEK	Previous principles 31-12-2003	Changed accounting principles 2004*	IAS 12 Income Taxes	IAS 17 Leases	IAS 11 Construction Contracts	IAS 27 Consolidated Statements	According to IFRS 01-01-2004
Intangible assets	340						340
Tangible fixed assets	1 618			182			1 800
Interest-bearing long-term receivables	417	22					439
Financial fixed assets	226						226
Deferred tax recoverables	379	10	296	1	39		725
Project- and development properties	1 106						1 106
Inventories	220						220
Interest-bearing short-term receivables	260						260
Other current receivables	5 553				–84		5 469
Short-term shareholdings	48						48
Liquid funds	206						206
Total assets	**10 373**	**32**	**296**	**183**	**–45**		**10 839**
Shareholders' equity and liabilities							
Shareholders' equity	2 196	17	296	–2	–101	63	2 469
Minority interests	63					–63	0
Allocations	95	6					101
Interest-bearing long-term liabilities	1 847	9		126			1 982
Interest-bearing short-term liabilities	415			59			474
Other current liabilities	5 757				56		5 813
Total shareholders' equity and liabilities	**10 373**	**32**	**296**	**183**	**–45**	**0**	**10 839**
Key ratios							
Capital employed	4 504						4 900
Net debt	1 314						1 478
Equity/assets ratio	21.80%						22.80%
Adjusted equity per share, SEK	25.91						28.38

* During 2004 accounting principles relative to IAS 19 and financial instruments changed in accordance with the Swedish Annual Accounts Act corresponding to IAS 39.

Income statement 2004 according to IFRS

MSEK	Previous principles 2004	IFRS 3 Business Comb. (Goodwill)	IAS 12 Income Taxes	IAS 17 Leases	IAS 11 Construction Contracts	IAS 27 Consolidated Statements	Other	According to IFRS 2004
Net sales	22 048				–9			22 039
Production and management expenses	–20 186	22		5				–20 159
Gross profit	**1 862**	**22**		**5**	**–9**			**1 880**
Selling and administrative expenses	–1 368	32					4	–1 332
Share of profit of joint ventures	4						–2	2
Result from participation in joint ventures sold	25							25
Result from participation in Group companies sold	2							2
Operating profit	**525**	**54**		**5**	**–9**		**2**	**577**
Result from financial items	–50			–6				–56
Profit after financial items	**475**	**54**		**–1**	**–9**		**2**	**521**
Tax	–41		–96		3		2	–132
Minority interests	–2					2		0
Profit for the year	**432**	**54**	**–96**	**–1**	**–6**	**2**	**4**	**389**
Profit attributable to shareholders' in Parent Company								387
Profit attributable to minority interests								2
Key ratios								
Operating margin	2.40%							2.60%
Return on capital employed	13.30%							13.90%
Return on equity	18.60%							16.00%
Earnings per share, SEK	5.09							4.56

Notes to the financial reports

Balance sheet 01-01-2004 according to IFRS

MSEK	Previous principles 31-12-2004	IFRS 3 Business Comb. (Goodwill)	IAS 12 Income Taxes	IAS 17 Leases	IAS 11 Construction Contracts	IAS 27 Consolidated Statements	IFRS 3 Business Comb. (Minority)	According to IFRS 31-12-2004
Assets								
Intangible assets	341	54						395
Tangible fixed assets	1 614			165				1 779
Interest-bearing long-term receivables	432							432
Financial fixed assets	241							241
Deferred tax recoverables	433		200	1	41		13	688
Project- and development properties	1 605						–6	1 599
Inventories	226							226
Interest-bearing short-term receivables	175							175
Other current receivables	5 967				–104			5 863
Short-term shareholdings	3							3
Liquid funds	85							85
Total assets	**11 122**	**54**	**200**	**166**	**–63**		**7**	**11 486**
Shareholders' equity and liabilities								
Shareholders' equity	2 473	54	200	–3	–107	33	4	2 654
Minority interests	30					–33	3	0
Allocations	96							96
Interest-bearing long-term liabilities	927			100				1 027
Other long-term liabilities	10							10
Interest-bearing short-term liabilities	1 257			69				1 326
Other current liabilities	6 329				44			6 373
Total shareholders' equity and liabilities	**11 122**	**54**	**200**	**166**	**–63**	**0**	**7**	**11 486**
Key ratios								
Capital employed	4 775							5 014
Net debt	1 577							1 666
Equity/assets ratio	22.50%							23.10%
Adjusted equity per share, SEK	29.06							30.84

Cash flow analysis 2004

MSEK	Previous principles 2004	IFRS 3 Business Comb. (Goodwill)	IAS 17 Leases	IAS 11 Construction Contracts	Other	According to IFRS 2004
Current operations						
Profit after financial items	475	54	–1	–9	2	521
Adjustments for non-cash items	319	–54	53		–2	316
Income tax paid	–27					–27
Cash flow from current operations before working capital changes	**767**	**0**	**52**	**–9**	**0**	**810**
Cash flow from changes in working capital						
Increase/Decrease project- and development properties	–403					–403
Increase/Decrease inventories	2					2
Increase/Decrease current receivables	–412			20		–392
Increase/Decrease current liabilities	530			–11		519
Cash flow from changes in working capital	**–283**	**0**	**0**	**9**	**0**	**–274**
Cash flow from current operations	**484**	**0**	**52**	**0**	**0**	**536**
Cash flow from investment operations	**–229**					**–229**
Cash flow before financing	**255**	**0**	**52**	**0**	**0**	**307**
Financing operations						
Amortization of borrowings	–194		–52			–246
Cash dividend paid	–187					–187
Cash flow from financing operations	**–381**	**0**	**–52**	**0**	**0**	**–433**
Cash flow for the year	**–126**	**0**	**0**	**0**	**0**	**–126**
Cash at the beginning of the year	206					206
Exchange rate differences in cash	5					5
Cash at year–end	**85**					**85**

This is to certify that to the best of our knowledge the annual report has been prepared in accordance with good accounting practices for listed companies. The information submitted stems from actual conditions in the company and no material omissions have been made which might affect the impression the annual report gives of the group and the parent company.

Förslöv, April 6, 2006

Göran Grosskopf
Chairman

Mats Paulsson
Managing Director

Annette Brodin Rampe

Karl-Axel Granlund

Jan Segerberg

Svante Paulsson

Kent Ericsson

Ulf Lundström

Bengt Ericsson

The annual report and the consolidated accounts have been approved for publication by the board of directors on 6 April 2006. The consolidated income statement and balance sheet will be presented for adoption by the AGM on 17 May 2006.

Audit Report

To the annual meeting of the shareholders of Peab AB (publ)

Corporate identity number 556061-4330

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Peab AB (publ) for the year 2005. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined signi¬ficant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. I also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Förslöv, April 6, 2006

Thomas Thiel
Authorized Public Accountant

Group governance and the application of the code

Group governance is based on the Swedish Companies Act and other relevant legislation, the Articles of Association, the listing agreement with Stockholmsbörsen, the recommendations of the Swedish Industry and Commerce Stock Exchange Committee and the Swedish Code of Corporate Governance (the Code).

In accordance with the listing agreement with Stockholmsbörsen, Peab started to apply the Code in stages starting on 1 July 2005.

The corporate governance report 2005 has not been examined by the company's auditors.

The AGM and the nomination procedure

The AGM was held on 12 May 2005 at Grevieparken, Grevie. 239 shareholders attended the meeting, representing 77 per cent of the votes either personally or through representatives.

The nomination of members of the board of directors and (where appropriate, the auditors) before the AGM is performed in accordance with the nomination procedure established at the previous AGM.

At the 2005 AGM the major shareholders recommended a nomination committee consisting of the chairman of the board of directors and an additional three to four members, of which two to three members should represent the major shareholders and one to two members should represent the small shareholders. The AGM elected Malte Åkerström, Ulf H Jansson, Mats Paulsson and Leif Franzon to act as Peab's nomination committee with Malte Åkerström as chairman. The nomination committee's proposals will be put to the shareholders in the notice of the 2006 AGM. An account of the work of the nomination committee may be found on Peab's website.

The Board of Directors and its work

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, with a maximum of five deputies. The members of the board of directors are elected annually by the AGM. Members of the board of directors have no specific retirement age nor is there a limit on the time a member of the board may hold his or her post. At the 2005 AGM the following members of the board of directors, all of whom were re-elected members, were elected by the shareholders: Ulf H Jansson, Karl-Axel Granlund, Mats Paulsson, Svante Paulsson, Göran Grosskopf, Jan Segerberg and Annette Brodin Rampe.

The following employee representatives have been appointed by the employee unions: Bengt Ericsson, Kent Ericsson, Jan-Erik Ljungberg (until 17 July 2005), Ulf Lundström (from 18 July 2005), Bo Larry Olsson, deputy and Leif Johansson, deputy.

At the inaugural meeting of the board of directors Ulf H Jansson was appointed chairman. For personal reasons Ulf H Jansson resigned his post on 8 September 2005. Göran Grosskopf was appointed chairman of the board on 13 September 2005.

The secretary of the board is chief legal officer Karin Malmgren.

11 meetings of the board of directors were held in 2005, of which five were ordinary meetings of the board (including the inaugural meeting). Four meetings of the board were held by telephone and two by letter or mail.

Members of the group management submitted reports at the meetings of the board of directors. The company auditor were present at two of the meetings of the board. The work of the board of directors accords with the rules of procedure for the board of directors adopted and subsequently updated by the board of directors at every inaugural meeting since 1999.

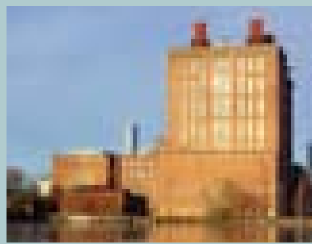
The members of the board of directors elected by the shareholders are compensated in accordance with decisions taken by the AGM.

Peab's MD, Mats Paulsson, who is also one of the company's major shareholders is a member of the board of directors. The majority of the elected members of the board of directors (Göran Grosskopf, Jan Segerberg, Karl-Axel Granlund and Annette Brodin Rampe) are independent in relation to the company and the company management. Mats Paulsson may be regarded as not independent in relation to the company and the company management, partly because of his position as MD of the company, and partly because he has been a member of the board of directors for more than 12 years. Svante Paulsson may be regarded as not independent in relation to the company and the company management as a result of his close kinship to the managing director.

The audit committee

Peab's audit committee consists of all the members of the board of directors appointed by the AGM except for Mats Paulsson.

The steam power station in Västerås opened in 1915 and was closed in 1982. Then in 1992 Vattenfall decided to divest the company and in 1998 Peab bought the property. The Kokpunkten adventure centre is expected to be ready in 2009.

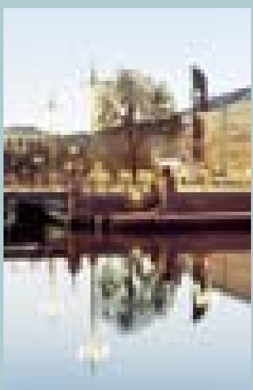


Lambertsson has cranes for every assignment. When removing Concordia's crane in Malmö a second giant crane was used to help lift out the first one.

Gårdssten was built between 1969 and 1972 as part of the so-called million program. Peab has been part of changing the physical environment in the area. Certain building elements have been removed and terraced apartments and light and airy green areas have been created, making for an extremely pleasant improvement in the environment.

Peab has built Travel Centre Växjö. The building contains premises for Swedish State Railways (SJ), Local Public Transport, the Pressbyrån shop and the Stinsen Restaurant. The total surface area covers some 1,000 square meters. The building is integrated with the new railway bridge.

Brunnsparken lies at the heart of Gothenburg among large shopping centres, hotels, restaurants and cafés. The area really blossomed after conversion work was completed in the summer of 2005.



HSB ordered the ultramodern Ramlösagården in Helsingborg, which was designed by Tegnestuen Vabdjybsteb Aps. Thyréns was the designer.

Board meetings, presence 2005

	Feb 15	Mar 29	Apr 21	Apr 27	May 12	May 12 5)	May 19	Aug 25	Sep 13	Nov 24	Dec 11
AGM elected members											
Ulf H Jansson 1)	●	●	●	●	●	●	●	●			
Göran Grosskopf 2)	●	●	●	●	●	●	●	●	●	●	●
Mats Paulsson	●	●	●	●	●	●	●	●	●	●	●
Anette Brodin Rampe	●	●	●	●	●	●	●	●	●	●	●
Karl-Axel Granlund	●	●	●	–	●	●	●	●	●	●	–
Svante Paulsson	●	●	●	●	●	●	●	●	●	●	●
Jan Segerberg	●	●	●	●	●	●	●	●	●	●	●
Ordinary employee representatives											
Bengt Ericsson	●	●	●	●	●	●	●	●	●	●	●
Kent Ericsson	●	●	●	●	●	●	●	–	●	●	●
Jan-Erik Ljungberg 3)	●	–	●	●	●	●	●				
Ulf Lundström 4)								●	●	●	●

1) Board member och Chairman to September 8
2) Chairman from September 13
3) Employee representative to July 17
4) Employee representative from July 18
5) Inaugural meeting

● Present

Members in 2005

Göran Grosskopf (chairman)
Karl-Axel Granlund
Svante Paulsson
Annette Brodin Rampe
Jan Segerberg

The audit committee prepares the work of the board of directors by assuring the quality of the company financial reports, establishing the guidelines for which other services besides auditing the company may outsource to the company auditor, 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 had its first meeting february 16, 2006.

The audit committee regularly reports to the board of directors.

The finance committee

Members in 2005

Ulf H Jansson, member and chairman until 8 September 2005, Göran Grosskopf, chairman from 13 September 2005, Karl-Axel Granlund and Mats Paulsson.

The finance committee manages and takes decisions in financial matters in accordance with the finance policy established by the board of directors. Representatives of the company management attend and submit reports at the meetings of the finance committee. The finance committee did not meet in 2005.

The finance committee regularly reports to the board of directors.

The remuneration committee

Members in 2005

Ulf H Jansson, member and chairman until 8 September 2005, Göran Grosskopf, chairman from 13 September 2005, Jan Segerberg and Mats Paulsson.

The remuneration committee draws up guidelines and the framework for salaries and other terms of employment for the group's executives. The remuneration committee met on two occasions during the financial year. The members of the committee at these times, Ulf H Jansson (chairman), Jan Segerberg and Mats Paulsson all participated at both meetings.

The remuneration committee regularly reports to the board of directors.

Management of the Group

The managing director leads the company in accordance with the framework established by the board of directors and is responsible for day-to-day administration and control of the company. Working with one management forum throughout the group an effective decision-making process and good communication is achieved. The management forum is divided up into the executive management and the management group.

The executive management consists of the managing director and the deputy managing directors of Peab AB. The executive management meets once a month and deals with questions of orientation of strategy and development to enhance profitability. The management group consists of the executive management, operational managers and function managers. The management group meets once a quarter and deals with questions concerned with structure and coordination.

Governance of the business units

Peab's organisation is characterised by production focus with clear decentralisation and delegation of powers and responsibility with a view to obtaining efficient management and control within the respective business unit. Support functions support the activities of the entire Peab Group.

Ethical guidelines

For many years, Peab has based its ethical work on its fundamental values, which are summed up by the words Reliable, Personal, Down-to-Earth and Developmental. In 2001, a so-called "compliance program" dealing with questions of ethics, morality and competition law was initiated, which applies to all executives within Peab. In 2005, a policy dealing with questions of representation and bribes was drawn up along with rules governing the conduct of purchasing. In 2006, Peab intends to coordinate the work dealing with ethical matters by establishing ethical guidelines for all group activities.

Incentive program

Peab has no outstanding share or share-related incentive programs for the board of directors or the company management.

Internal control

Peab's board of directors is responsible for ensuring that there are efficient procedures for the management and control of the group considering the financial reporting. The managing director is responsible for that the internal control is organised and follows the guidelines laid down by the board of directors. There is an unambiguous set of rules within the group for delegation of responsibilities and powers which follows the groups operational structure. Financial management and control is performed by the support function Group accounting/finance together with the support function operating accounting.

On 15 December 2005, The Swedish Corporate Governance College (Kollegiet för Svensk bolagsstyrning) drew up transition rules for the board of directors report on internal control over financial reporting. Under the transition rules the board of directors only needs submit a description of how internal auditing is organised without making any pronouncements about how well it has functioned and without review by the auditors.

To comply with the Swedish Code of corporate governance' requirements for internal control during the year Peab's board of directors initiated a project intended to create an overall framework for internal control. This work was completed in January 2006 when the board of directors established a policy for internal control. This policy establishes the way in which internal control of financial reporting is to be organised, scrutinised and assessed based on the following factors:

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

Besides being controlled by the executive management, the process of ensuring that all the business units within the group work in accordance with the internal control policy is also controlled by the support functions Operating accounting and Group accounting/Finance, which also constitute the basis of the organisation of internal control.

As part of the policy of internal control over financial reporting the board of directors must assess the need for an internal audit department each year. Hitherto, the control structure along with the scope of the activities have not been assessed as requiring the establishment of an internal audit department. Nor have there previously been any material faults in internal control which would indicate a need for an internal audit department. On these grounds, at present there is no need for the introduction of an internal audit department.

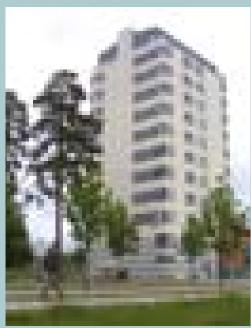
Auditors

Under Peab's articles of association one or two auditors with a similar number of deputies must be elected by the AGM for a period of four years. At the AGM in 1992, the state authorised accountant Thomas Thiel, KPMG, was appointed company auditor. Thomas Thiel has now carried out his assignment at Peab for 14 years. At the AGM in 2003 Thomas Thiel was re-appointed as auditor for the period until the AGM in 2007. Besides auditing, Thomas Thiel and KPMG have only provided services for Peab in the form of auditing and tax consultancy and certain analyses in connection with acquisitions and divestments over the last three years.

For many years the cold store premises (Fryshuset) have been used for cold storage by fishermen and fish wholesalers. Peab has carried out comprehensive extension and conversion works on the almost 100-year old building. The re-creation of independent high stairwell towers is part of the work of conserving the character of the building. Conference rooms have been built at the top of two of the towers with views of Norra Älvstranden and Älvsborgsbron.

In 2005 Peab built 11 new buildings in Oslo containing 630 student flats, 130 hotel rooms, 3,000 square meters of office and shop premises and parking facilities with room for 110 cars. The area is called Anker.

In January 2001, Peab was commissioned to develop and build Studenternas Hus (the Students' House) and student flats in the campus area. The tower blocks are on ten floors plus a set-back floor containing a total of 116 student flats with laundry rooms and store rooms.



Board of directors and auditors

Göran Grosskopf
Born in 1945. Elected 2004.
Professor, Dr of Law and Doctor of Economics. Chairman of Peab AB, Inter IKEA SA and Bergendahlgruppen AB. Board member of International Bureau of Fiscal Documentation (IBFD), Possio AB, Åkerströms AB and Svox AG.
Previously professor in tax law and chairman of Tetra Laval AB
Holding 80,000 Class B-shares

Karl-Axel Granlund
Born in 1955. Elected 2000.
Graduate engineer, B. Sc.(Econ). Main owner and Chairman of Volito AB. Chairman of CTT Systems AB and Avansys AB.
Holding 4,025,000 Class B-shares

Mats Paulsson
Born in 1944. Elected 1992.
MD of Peab AB. Board member of Skistar AB and Brinova Fastigheter AB. Previously a number of senior management positions in Peab since 1959.
Holding 2,799,967 Class A-shares
4,295,000 Class B-shares

Svante Paulsson
Born in 1972. Elected 2003.
MD and main owner of Svantab AB. Board member of Backahill AB, SBT AB, PorscheCenter Syd AB, Brinova Fastigheter AB, Rögle BK and ÄNAB Ängelholms Näringsliv AB.
Holding 491,688 Class A-shares
728,880 Class B-shares

Annette Brodin Rampe
Born in 1962. Elected 2000.
Graduate engineer.
Business Sector Manager of Marketing and Sales E.ON Sverige AB. Board member of Ruter Dam and Norske Skogsindustrier ASA.
Previously a number of positions in Exxon Chemical Inc and MD of Senea AB
Holding 1,000 Class B-shares

Jan Segerberg
Born in 1947. Elected 1994.
Graduate engineer, B. Sc. (Econ). Consultancy activities related to investment business and the work of the board of directors. Chairman of the Board of PlymoVent AB and BK-Holding AS. Board member of Bosvik AS and Dyna Well International AB.
Previously MD and CEO in Skåne-Gripen AB and Addtek International Oy AB and vice chairman in Addtek International Oy AB.
Holding 10,000 Class B-shares

Kent Ericsson
Born in 1949. Elected 1998.
Project Manager, Construction Sweden.
Employee representative.
Holding 600 Class B-shares
3,000 Convertible debentures

Bengt Ericsson
Born in 1946. Elected 2000.
Carpenter, Construction Sweden.
Employee representative.
Holding 800 Class B-shares
1,400 Convertible debentures

Ulf Lundström
Born in 1958. Elected 2005.
Carpenter, Construction Sweden.
Employee representative.
Holding None

Leif Johansson
Born in 1952. Elected 2002.
Calculator, Construction Sweden.
Employee representative (deputy).
Holding 1,000 Convertible debentures

Bo Larry Olsson
Born in 1944. Elected 2000.
Construction worker, Civil Engineering/Industry.
Employee representative (deputy).
Holding None

Auditors

Thomas Thiel
Born in 1947.
Authorised public accountant, KPMG.
Auditor for Peab AB since 1992.

Alf Svensson
Born in 1949.
Authorised public accountant, KPMG.
Deputy auditor for Peab AB since 1998.

Reported holdings apply to February 28, 2006.
The holdings include spouses', minors' and private companies' holdings.

Convertible debentures refer to the number of convertible promissory notes at nominal SEK 87, see page 49, Convertible debentures to employees.

Executive management

Mats Paulsson
MD of Peab AB
Born in 1944
Employed since 1959
Holding 2,799,967 Class A-shares
4,295,000 Class B-shares

Göte Brännvall
COO and Deputy MD of Peab AB
Born in 1946
Employed since 1970
Holding 29,484 Class A-shares
281,282 Class B-shares
8,600 Convertible debentures

Mats Leifland
CFO and Deputy MD of Peab AB
Born in 1957
Employed since 1995
Holding 240,000 Class B-shares
8,600 Convertible debentures

Mats O Paulsson
Deputy MD of Peab AB
Civil Engineering/Industry
Born in 1958
Employed since 1999
Holding 101,000 Class B-shares
8,600 Convertible debentures

Anders Elfner
Deputy MD of Peab AB
Construction in Sweden
Born in 1955
Employed since 2003
Holding 80,000 Class B-shares
8,600 Convertible debentures

Jan Johansson
Deputy MD of Peab AB
Southern Division
Personnel
Born in 1959
Employed since 1986
Holding 100,000 Class B-shares
8,600 Convertible debentures

The Peab Group's management
By working with one management forum throughout the Group, more effective decision-making and improved communication is achieved. The management forum is divided up into the executive management and the management group.

Executive Management
Consists of the MD and Deputy MDs of Peab AB. Meets once a month and deals with issues relating to strategy and development for improved profitability.

Management Group
Consists of the Executive Management, operational managers and support functions. Meets once a quarter and deals with issues focused on structure and co-ordination.

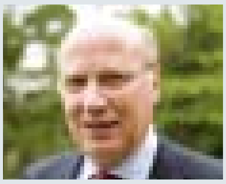
Management group

Construction Sweden

Jan Johansson
Southern Division
Born in 1959
Employed since 1986
Holding
100,000 Class B-shares
8,600 Convertible debentures

Tore Hallersbo
Western Division
Born in 1955
Employed since 2005
Holding
100,000 Class B-shares
8,600 Convertible debentures

Thomas Anderson
Housing Division
Born in 1956
Employed since 1996
Holding
1,000 Class B-shares
8,600 Convertible debentures



Lars-Erik Söderberg
Stockholm Commercial Division
Born in 1947
Employed since 1991
Holding
8,600 Convertible debentures

Jan-Olof Nordin
North Eastern Division
Born in 1958
Employed since 1979
Holding
8,600 Convertible debentures

Göran Almin
Project Development Division
Born in 1956
Employed since 2004
Holding
8,600 Convertible debentures

Civil Engineering/Industry

Karl-Gunnar Karlsson
Civil Engineering Division
Born in 1956
Employed since 2004
Holding
8,600 Convertible debentures

Nils Clausén
Swerock
Born in 1952
Employed since 2004
Holding
5,000 B-shares
8,600 Convertible debentures

Inge Andersson
Skandinaviska Byggelement
Born in 1956
Employed since 2003
Holding
4,600 Convertible debentures

Joakim Stare
Peab Asfalt
Born in 1958
Employed since 2006
Holding None

Thomas Nilsson
Lambertsson
Born in 1949
Employed since 1968
Holding
1,000 Class B-shares
8,600 Convertible debentures

Construction Abroad

Petter Elvestad
Peab AS
Born in 1944
Employed since 2002
Holding
3,000 Class B-shares
8,600 Convertible debentures

Antti Peltoniemi
Peab Seicon Oy
Born in 1956
Employed since 2003
Holding
8,600 Convertible debentures

Support functions

Mats Johansson
Personnel
Born in 1950
Employed since 2005
Holding
100,000 Class B-shares
8,600 Convertible debentures

Lars Gutwasser
Production support
Born in 1947
Employed since 1969
Holding
8,600 Convertible debentures

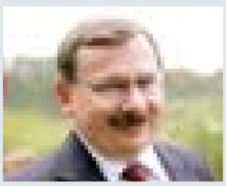
Torsten Hesslevik
IT
Born in 1943
Employed since 2002
Holding
8,600 Convertible debentures

Jesper Göransson
Group accounting/Finance
Born in 1971
Employed since 1996
Holding
170,200 Class B-shares
8,600 Convertible debentures

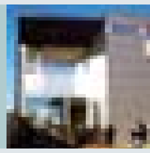
Jan Persson
Operating accounting
Born in 1957
Employed since 1990
Holding
40,000 Class B-shares
8,600 Convertible debentures

Karin Malmgren
Legal affairs
Born in 1960
Employed since 1999
Holding
500 Class B-shares
8,600 Convertible debentures

Gösta Sjöström
Information
Born in 1948
Employed since 1997
Holding
125,000 Class B-shares
8,600 Convertible debentures



Göran Terning
Purchasing
Born in 1948
Employed since 2004
Holding
5,400 Convertible debentures



Diary 2006

Annual General Meeting	May 17
Interim Report, January-March	May 17
Interim Report, January-June	August 25
Interim Report, January-September	November 24
Year-end Report, 2006	February 15, 2007
Annual Report, 2006	April 2007

Financial information

Peab publishes quarterly reports in Swedish and English about progress within the company. Financial information, PeabJournalen and other information about the company, can be down-loaded from Peabs website, www.peab.com, or be ordered from:

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Swedbank Markets
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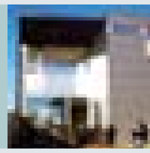
Five-year review

Group MSEK	2005	2004	2003 [1]	2002 [1]	2001 [1]
Income statement items					
Net sales	25 501	22 039	20 086	19 818	18 721
Operating profit	747	577	305	636	655
Profit after financial items	824	521	240	552	577
Net profit for the year	**855**	**389**	**226**	**488**	**502**
Balance sheet items					
Fixed assets	3 999	3 535	2 980	2 630	2 440
Current assets	9 743	7 951	7 393	7 222	7 398
Total assets	**13 742**	**11 486**	**10 373**	**9 852**	**9 838**
Shareholders' equity	**3 348**	**2 653**	**2 196**	**2 750**	**2 434**
Minority interests	–	–	63	30	8
Provisions	–	–	95	182	96
Long-term liabilities	2 304	1 129	1 847	1 397	1 918
Current liabilities	8 090	7 704	6 172	5 493	5 382
Total shareholders' equity and liabilities	**13 742**	**11 486**	**10 373**	**9 852**	**9 838**
Key ratios					
Operating margin, %	2.9	2.6	1.5	3.2	3.5
Profit margin, %	3.7	3.0	2.0	3.5	4.0
Return on equity, %	28.7	15.4	9.2	18.8	22.3
Capital employed	6 119	5 014	4 520	4 523	4 743
Return on capital employed, %	17.1	13.4	9.2	15.1	16.0
Equity/assets ratio, %	24.4	23.1	21.8	28.2	24.8
Net debt	1 893	1 666	1 331	987	1 055
Debt/equity ratio, multiple	0.8	0.9	0.9	0.6	0.9
Interest cover ratio, multiple	8.5	5.2	2.9	5.0	4.3
Net investments					
Goodwill	19	72	146	48	44
Buildings and land	100	–38	191	105	11
Machinery and equipment	502	350	341	296	308
Shares and participations	47	20	–360	52	113
Project and development properties	185	499	–50	155	121
Orders: Construction and Civil Engineering					
Orders received	24 227	21 559	18 339	19 121	16 747
Order backlog	17 722	15 899	13 590	12 852	11 573
Personnel					
Average numer of employees	11 317	10 907	10 618	10 776	10 747
Data per share					
Earnings, SEK	10.06	4.56	2.67	5.80	6.00
after completed subscription and conversion	9.84	4.56	2.67	5.70	5.80
Cash flow, SEK	6.33	3.62	–4.48	9.60	7.50
after completed subscription and conversion	6.12	3.62	–4.48	9.50	7.30
Equity, SEK	39.34	30.84	26.66	33.00	29.40
after completed subscription and conversion	36.96	30.84	26.66	33.00	29.10
Share price at year-end, SEK	102.00	65.00	43.60	49.40	37.10
Ordinary dividend, SEK [2]	3.00	2.50	2.20	2.20	2.10
Extra dividend, SEK	–	–	–	5.60	–
Number of shares at year-end, millions	85.1	85.0	84.8	84.3	83.1
after completed subscription and conversion	90.6	85.0	84.8	84.3	86.2
Average number of outstanding shares, millions	85.1	84.9	84.7	84.6	83.9
after completed subscription and conversion	87.9	84.9	84.7	84.9	86.9

1) The years 2001-2003 have not been adjusted for changed accounting policies that came into effect in 2004
2) For 2005, the Board of Directors' proposal to the AGM



Financial definitions

Capital employed
Total assets at year-end less non-interest-bearing operating liabilities and provisions.

Cash flow per share
Cash flow per share calculated as the total of the cash flow from current operations and cash flow from investment activities divided by the average number of outstanding shares during the year.

Debt/equity ratio
Interest-bearing liabilities in relation to equity.

Earnings per share
Profit for the period attributable to holders of participations in the parent company divided by the average number of outstanding shares during the period.

Equity/assets ratio
Equity as a percentage of total assets at year-end.

Equity per share
Equity attributable to holders of participations in the parent company divided by the number of outstanding shares at the end of the period.

Interest coverage ratio
Profit after financial items plus interest expenses in relation to interest expenses.

Net borrowings
Interest-bearing liabilities including the provisions for pensions less liquid and interest-bearing assets.

Operating margin
Operating profit as a percentage of net sales

Order backlog
Orders being constructed or waiting for construction

Orders received
The sum of orders received during the year

P/E ratio
Share price at year-end divided by earnings per share after tax.

Profit margin
Profit after financial items plus financial expenses as a percentage of average capital employed.

Return on capital employed
Profit after financial items plus financial expenses as a percentage of average capital employed.

Return on equity
Profit for the period attributable to holders of participations in the parent company divided by average equity attributable to holders of participations in the parent company.

Yield
Dividend as a percentage of the share price at year-end.

Construction-related definitions

À price
Unit price for a good, for instance 1 sq.m. asphalt or 1 cubic metre of earth.

Contract amount
The payment stated in the contract for contract work excluding VAT.

Contract total
The contract amount excluding VAT adjusted for supplements and deductions and, when relevant, index adjustment.

Current account
Payment to the contractor in relation to the expenses incurred and accounted plus an administrative addition in percent or kronor.

Development property
Land suitable for development or a building which is to be developed or improved and thereafter sold within 36 months.

Fixed price
Contract to be carried out for a fixed price without the contractor being able to alter it, unless the client makes changes to the contract or makes supplementary orders.

General contract
A contract where the contractor carries out construction and appoints and is responsible for sub-contractors on the basis of documentation provided by the client.

Incentive
An agreement where the contractor and the client according to a principle decided upon in advance share the amount by which the contract amount exceeds/is less than an agreed price ceiling.

Project development
Finding project- and development properties in the market and developing these into complete projects.

Project property
Property that is purchased to be developed and resold within 18 months.

Total contract
A contract where the contractor in addition to building is also responsible for designing the contract.

Trust-based contract
A contract where the client and the contractor work together exclusively throughout the entire construction process – from planning to final inspection. Incentive agreements with the client exist. Peab provides a 5-year guarantee.

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Financial information

Peab will issue the following financial information concerning the 2006 financial year:

Interim Report, January-March	May 17
Interim Report, January-June	August 25
Interim Report, January-September	November 24
Year-end Report, 2006	February 16, 2007
Annual Report, 2006	April 2007

PeabJournalen

Peab's magazine for employees, clients and shareholders is published quarterly and is availible in Swedish, Norwegian and Finnish.

Internet

Current information about Peab is available on our website at www.peab.com

Ordering information

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