



Annual and Sustainability Report 2019

LOCALLY ENGAGED COMMUNITY BUILDER

The Nordic Community Builder

Peab is one of the leading construction and civil engineering companies in the Nordic area with operations in Sweden, Norway and Finland.

Peab affects society and the environment for the people who now and in the future will live with what we develop, build and construct. Peab is also a big employer with local roots and with this comes big responsibility.

Peab is engaged in developing a more sustainable society. Our goal is to meet the demands and expectations from others and at the same time create new business opportunities.

Peab's business contributes to society by developing and building new homes and offices, public functions and infrastructure. This is how we are useful and make a difference in daily life in big and small places in Sweden, Norway and Finland.

Long-term relationships with customers and suppliers result in better social, environmental and economic conditions. Stable profitability generates the funds necessary to develop our business and provide returns for our shareholders.

Business model

Four collaborating business areas create added value

Peab is characterized by a decentralized and cost-efficient organization with four complementary business areas whose operations are based on local entrepreneurship close to customers. Our business model with four collaborating business areas creates opportunities throughout the value chain in our projects.

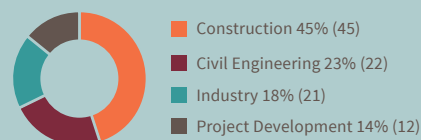
Our three strategic goals Most satisfied customers, Best workplace and Most profitable company frame our prioritized investments in the business plan period 2018-2020.



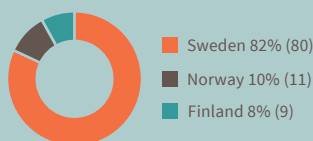
Net sales

SEK 54 billion

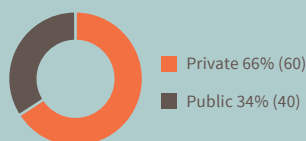
Per business area, 2019



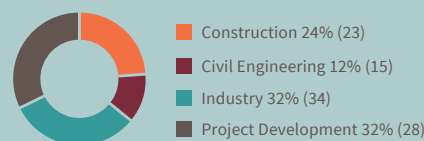
Per geographic area, 2019



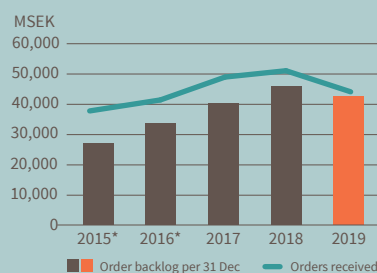
Per customer type, 2019



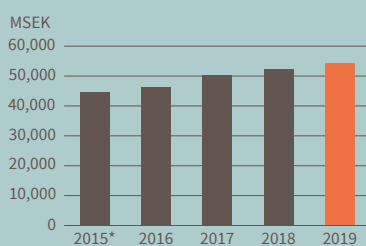
Operating profit per business area, 2019



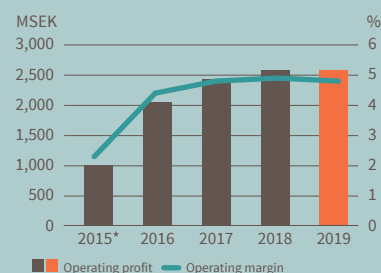
Orders received and order backlog



Net sales



Operating profit and operating margin



Employees

Peab is a lasting and secure employer that prioritizes health and a safe work environment. We offer personal development opportunities in a company culture based on respect for equal rights and characterized by our core values **Down-to-earth, Developing, Personal and Reliable.**

Gender distribution



Share per country



Six initiatives that reflect how we work sustainably through the areas Social, Environment and Economic.



The Norwegian Parliament is inspired by the Peab School

Read more on page 24



New safety park strengthens work on the work environment

Read more on page 26



Peab Life and Räddningsmissionen

Read more on page 27



Climate-improved ECO-Betong™

Read more on page 29



Innovative concrete pile generates environmental gains

Read more on page 30



“Air out the fear of tough issues”

Read more on page 35

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GRI appendix incl. sustainability data:
peab.inpublix.com/2019

Formal annual and Group financial reports which have been audited by company accountants, pages 36–127.

Peab AB is a public company, Company ID 556061-4330. Domicile Båstad, Sweden.

All values are expressed in Swedish krona. Krona is abbreviated to SEK, thousands of kronor to TSEK and millions of kronor to MSEK. Numbers presented in parentheses refer to 2018 unless otherwise specified.

Data regarding markets and the competition are Peab’s own assessments, unless another source is specified. These assessments are based on the best and latest available facts from, among others, previously published material.

Cover picture: Tromsøbadet, Tromsø.

Photographers other pictures: Gatun Arkitekter / Sebastien Berthier (Actic), Klas Andersson, Peter Steen, Mette Ottosson, Bård Gudim, Magnus Torle, Per Eriksson, Nicholas Tournenc, Jyri Laitinen, Lucas Lindgren

– Peab takes work environment matters very seriously and works systematically to create safe workplaces. The kind of safety equipment used varies depending on national regulations and the type of operations. A risk analysis is always performed for each workplace before any exception is made.

– The people pictured in this publication are wearing personal safety equipment required by regulations valid for the operations and country they are in.

2019 in summary

- Net sales increased by three percent and amounted to SEK 54,008 million (52,233).
- Operating profit amounted to SEK 2,568 million (2,573) and operating margin amounted to 4.8 percent (4.9).
- The business areas developed stably during the year. Business area Industry has been charged with acquisition costs of total SEK 87 million. The property divestiture in the partly owned company Acturum had a positive effect of SEK 170 million in profit contribution in business area Project Development.
- Orders received amounted to SEK 44,130 million (51,087). The comparison year included two larger projects of total SEK 5,000 million. Orders received during the year have been more along the lines of mid-sized or smaller projects.
- Order backlog per 31 December 2019 was SEK 42,494 million (45,819) with a broad range of products and well spread geographically.
- Cash flow before financing amounted to SEK -551 million (-1,021).
- Net debt amounted to SEK 7,507 million (3,551). Excluding additional IFRS 16, Leases net debt was SEK 6,743 million.
- Cash flow and net debt have been affected by more construction on property in our own balance sheet and by more ongoing housing projects in Norway and Finland in business area Project Development. In addition, we have continued to invest in machines and equipment in business area Industry.
- Equity/assets ratio amounted to 31.7 percent (30.4). Excluding additional IFRS 16, Leases equity/assets ratio was 32.3 percent.
- Return on equity amounted to 17.9 percent (19.6).
- The Board proposed in February 2020 unchanged dividend of SEK 4.20 per share and extra distribution of a real estate company according to Lex Asea. Due to the coronavirus and the uncertain market situation, the Board chose to withdraw the proposals.
- On July 4, 2019 Peab signed an agreement to acquire YIT's Nordic paving and mineral aggregates business. After approval from the competition authorities the acquisition was finalized on April 1, 2020.

Financial summary

| | 2019 | 2018 | 2017 | Financial goals |
|---------------------------------------|--------|--------|--------|-----------------|
| Net sales, MSEK | 54,008 | 52,233 | 49,981 | |
| Operating profit, MSEK | 2,568 | 2,573 | 2,418 | |
| Operating margin, % | 4.8 | 4.9 | 4.8 | |
| Pre-tax profit, MSEK | 2,510 | 2,518 | 2,458 | |
| Profit for the year, MSEK | 2,092 | 2,100 | 2,067 | |
| Profit per share, SEK | 7.09 | 7.12 | 7.01 | |
| Dividend per share, SEK ¹⁾ | - | 4.20 | 4.00 | > 50% |
| Return on equity, % | 17.9 | 19.6 | 21.3 | > 20% |
| Equity/assets ratio, % ²⁾ | 31.7 | 30.4 | 32.2 | > 25% |
| Cash flow before financing, MSEK | -551 | -1,021 | 2,295 | |
| Net debt, MSEK ³⁾ | 7,507 | 3,551 | 1,216 | |
| Orders received, MSEK | 44,130 | 51,087 | 48,999 | |
| Order backlog on 31 December, MSEK | 42,494 | 45,819 | 40,205 | |
| Number of employees on 31 December | 14,258 | 14,614 | 14,344 | |

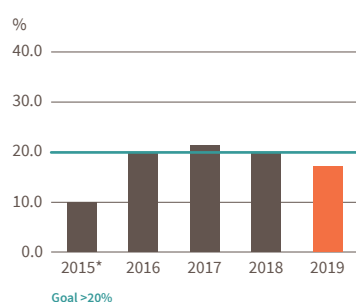
¹⁾ The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.

²⁾ Excluding additional IFRS 16, Leases the equity/assets ratio was 32.3 percent.

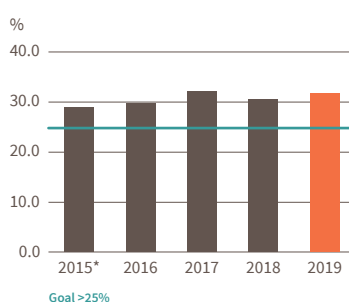
³⁾ Excluding additional IFRS 16, Leases net debt was SEK 6,743 million.

Financial goals

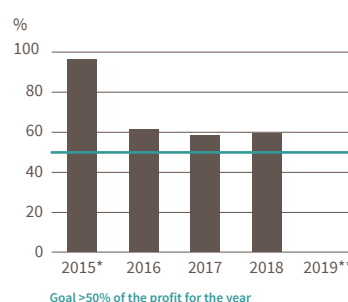
Return on equity



Equity/assets ratio



Dividends



* Not recalculated taking IFRS 15 into account, ** The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.



Four collaborating business areas provide long-term growth

After a year characterized by stable development we started 2020 with a well-filled order backlog amounting to SEK 42.5 billion (45.8) and a strong financial position. With the dramatic start of 2020 due to the spread of the coronavirus in mind it is important to underline that our lasting stability is built on a business model where our four business areas complement each other, give Peab breadth and spread risks. This provides us with a unique platform that ensures long-term growth.

We can look back on a 2019 where net sales grew by three percent to SEK 54 billion. Operating profit was unchanged at SEK 2.6 billion with an operating margin of 4.8 percent compared to 4.9 percent for 2018. Our business areas developed stably during the year and adjusted for costs for acquisitions in business area Industry as well as eliminations we strengthened profitability. More construction on property on our own balance sheet and via joint ventures as well as our investments in Industry in machines and operations have affected tied up capital, cash flow and net debt. We have continued to underpin our strategic investments with a high equity/assets ratio amounting to 31.7 percent, well over our goal of 25 percent. The Board proposed an unchanged normal dividend of SEK 4.20 per share as well as an extra distribution of all the shares in Annehem Fastigheter according to a Lex Asea. The extra distribution of Annehem Fastigheter demonstrates Peab's capacity to, through our four collaborating business areas, generate substantial value for our shareholders. However, as a result of the uncertainty that the coronavirus pandemic caused at its onslaught during the first quarter 2020, the Board chose to withdraw the distribution proposal and delay the extra distribution of Annehem Fastigheter until the uncertainty has subsided and conditions have improved. However, Peab continues to believe that a distribution of the properties is the solution that will over time provide shareholders with the greatest value. The Board's ambition is to regularly evaluate dividend capacity and depending on developments be able to make a decision on both the ordinary dividend and the right time to distribute Annehem Fastigheter.

**SEK
54 billion**

Net sales increased by three percent to SEK 54 billion (52.2).

31.7%

The equity/assets ratio was 31.7 percent (30.4), well above the goal of 25 percent.

Hard to interpret market outlook and greater preparedness

In general, economic development in the Nordic region has slowed down during the year but nonetheless continued low interest rates and a significant underlying need provide a good platform for the construction market over time. The spread of the coronavirus changed everything in the blink of an eye. Its effects on people, companies and communities are far-reaching and governments all over the world are passing relief packages to counteract the negative effects of drastically reduced consumption. At the time of writing this there is considerable uncertainty concerning economic development going forward, although a significantly weaker business cycle in the next few years is anticipated. How profound and lasting these effects will be globally hinges on how quickly countries can contain the virus while mitigating the negative consequences on national economics.

The short-term effects of the Coronavirus on Peab's business are limited but how we will be affected in a longer perspective is hard to say. Up to now this development has had relatively little effect on Peab and most of our operations are running. However, we are preparing for a considerably weaker market situation and planning for different kinds of measures to make cost adjustments while ensuring our production capacity and thereby our competitive capacity on the Nordic construction market. Some of these measures are short-term layoffs and training programs. At the same time we know that in the long run more construction and civil engineering is needed in our Nordic countries. With our four business areas we can collaborate locally while we already have most of the input goods and personnel we need to access. This gives us good control over the construction process and makes us less susceptible to production disruptions.

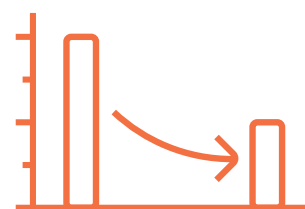
Everything we do is based on working sustainably

For Peab responsible entrepreneurship means working sustainably. Our sustainable work is based on the UN's Global Compact (which we support and intend to continue to support), the global goals for sustainable development, our core values, business concept, vision, strategic goals and our Code of Conduct. We established our focus areas and business plan for 2018-2020 taking the sustainable aspects Social, Environment and Economy into consideration. We also identified risks in each sustainable aspect – preventative work we continued to develop in 2019. Our focus areas and business plan goals guide us when we implement and concretize our sustainable work so that every employee can include it in their role and daily work. In order to facilitate working sustainably we have continued to hold extensive programs to raise the competence of our employees in sustainable areas like ethics, the environment, purchasing, the work environment and equal treatment. Every employee at Peab should have the knowledge and tools to do the right thing.

Locally produced community building

Peab is the local construction and civil engineering company with the big group resources. We have a unique business model where 14,000 employees that share the same core values are united in four business areas and together create total solutions for our customers in Sweden, Norway and Finland. What is unique about Peab's business is that it is so local. We actually call it locally produced. This means that we, through the collaboration of our business areas, can use local resources in the form of our own personnel, our own input goods and local subcontractors to create the most local and sustainable business possible.

Peab's locally produced community building contributes to sustainable solutions for both people and the environment. Through our own ECO-Betong™ or ECO-Asfalt® we can offer innovative, more sustainable material that we produce ourselves, and through recycling and reuse in connection with local projects we can contribute to achieving our environmental goals. Our local, social concept Peab Life then takes our locally produced community building to the next level. Taking a local community responsibility we create opportunities for youths through summer jobs, internships



The number of serious accidents dropped by 45 percent in 2019, from 44 to 24.

1,200

The Peab School has turned this many students into professionals.

or access to activities and fellowship in community organizations. Over nearly 14 years, our own Peab School has educated more than 1,200 youths in a profession, delivering them to the world of adults and the labor market. Through our various integration projects hundreds of newly arrived immigrants have gotten internships or jobs somewhere in one of the many places Peab is found.

Working together for a healthy and safe industry

For several years Peab, on our own and together with others in the industry, has strived to ensure our industry is characterized by healthy competition and humane working conditions. The labor market is becoming more and more open and the competition for competent personnel is tough, which creates challenges we have to deal with together. Ethical, sound conditions must prevail for both domestic and foreign labor. The same set of rules for everyone, tough demands, openness, transparency and systematic control are all vital parts of this work. An example of an important tool that increases security is the new ID06 card that is required for entrance to any Swedish construction site. The purpose of the card is to counter rogue companies and their use of illegal labor. Peab has pushed for the new rules and was one of the initiators. All our workplaces require ID06.

The industry should be healthy and it should be safe. Anyone at one of our workplaces should be there under safe and secure conditions, in both the physical and the social environment. We are involved in the industry's new safety training park, monitoring the working environment is just as prioritized as financial monitoring and we put special emphasis on preventative, systematic work. This focus generates results. In 2019 we redoubled the number of significant, preventative risk observations. A risk taken care of is one less potential accident. As a result of this work there have been half as many serious accidents in recent years, which I am extremely happy about. Having the working environment constantly on management's agenda reminds every employee to put the working environment first on their agenda as well. We have to help each other every day to see the risks in time and always work safely. Nothing is more important. Healthy competition and safe workplaces continue to be prioritized areas in 2020.

The nordic community builder expands by being locally produced

In July 2019 Peab signed a contract to acquire YIT's paving and mineral aggregates operations in the Nordic region and we finalized the acquisition on April 1, 2020. The acquisition means we increase our presence in Sweden, Norway and Finland and become established in paving in Denmark. This gives Peab a market leading position in this business in the Nordic region. At the same time the importance of industrial operations for the Group will also increase and sensitivity to fluctuations in the business cycle will lessen, which is right in line with our business model of four business areas that complement each other. The expansion is based on the fact that through this deal we strengthen Peab on the local market in the countries where we are active, which creates even better conditions for us to run locally produced community building. I am proud of this unique investment and look forward to further reinforcing Peab's position as the Nordic Community Builder.

Together we are community builders

In 2019 Peab celebrated 60 years of community building. It gave us a good opportunity to look back and be proud over how that little family company now, after the acquisition from YIT, consists of some 16,000 employees who go to work every day to continue to develop Peab. We have amazing employees, a unique history and strong shared values. We have common goals and a far-reaching business model.

Diversity among our employees, regardless of their nationality, gender, competence or other factors, is crucial to our competitive capacity and something I personally feel very strong about. With our core values as a cohesive factor and driven by engagement we make a fantastic team. For me, this is Peab.

1,700

With the acquisition from YIT we welcomed 1,700 new Nordic employees.



Förslöv in April 2020

Jesper Göransson
President and CEO



UPPSALA CITY HALL
Uppsala

PEAB CENTER SOLNA
Solna

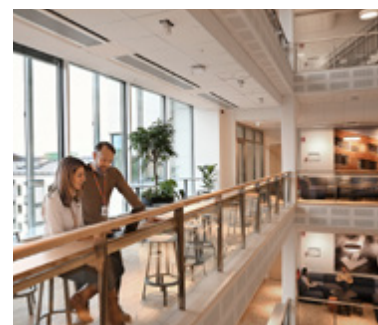
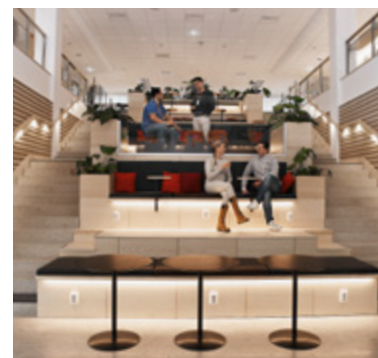


Extra distribution of real estate company

In addition to the ordinary dividend, in February 2020 Peab's Board proposed an extra distribution of all the shares in a newly formed company holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided on March 24, 2020 to withdraw the proposal to the Annual General Meeting concerning an extra distribution of all the shares in the newly formed real estate company. With the uncertain situation in the world this is not the right time to list the company. Peab continues to believe that a distribution of the properties is the solution that will over time provide shareholders with the greatest value. Therefore the operative work of building and structuring the real estate company is continuing as planned. The Board intends to summon an extraordinary General Meeting to decide on distribution of the real estate company when the situation has stabilized and conditions are more favorable.

Peab consists of four collaborating business areas – Construction, Civil Engineering, Industry and Project Development, each one of them an essential component of the Group. In recent years Peab has invested considerable resources in the capital intense business areas Industry and Project Development, a strategy that will continue in the future.

Project development operations comprise development of both housing and commercial projects and are run primarily in wholly owned form but in certain cases through partially owned companies as well. For appreciation purposes fully developed properties have mainly been kept in partially owned companies but they have also been on Peab's balance sheet. In order to create the right conditions in the future for operative steering, tied up capital and income recognition in project development



operations various alternatives have been analyzed. At the beginning of 2020 the Board and executive management therefore evaluated the future direction of wholly owned, fully developed commercial property.

With this in mind the Board has decided that for Peab's shareholders the best alternative for long-term value growth is to form a separate real estate company, Annehem Fastigheter, holding Peab's wholly owned, fully developed commercial and housing properties that will be distributed to existing shareholders according to Lex Asea and listed. In this way Peab can focus on developing and building while Annehem Fastigheter can focus its business on owning and managing fully developed property.

Annehem Fastigheter manages and develops centrally located, high quality commercial, community and residential property with a clear environmental profile in the Nordic growth areas Stockholm, Skåne/Göteborg as well as Helsinki and Oslo. Annehem Fastigheter builds lasting relationships and value through management close to customers. Initially Annehem Fastigheter owns fully developed properties with a total market value of around SEK 3,000 million. In addition, 50 percent ownership in two joint venture companies – Nya Bara Utvecklings AB and Point Hyllie Holding AB – is included. Annehem Fastigheter has also signed a contract with Peab to acquire three properties located in Solna, Oslo and Helsingborg respectively, which will be taken over after they are completed.

After the distribution Peab's project development operations will consist of wholly owned development rights for housing and commercial projects, projects under construction as well as ownership of the major joint ventures that contain fully developed property but also a large portion of future project developments. This consists primarily of Peab's 50 percent in Fastighets AB Centur and 33 percent in Tornet Bostadsproduktion AB.

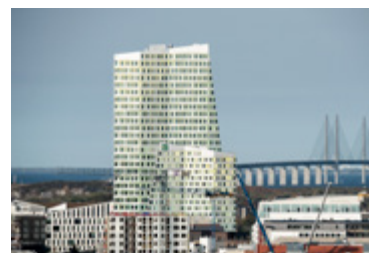
The board of Annehem Fastigheter consists of Göran Grosskopf, Pia Andersson, Jesper Göransson and Anders Hylén. Göran Grosskopf has been appointed chairman. Before it is listed further board members will be added to Annehem Fastigheter's board. Jörgen Lundgren has been appointed CEO and Jan Egenäs will be CFO of Annehem Fastigheter. Jörgen Lundgren leaves his position as CEO of Solnaberg Property AB (publ). Jörgen has previously held positions as President and CEO of Fastighetsaktiefbolaget Norrporten and is, among other things, currently a board member of Aros Bostäder and vice chairman of Mäklarhuset.

When the conditions are right the Board intends to summon an extraordinary General Meeting to propose an extra distribution of all the shares in Annehem Fastigheter to existing shareholders according to Lex Asea. Peab's shareholders will then receive shares in Annehem Fastigheter in addition to their existing stake in Peab.

The distribution is conditional on the consent of Peab's lenders and that Annehem Fastigheter receives financing on market terms. The level of equity and pledges in Annehem Fastigheter will be decided in consultation with the financing banks.

When Annehem Fastigheter is distributed the difference between market values and book values as well as eliminated construction contract profit will be taken up as income in Peab's consolidated accounts. In February 2020 this amounted preliminarily to around SEK 1,200 million, which primarily corresponds to the reduction in equity in the Group caused by the extra distribution. The effect on profit will be updated in connection with the future distribution decision based on circumstances at the time.

Further information to Peab's shareholders regarding the proposal for distribution of Annehem Fastigheter, in the form of an information brochure, will be published on Peab's website in connection with publishing the summons to attend the extraordinary General Meeting.



Annehem Fastigheter owns 50 percent of the shares in Point Hyllie Holding AB that holds Choice Hotel and office building The Point in Hyllie, Malmö.



50 percent ownership of Nya Bara Utvecklings AB, a joint venture owned together with Volito, is included in Annehem Fastigheter.



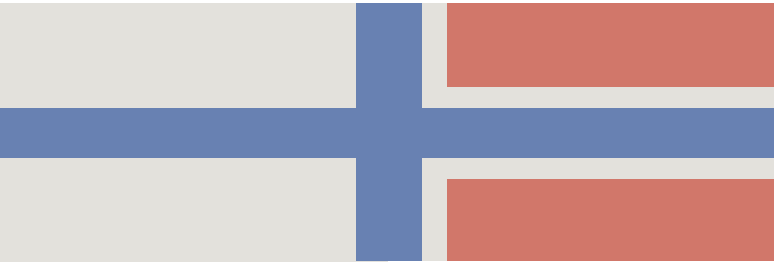
1959

"We can do it, we can use father's tractor"

Mats and Erik Paulsson, 14 and 16 years old, take on a contract their father said no to – collecting garbage for summer residents on the Bjäre Peninsula.



See the film about Peab's 60 years as a community builder.



The 90s

Expansion during the banking and financial crisis

Peab initiates an acquisition offensive that leads to being listed on the stock market and nationwide coverage.



1999 1994 1993

Finland

Finnish Rakennus OY Leo Heinänen is acquired which puts Peab in the Finnish market.

Norway

Oslo-based Fagbygg A/S (part of BPA) becomes part of Peab Norway and Peab is established on the Norwegian market.

1993

Peab buys Sweden's largest construction company, BPA

With its 5,000 employees Peab buys trade union owned BPA that has three times the number of employees.



2006

The Peab School launched

Labor force shortages in the industry and being an ambitious community builder are the background to why the Peab School was started in 2006. Since its doors opened more than 1,000 students have graduated from it. Today, in 2019, there are schools in Malmö, Gothenburg and Stockholm.



2009

Hyllie

Peab acquires Annehem and becomes part of the journey to develop the completely new city district Hyllie in Malmö.



2010

Arenastaden

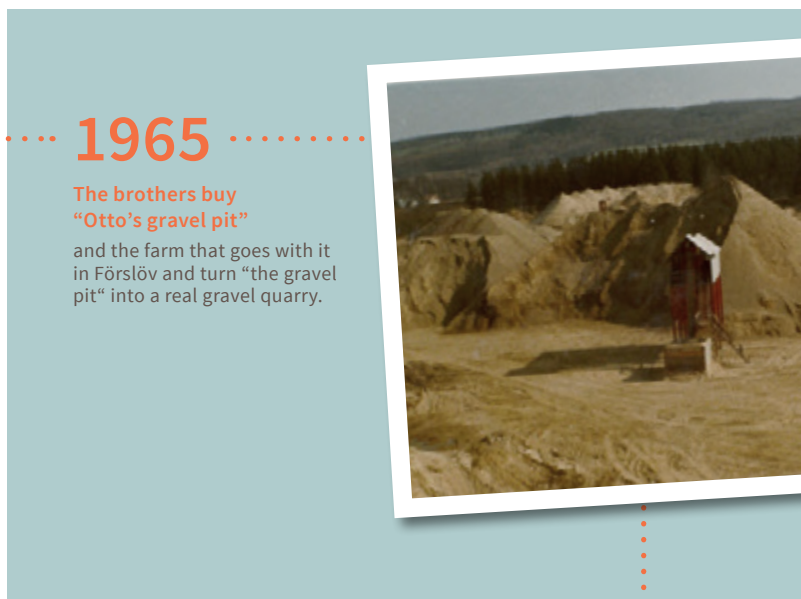
The development of Arenastaden in Stockholm begins with the construction of Sweden's national arena, Friends Arena, and continues with housing, a mall and office buildings.



1963

Peab starts up in civil engineering

The brothers buy their first excavator and begin to develop civil engineering operations with it.



1965

The brothers buy "Otto's gravel pit"

and the farm that goes with it in Förslöv and turn "the gravel pit" into a real gravel quarry.



The 80s

Establishment in Malmö

Peab becomes a name in Malmö when it renovates the Börshus and builds the Saab factory.



1975

Stenmark creates skiing fever

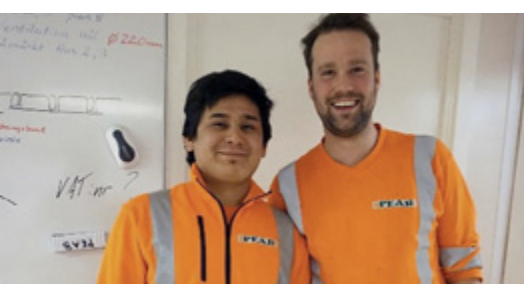
and the brothers wanted to find a vacation place for their employees. They buy into what will in a couple of years will be called Lindvallen in Sälen AB, better known today as Skistar. It was part of Peab until 1983.



1970

Building boom in Sweden – Peab launches construction operations

Peab starts up in construction when the brothers buy the construction company building the workshop in Förslöv.



2015

Refugee crisis

Peab engages in the Swedish Public Employment Service's program The 100 Club, an initiative created to offer immigrants an internship or job. The Peab School starts a language introduction and a language course for immigrants.



2016

Route E45

Peab is commissioned to sink and deck route E45 in Gothenburg where 55,000 vehicles pass every day. The highway will be lowered six meters at Lilla bommen in Gothenburg, which is necessary to connect E45 to the new Hising Bridge and the Marieholm tunnel. Several of Peab's operations and companies are collaborating on this.



2019

YIT

Peab signs contract for the acquisition of YIT's mineral aggregates and paving operations. Takeover was April 1, 2020.



BUSINESS AREA CONSTRUCTION

Sustainable construction on the local market close to customers

Performs contract work for both external and internal customers. Construction projects, often with local roots close to customers, include everything from new production of housing, public and commercial premises to renovations, extensions and rebuilding as well as construction maintenance. Consists of eleven regions in Sweden, three in Norway and two in Finland. Specialized entities in housing production are in Stockholm, Gothenburg and the Öresund region.

[Read more on page 42-43](#)

Trends and driving forces

A dampened housing market is counterbalanced by other building construction. Although the prospects for other building construction are hard to judge higher employment, population growth and an aging population are factors that drive demand. Strong development toward digitalized operations that permeate the process from the drawing board through production. A clear, pervasive trend that more and more customers want environmentally and climate certified buildings.

Peab's position

One of the largest actors in construction in Sweden in terms of net sales and number of employees. Peab has considerable operations in Norway and Finland.

BUSINESS AREA CIVIL ENGINEERING

Greater need for infrastructure on a strong market

Builds and maintains infrastructure such as roads, railroads and bridges. Focused on the local market performs landscaping and pipelining, foundation work and diverse construction. In addition, operates and maintains national and municipal highways and street networks as well as cares for parks and outdoor property. Organized in geographic regions and specialized product areas.

[Read more on page 44-45](#)

Trends and driving forces

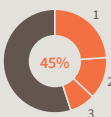
The Nordic civil engineering market is characterized by public investments in infrastructure projects, in Sweden and Norway primarily in an increasing number of extensive and complex projects, but also by smaller, local civil engineering projects. There are variations in local conditions regarding volumes, product areas as well as the competition. Competition is intense on all the markets.

Peab's position

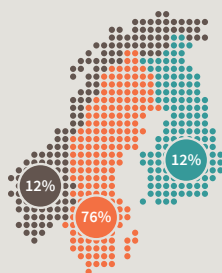
Leading civil engineering actor in Sweden with operations in both Norway and Finland.

Net sales
SEK 29.4 billion

Share of Group net sales

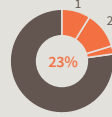


Customer type:
1. Private, 54%
2. Public, 29%
3. Internal/other, 17%

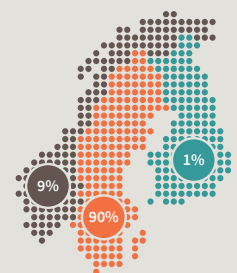


Net sales
SEK 13.3 billion

Share of Group net sales

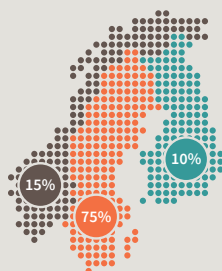
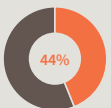


Customer type:
1. Private, 40%
2. Public, 51%
3. Internal/other, 9%



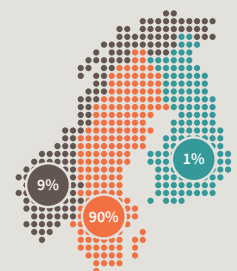
Employees
6,299

Share of total number of employees in the Group



Employees
3,511

Share of total number of employees in the Group





BUSINESS AREA INDUSTRY

Complete supplier on the Nordic construction and civil engineering market

Delivers products and services needed for construction and civil engineering projects. Offer includes industrial construction, strategically placed quarries, asphalt and concrete, recycling of production waste as well as rental of construction equipment and cranes. Organized in six product segments complemented by a number of strong, local brands.

[Read more on page 46-47](#)

Trends and driving forces

Market development usually follows developments in the economy. High activity in the construction and civil engineering market generates a big demand for concrete, gravel and rock, asphalt and rentals. Focus on sustainable and climate smart products and services with a greater input of recycled material.

Peab's position

One of the leading actors in all segments in Sweden. Active in selected segments in Norway and Finland.

BUSINESS AREA PROJECT DEVELOPMENT

Develops sustainable urban environments, homes and commercial properties

Responsible for acquisition, development, management and divestment of housing, commercial property and entire city districts. Project development takes place in wholly owned projects or in joint ventures with other partners. Housing Development develops homes for private customers. Property Development acquires, develops, manages and divests commercial properties.

[Read more on page 48-53](#)

Trends and driving forces

With a continued significant underlying need for housing market conditions are considered good in the long run, even though demand for homes has diminished in recent years, especially in the Stockholm region. There is still strong demand for modern office space in the right location.

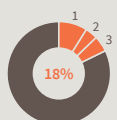
Peab's position

One of the largest housing developers in Sweden with major operations in both Norway and Finland. Peab is a growing actor in commercial property development in Sweden, Norway and Finland.

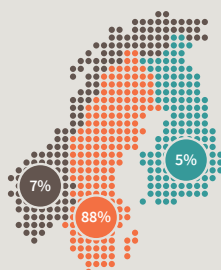
Net sales

SEK 13.3 billion

Share of Group net sales



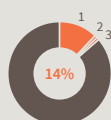
Customer type:
1. Private, 50%
2. Public, 23%
3. Internal/other, 27%



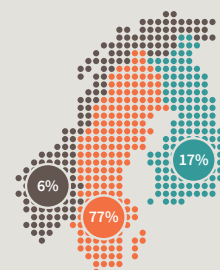
Net sales

SEK 7.8 billion

Share of Group net sales



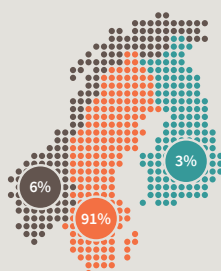
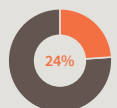
Customer type:
1. Private, 98%
2. Public, 1%
3. Internal/other, 1%



Employees

3,482

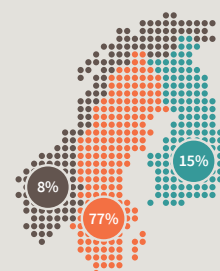
Share of total number of employees in the Group



Employees

343

Share of total number of employees in the Group



TROMSØBADET
Tromsø

External circumstances and the market

Global slowdown



Global growth slowed in 2019. Although this development was expected it was heightened by political turbulence and trade wars. The global economy lost some momentum and even the US economy declined. The downturn in the European economy was affected by international uncertainty and concern for a hard Brexit, which made the export industry, which presented weaker numbers than usual, less willing to invest. The growth rate was only half a percent in the Eurozone's important motor, Germany. Slight inflation signals taking into consideration a cooler economy have led central banks around the world to communicate that interest rate levels will continue to be low for quite some time. This policy has contributed to fuel the international stock markets that developed very strongly in 2019. It looked like the industrial cycle had bottomed out and a certain optimism about the global economy and growth was in the air, despite continued protectionism and political uncertainty. However, with the beginning of 2020 came the outbreak of the coronavirus and it soon gripped most of the world. This changed everything in the blink of an eye. At the time of writing this many countries have closed their borders and daily life has been severely restricted to brake the reach and speed of the spread of the virus. Its effects on people, companies and communities are far-reaching and governments all over the world are forming relief packages to counteract the negative effects of drastically reduced consumption of products and services. There is considerable uncertainty concerning economic development going forward, although a significantly weaker business cycle in the next few years is anticipated. A substantial negative effect on growth is expected in 2020 followed by some recovery in 2021. How profound and lasting these effects will be globally hinges on how quickly countries can contain the virus while mitigating the negative consequences on national economics.

The economy in the Nordic countries

Sweden



In 2019 the Swedish economy left the boom economy behind and entered a period of weaker growth. Gross investments dropped in 2019 as a result of fewer investments in machines and construction. Orders to industrials took a negative turn. With the onslaught of the coronavirus it appears international demand will continue to weaken and business investments will continue to contract. Continued low interest rates can hopefully boost household consumption somewhat and increase borrowing options for businesses, which could mitigate growing unemployment and lessen the economic effects. It is difficult to assess what the effects on the GNP will be but the consensus is a decline for the entire year of 2020. How steep the decline will be depends on how quickly uncertainty and the negative effects can be curtailed.

Norway



The Norwegian mainland economy accelerated in 2019, largely due to an oil-related demand. For the Norwegian economy the outbreak of the coronavirus came at the same time as a sharp dip in oil prices caused primarily by a plunge in demand for fuel. This, in turn, has had a substantial effect on the Norwegian labor market, causing layoffs, and on the Norwegian krone which in March 2020 was severely weakened. As a reaction to the declining economic situation the central bank of Norway reduced the policy interest rate from 1.5 percent to 0.25 percent in an attempt to stimulate the economy.

Finland



The slowdown in global growth in 2019 is expected to have only had a marginal effect on the Finnish economy. Service exports were high during 2019 and together with falling unemployment and rising wages private consumption fared better than expected. However, investments were generally weak. Household consumption had already cooled before the coronavirus outbreak, primarily due to a more negative view of the Finnish economy rather than concern for their own situation. In March 2020 the central bank of Finland estimated that GNP would contract by 1.5-4 percent in 2020 as a result of the coronavirus pandemic and the weakened economy.

The downturn leveled out in Sweden

The downturn in total started-up building construction continued in 2019 but halted compared to 2018. The decline primarily hit the housing sector while there was a slight upturn in premise construction. Industrial building construction investments were surprisingly positive and the upturn was a recovery from the downturn in 2018. In general, investments in renovations tend to develop better than in new construction when the economy is weaker. It is also probable that public sector investments continue to benefit from low interest rates and neglected needs. On top of that a cooler economy does not have the same effect on public premise construction as it does on, for instance, investments in offices and retail space. Civil engineering construction seems to have gone up in 2019 and is expected to remain on a high level in 2020. In general, however, there is a great deal of uncertainty surrounding investments the coming years due to the effects of the coronavirus.

More cautious Norwegian construction market

Development of the total volume in started-up building construction investments in Norway declined in 2019 compared to 2018. Reduced renovation investments and weaker development in single home construction affected housing investments negatively in 2019 while a downturn in public sector construction dampened other building construction. Building construction investments in industrials however appeared to go in the opposite direction. In 2020 the public sector is expected to drive development, especially considering the quick turn of events at the beginning of 2020. The forecast for civil engineering investments indicates a continued high level in 2020.

Construction market went sideways in Finland

Total housing construction in Finland has lost steam in recent years. Production of apartment buildings was the main factor behind the negative development in 2019. Other building construction developed more horizontally and all in all total investments in 2019 ended up on the same level as in 2018. The forecast for total building construction volumes indicates a reduction in 2020 but the effects of the coronavirus make this forecast more uncertain. The forecasts for civil engineering construction indicate an unchanged level in 2019 due to tight public finance policy. Future investments in infrastructure and energy can have a positive effect on investments in 2020.

Green and social sustainability

The climate debate continues to intensify and efforts to reduce our climate impact are increasingly in focus throughout society. Alarming reports from climate scientists and extreme weather remind us that a transition to an environmentally sustainable society must occur quickly. Another challenge is creating a socially sustainable society, one that is inclusive and counteracts unsafe environments that otherwise create barriers in communities. The construction and real estate industries play a key role in both these issues. The construction process has to reduce its climate impact and the material used has to be assessed from a lifecycle perspective. Energy consumption in buildings can be further reduced and the energy used should be renewable. The entire process and all its individual parts must be reviewed and evaluated from a climate perspective. In the near future we will most likely work even more intensely with reuse, recycling and closed loops in construction and management. Creating flexible and multi-functional buildings to meet changing needs and new users of premises is another way to build climate smart. This mindset can also contribute to constructing inclusive, integrating and socially sustainable environments. The construction industry can create environments that enable good physical meetings between people. It is through these meetings we can build a long-lasting sustainable society.

Other major actors

Although the Nordic construction market consists mainly of a large number of small companies operating under intense competition and on local markets there are a few very large, national actors. Several of them also operate more or less on the entire Nordic market. Besides Peab, other companies in building construction are Skanska, NCC, Norwegian Veidekke, AF Gruppen and Obos as well as Finnish Kesko and YIT.

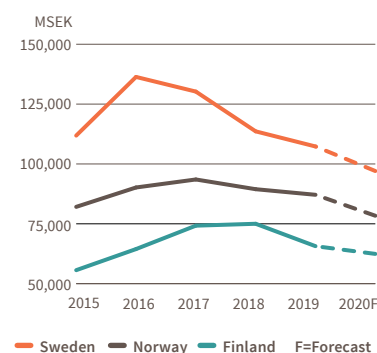
Some of the actors in civil engineering and road construction besides Peab are Skanska, Veidekke, AF Gruppen, Danish Per Aarsleff, NCC, Svevia and Infranord.

Source for text and graphics: Industrifakta

Investments 2015–2020

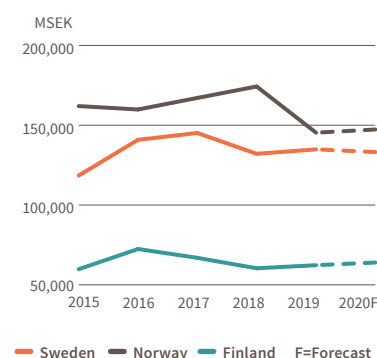
Housing investments

Initiated construction projects



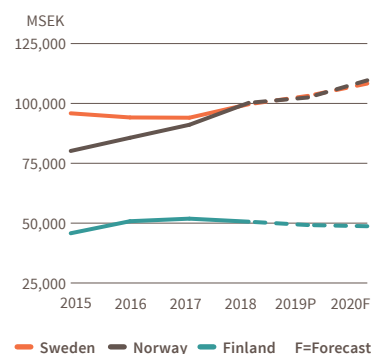
Other building construction investments

Initiated construction projects



Civil engineering investments

Ongoing investments



Goals and strategies

Goals and strategies for locally produced community building

We are the Nordic Community Builder. Peab is the local construction and civil engineering company with the big group resources. Our 14,000 employees are spread over Sweden, Norway and Finland and we are unique in that we are organized in four business areas that collaborate to use wherever possible local resources in the form of our own personnel, input goods and subcontractors. Together with our social engagement in the community and our integrated climate and environmental work this forms the foundation of what we call Locally produced community building.

Peab's operations contribute to developing society through everything we build, construct and carry out. We create value for our customers, employees, shareholders and other stakeholders based on our core values, business concept, vision and strategic goals. For us everything starts with our own business. We lay the foundation first. Everything we do must be ethically and lastingly sustainable socially, environmentally and economically. It is crucial for us to have good insight into our stakeholders' and the community's needs so that we can be as useful as possible. This is the foundation of our company culture and our way of working.

Business concept

Peab is a construction and civil engineering company that puts total quality first in every step of the construction process. Through innovation combined with solid professional skills we make the customer's interest our own and thereby build for the future.

Core values

Down-to-earth, Developing, Personal and Reliable are Peab's fundamental values that our brand is built on.

Our vision is to be the Nordic Community Builder

We are building the sustainable society of the future through engagement and continuous development. Three strategic goals will take us there.



Strategic goals



Most satisfied customers in the industry

We are a complete community builder that offers comprehensive solutions and develops projects together with customers. We are the local company with the big group resources.



Best workplace






People are what matter the most to Peab. At Peab everyone should feel they have safe, including workplaces with good work conditions and development opportunities. When our employees grow Peab grows.



Most profitable company

We will be profitable by working together with our customers with continuous improvements, quality and cost-efficiency. We know that the best workplace and the most satisfied customers generate profitability.


Value creating operations

| Business areas' operations and internal collaboration between units | | How value is generated | Steering and measuring |
|---|--|--|--|
|  <p>Project Development Acquires, develops and divests residential and commercial property and city blocks. Orders work from the other business areas.</p> |  | Through investing in development rights, rent revenue, value increase in holdings and profits from development and sales of residential and commercial property. | Return on operating capital and investment parameters. |
|  <p>Construction Contract work in everything from new production of homes, public and commercial premises to renovations, rebuilding and extensions as well as construction services. Internal supplier of contract work, primarily to Project Development.</p> | | Through profit from contract projects and unrestricted operating capital. | Contribution margins and payment balances. |
|  <p>Civil Engineering Contract work in infrastructure such as construction and maintenance of roads, railroads and bridges. Works with landscaping and pipelines, foundation work and a variety of construction. Internal supplier of contract work, primarily to Construction.</p> | | Through profit from contract projects and unrestricted operating capital. | Contribution margins and payment balances. |
|  <p>Industry Complete supplier of the products and services needed in a construction or civil engineering project. Internal supplier primarily to Civil Engineering and Construction.</p> | | Through profit from the business and investments in machines, quarries, operations and more. | Return on operating capital and investment parameters. |



Business plan 2018-2020

During 2019 we were in the middle of an ongoing business plan period characterized by geographic collaboration and a cross-functional work method as well as our five focus areas. Our three strategic goals follow us into 2020, which is the final year of the business plan period.

| Three goal areas | Outcome 2019 |
|--|--|
|  <p>Most satisfied customers in the industry We want to have the most satisfied customers in the industry through long-term customer relations and close collaboration characterized by responsiveness and flexibility. Annual SCI surveys (Satisfied Customer Index) are conducted to find out how well Peab lives up to customers' expectations. The surveys are sent to both company customers and private housing customers.</p> | <p>In 2019 Peab reached up to 78 (75) for SCI (Satisfied Customer Index) which surpassed our target of 75. The index for the industry was 72. At the same time we continued with frequent customer dialogues so that we are always aware of what our customers prioritize the most. The areas considered most important to our customers continue to be work methods, reliability and timing. We will continue to focus on these areas in 2020 while we also ratchet up our sustainable work a notch, with emphasis on climate and environmental measures.</p> |
|  <p>Best workplace in the industry We want to achieve the best workplace by attracting, including, developing and keeping competent and motivated employees and offering safe, secure and including workplaces. We measure this goal in many ways, among them by registering risk observations and holding regular personnel and work environment surveys.</p> | <p>During the business plan period 2018-2020 we put extra focus on developing our employees and continued to create safe, including workplaces. The number of serious accidents decreased by 45 percent in 2019, from 44 to 24. We continued to develop a new career map that clearly defines the paths of development in Peab. In 2019 39,300 (19,300) risk observations were registered and more than 1,200 (3,600) employees were educated in equal treatment, leadership and ethics. In the latest personnel survey Peab had an eNPS (recommends Peab) of 18 (13), which is well above the benchmark for the industry in Sweden.</p> |
|  <p>Most profitable company in the industry Peab strives for value creation that develops a long-term profitable business and generates value for shareholders. Being the most profitable company in the industry is measured through margin and return goals for the Group in total.</p> | <p>In 2019 Peab reported a stable operating margin of 4.8 percent (4.9). Return on equity was 17.9 percent (19.6). Peab started 2020 with an order backlog of SEK 42,5 billion (45.8), well spread geographically and with good product diversity.</p> |

Focus areas in the business plan 2018-2020

Right business – Strive to increase the number of profitable projects, greater internal collaboration and sustainable work methods.

Safe business – Every business deal should be a safe business deal. This means fair, safe and including workplaces, quality-ensured suppliers as well as high environmental and ethical demands.

Production strategies – Take the advantage of our four business areas to the next level so that greater value is created both for Peab and our customers.

Skills recruitment – Based on what production needs recruiting, training and developing for current and future roles.

Right costs – Means that support functions and digital systems support productivity in our main processes and focus areas now and in the future.

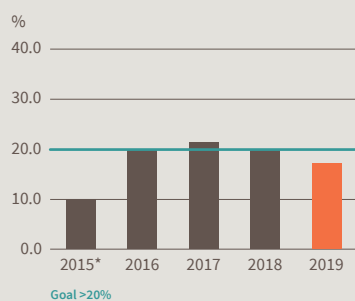




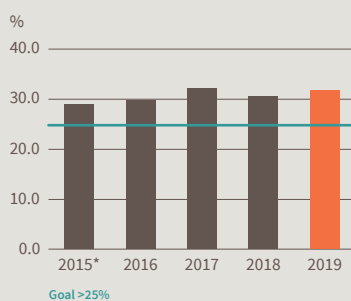
Financial goals

Peab's executive management steers the business using the guidelines adopted by the Board of Directors based on three financial goals: Return on equity, Equity/assets ratio and Dividends.

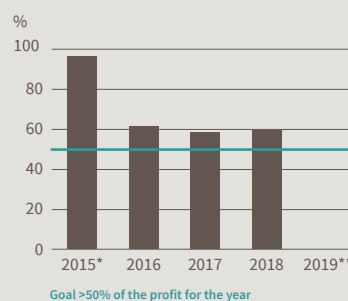
Return on equity



Equity/assets ratio



Dividends



* Not recalculated taking IFRS 15 into account, ** The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.

Return on equity of at least 20 percent

The return on equity amounted to 17.9 percent (19.6) in 2019. Return on equity has been close to the goal of 20 percent in recent years due to higher earnings in operations. In 2019 return on equity was slightly lower partly due to a higher equity/assets ratio.

Equity/assets ratio of at least 25 percent

In recent years the equity/assets ratio has been better than the goal and in 2019 it amounted to 31.7 percent (30.4). Excluding additional IFRS 16, Leases the equity/assets ratio amounted to 32.3 percent.

Dividends should be at least 50 percent of the profit for the year

In February 2020, Peab's Board proposed an ordinary dividend of SEK 4.20 per share as well as extra distribution of all the shares in Annehem Fastigheter holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided to withdraw the proposals to the Annual General Meeting. The Board's ambition is to regularly evaluate dividend capacity and depending on developments be able to make a decision on both the ordinary dividend and the right time to distribute Annehem Fastigheter. For 2018 the dividend amounted to SEK 4.20 per share, which corresponded to 59 percent of profit for the year.

A community builder that takes a far-reaching responsibility

At Peab we work sustainably. This means eliminating risks and creating as much value as possible in our community. To attain this we practice long-term responsible entrepreneurship based on our core values, business concept, vision, strategic goals and our Code of Conduct. This means we also follow the UN Global Compact. The sustainable areas Social, Environment and Economic are thoroughly integrated into the Group's focus areas and business plan goals and constantly steer towards sustainable work methods and practices. We have local roots and always strive for locally produced community building. Responsible entrepreneurship permeates every aspect of Peab.

Peab is the Nordic Community Builder and we want our stakeholders to experience us as such. Part of our contribution to a sustainable society is, for example, building homes or modern infrastructure but another part is contributing to the best possible conditions for the people who will be in these environments that we plan and build. It is also equally important for us to ensure our employees have healthy, safe and inclusive workplaces. In our role as a major yet local employer it is crucial for us to attain through cooperation and dialogue a good insight into local community needs. Our ambition is to then convert this knowledge into a concrete and locally produced community commitment where we can truly be useful to the people around us.

As a big Group we can do a lot ourselves but the best results are achieved through working on critical, sustainable issues with others. Peab is Sweden's largest construction company and a significant actor in Norway and Finland. We take a big responsibility for forming a sustainable industry that can contribute to positively developing society. By working sustainably, transparently, ethically and lastingly we create value for ourselves, our stakeholders and the rest of society.

We are in constant dialogue with our stakeholders

Peab's stakeholders' needs and demands greatly influence how the Group prioritizes and acts. An extensive and open dialogue with our stakeholders provides us with a good comprehension of what the most important issues are for different groups. In a changing world where needs are continually shifting, an ongoing stakeholder dialogue is key to quickly picking up on new needs and striving to fulfill them. These discussions take place in both informal meetings with customers, suppliers, employees and other stakeholders and in more structured contexts such as supplier reviews, meetings with politicians, investor dialogues and workshops at colleges.

The accumulated result from these dialogues informs our materiality analysis and is the basis of our sustainability work priorities. A number of stakeholder dialogues were held in 2019 which gave us valuable guidance in decisions and measures concerning matters like our environmental goals, our sustainable supply chain, our work on equal treatment and efforts to create a safe work environment.



Peab's definition of sustainability

For Peab sustainability means responsible entrepreneurship. Everything we do should be ethical and sustainable long-range **Socially, Environmentally and Economically.**



| Stakeholder | Expectations of Peab | Dialogue examples |
|--|---|---|
| Shareholders | Responsible ethical entrepreneurship, long-term financial value development that creates annual dividends, responsibility throughout the value chain, ongoing risk mapping and risk management, climate awareness and measures to reduce climate and environmental impact, community involvement through, for example, integration programs, internships and contributions to job experience and free time activities for youths | AGM, analyst meetings, surveys from ethical and environmental funds, investor meetings, national and international evaluations |
| Employees; existing and potential | Responsible ethical entrepreneurship, good work environment and high degree of safety, skills development, good leadership, equal treatment, equality and diversity, good and attractive work and employment conditions, climate and environmental awareness and measures to reduce climate impact, community involvement through, for example, integration programs, internships and contributions to job experience for youths, responsibility throughout the value chain | Daily dialogue, employee surveys, Work Environment Evaluation, work environment dialogues, student surveys, workplace meetings, union collaboration, internal training, incident follow-ups, management meetings, goal and developmental discussions, external surveys concerning employer brand, student relations and collaboration with educational facilities |
| Customers | Responsible ethical entrepreneurship, professional businessmanship, competence, resource capacity, quality, availability, experience and expertise exchanges, good work and employment conditions, certifications, climate and environmental awareness and measures to reduce climate and environmental impact, community involvement through, for example, integration programs, internships and contributions to work life experience for youths, responsibility throughout the value chain | Meetings in person, daily contacts, networks, partnership projects, dialogue meetings, customer meetings, fairs, customer surveys, questionnaires from customers, procurements and reviews |
| Local community | Contributions to local community development, cost-efficient construction and housing in different price categories, climate and environmental awareness and measures to reduce climate and environmental impact, care for the environmental locally, community involvement through, for example, integration programs, internships and contributions to job experience for youths, sponsoring local youth activities, responsibility throughout the value chain | Receiving visits, partnership projects, information meetings, networks, contacts with county boards/municipalities, environmental reports, vision work, mentoring, sponsor projects, citizen and resident dialogues |
| Suppliers | Responsible ethical entrepreneurship, professional businessmanship, ongoing risk mapping and risk management, climate and environmental awareness and measures to reduce climate and environmental impact (preferably with the supplier), responsibility throughout the entire value chain | Procurements, supplier evaluations, meetings in person, daily contacts, supplier meetings, supplier reviews, sustainable dialogues and partnership projects |



* replaces aspects Local community building projects and Sustainable sponsoring, read more on p. 27

Social, Environment and Economic are one sustainable unit

We work sustainably at Peab and we treat our prioritized sustainable aspects as one unit, where every part affects, and is affected by, the others. Our sustainability work is formed through collaboration, internally and externally, in the three areas Social, Environment and Economic. This means that the sustainability areas previously identified as the most relevant for our business to manage, monitor and report on are still the same in 2019. During the year we have continued to work on ensuring the quality of the data in all our sustainable aspects – a challenging process that will continue in 2020.

Peab’s materiality areas, with their associated prioritizations, are comprehensive and complex, which means that reaching our goal takes time and requires persistence and continuity. We are prepared to let our sustainability work take time, as long as we continue to see progress. Our ongoing stakeholder dialogues keep us continually updated on what influences stakeholders’ decisions, and their expectations of us.

We continue to be grounded in global goals and Agenda 2030



In 2018 Peab carried out analysis and developmental work to determine which of the UN’s 17 global goals we have the best prerequisites to contribute to. The analysis and development work went through several steps, in our operations as well as with the Board and executive management, in which the 17 goals with their 169 targets were discussed and processed. One conclusion was that as a Group Peab more or less contributes to, and is affected by, every global goal since they are all integrated and inter-dependent. However, for the period 2018-2020 five of the goals were deemed extra prioritized since they are either areas that hold significant potential risk or areas where Peab has a good chance of promoting sustainable development. In 2020 we will continue along the same road since there is still a lot of potential to develop previously identified risks and opportunities.

Steering Peab's sustainable work

Working sustainably is fundamental to Peab's responsible entrepreneurship and has therefore top priority in our core operations. Peab's sustainable work is focused on identifying, weighing and managing risks, doing systematic quality work and in an innovative, responsible manner making sustainable development, internally and through external collaboration, possible.

Peab's Board prioritizes sustainability matters and has given Peab's executive management the overriding responsibility for steering the Group's sustainability work and for monitoring the integration of sustainability into every aspect of our business. For Peab working sustainably is an essential, strategic issue which is put into practice locally and in a down-to-earth manner. Peab's Head of Sustainability, who reports to executive management through the COO, is responsible for strategically running and coordinating our sustainability work. The Head of Sustainability, together with the business areas and function specialists, is responsible for integrating sustainability throughout the entire business. It is self-evident for Peab to include employees in the process through transparency and spreading knowledge about basic sustainable factors. The Group therefore works extensively to raise knowledge levels in every part of our organization around matters like the work environment and health, the environment, equal treatment, leadership, ethics and anti-corruption.

Central regulations and a management system for steering

Peab requires every part of our organization to comply with international conventions and national laws. Our fundamental, internal steering document, Peab's Code of Conduct, is based on the UN Global Compact principles that include the precautionary principle. Peab signed Global Compact 2012 and the Annual and Sustainability Report make up the Group's Communication on Progress, the annual report to Global Compact. In accordance with the decision by Peab's President and CEO the company will continue to follow Global Compact.

The President and CEO has ultimate responsibility for ensuring that the Code of Conduct is followed and communicated. This responsibility then goes down the chain of command. Every employee is in turn responsible for taking in the information and following the Code of Conduct. The Group's purchasing function is responsible for checking that suppliers follow the dictates of the Code of Conduct. Peab has a whistleblower function for anyone, internal employees or external stakeholders, who wishes to draw attention to deviations from the Code of Conduct or other irregularities in the business. The function, which is available on our website and intranet, is handled by Peab's Ethical Council and whistleblowers can be anonymous. Peab's Code of Conduct is complemented by four policies; the Environmental Policy, Quality Policy, Information Security Policy and Work Environment Policy. These are then supplemented by a number of other supportive documents such as the Group's equal treatment plan.



Steering in the Social area

Peab's Code of Conduct regulates several parts of the Social area such as human rights, the right to organize, prohibition of forced and child labor and non-discrimination. The Code of Conduct with associated policy documents also meets the demands in the Swedish Work Environment Authority Ordinance AFS 2001:1. In Norway Peab follows the Work Environment Act and valid regulations for the construction and civil engineering industries. Finnish operations are certified according to OHSAS 18001 and will be certified according to ISO 45001 in 2020.

Peab's work in the Social area primarily affects our own employees and our own organization but the social responsibility that stretches beyond the limits of the company is an ever growing part of Peab's responsibility to society. For us as a community builder we consider this a natural development, completely in line with external demands.

Strategic work on the work environment is run on Group and business area levels, together with the relevant expertise on all levels of the organization responsible for turning strategy into reality. Our priorities in the work environment are the same in all three countries, albeit taking national legal differences into consideration. Work on the work environment is completely integrated with the Group's work against discrimination and for equal treatment. Ultimately responsibility for the work environment lies with our managers, who in turn are supported by experts. In addition to management, there are 129 (163) employees in Peab that specifically work with work environment matters within the Group. Added to that are 730 (668) safety representatives, all of them chosen by, and are representatives of, the employees. There are also 84 (127) work environment administrators (HAMare), which is a union assignment. All in all 6.6 percent (6.5) of all employees in Peab handle work environment matters.

Peab's COO has the overriding responsibility for ensuring that there are support systems for HR processes in close proximity to operations. The CFO is responsible for systems connected to Finance and Treasury as well as salaries and remuneration matters. Line managers, supported by specialist functions, have the operative responsibility for ensuring safety, training, diversity and proper working conditions in the company, like following the Code of Conduct.

Peab's crisis organization is activated in the event of a serious accident. It consists of 108 employees in Sweden, Norway and Finland.

Peab's sponsoring is steered by guidelines for sponsoring. Peab's sponsoring is rooted in the local community with the requirement that all sponsored activities must generate some kind of return to society. A central Group Sponsoring Council meets once a month to decide on sponsorship requests. Peab Life is part of Peab's more extensive local association sponsoring (read more here).



Steering in the Environment area

Peab's work with the environment is practical, close to operations and has a strong connection to our business and brand. It is based on the Group's prioritized sustainable aspects concerning the environment. Common environmental issues are coordinated on Group level by the Head of the Environment in close collaboration with the environmental managers and specialists in the business areas. The Group has three overriding environmental goals, decided by executive management and supported by the Board (read more on page 28-32). Work on the comprehensive, far-reaching goals is conducted in a Group development project, "The Road to our Environmental Goals". The project, which will end in 2020, is aimed at creating a common Group framework by defining interfaces, key ratios, measurement methods, risks and strategic improvement areas for Peab's continued environmental work. Next these Group goals are broken down and turned into practical measures in our various operations formed by the business areas' unique conditions and challenges so that each part of Peab can work on improvements that suit their operations based on the three environmental goals.

Most of Peab's business operates within the framework for a management system that is certified according to ISO 14001. The environmental management system is an integral part of the business management system which includes Peab's Environmental Policy.

Peab's four business areas are responsible for creating processes and action plans that implement management systems and policies and ensure compliance in daily operations.

Peab's work in the area Environment has an effect on our own operations but to a much higher degree it affects the world around us, particularly considering the lion's share of global

emissions that the construction and civil engineering industries represent. For this reason Peab prioritizes engaging in various forms of external collaboration, research and innovation projects intended to speed up the production of climate neutral material and methods.



Steering in the Economic area

Peab's executive management is responsible for steering purchases and the work with ethics and anti-corruption. The central steering document for these areas is the Code of Conduct. The Ethical Council plays an important role in handling and monitoring the work with ethics and anti-corruption complemented by the Group's whistleblower function, which is an essential tool for pointing out deviations from the Code of Conduct and valid legislation. The Ethical Council, which consists of the company lawyer, head of security and the HR managers from the four business areas, meets ten times a year. In addition, Peab prioritizes a comprehensive, target group-oriented education in ethics and anti-corruption to ensure that all our employees have the means to act properly in any given situation.

The Group Head of Purchasing holds the highest responsibility for purchasing. The Group's regulations and processes are clearly communicated throughout the company. An important part of them are the basic requirements in Peab's written contracts such as signing and following the Code of Conduct. The Group's Purchasing function is responsible for, among other things, monitoring, controlling and developing Peab's prioritized areas connected to our suppliers, the work environment and sustainability. For instance, there are daily controls of our supplier base founded primarily on financial parameters and the six month follow-ups of the work environment and labor laws. Peab has identified a number of risk categories that affect human rights, working conditions, the environment and business ethics. Peab has a special program with specific targets for these categories and Purchasing is responsible for making sure suppliers follow the Code of Conduct.

Peab's work within the area Economic has a considerable influence on our own operations but also greatly contributes to sound and safe conditions for the rest of the construction and civil engineering industry; for actors, and the individuals and communities affected in the supply chain as well.

Peab's Sustainability Report

Peab reports its sustainability work according to the reporting standard Global Reporting Initiative (GRI) and it is our belief that to all extents and purposes it follows version 4.0, CORE. The extent of the Sustainability Report can be seen in the related GRI appendix found at peab.inpublix.com/2019 where the GRI index and sustainability data is compiled.



Committed to people – in Peab and the local community

Together we are 14,000 community builders

The collective skills of our employees is the most important part of Peab's offer, and our most valuable resource. Each one of our colleagues ought to feel they have a safe, meaningful and developing job and that they belong at Peab. We know that if we can offer an inclusive, equal opportunity company with good leadership and opportunities for development for all then we can attract and keep the best.

A culture that puts health and safety first

Peab has a vision of zero workplace accidents, which means working with the work environment, safety and health is one of the company's top priorities. However, just like the rest of the industry, there are risks and dangerous jobs at Peab's workplaces. This is why developing a high level of risk awareness and a solid safety culture is key to our efforts to achieve operations without injuries. In 2019 we began to see material results of the intense drive in recent years to implement risk observations in operations. This has become an established work method and the number of risk observations has redoubled since we started. An important factor for success has been how closely executive management has monitored this and the clear directive to all of Peab's leaders to prioritize reporting, analyzing and preventing risks. Investing in risk observations has contributed to valuable organizational learning about our risks and how we can work proactively to reduce them.

Parallel to our risk observation drive Peab has launched a comprehensive project to make our employees more knowledgeable about the organization's safety culture. The project is grounded in current work environment research with the objective of, through greater knowledge and different risk and safety behavior, achieve Peab's vision of zero accidents at our workplaces. As we have done in our work with equal treatment we are educating our organization through workshops and the Peab school's educators. We have gotten very good results from working, through discussions with our employees, with all the culture-bearing issues integrated together, which is reflected in the annual Work Environment Evaluation where employees evaluate

Sustainability aspects

- Health and the work environment
- Skills recruitment
- Equality, diversity and equal treatment
- Education for the young
- Mentorship
- Peab Life

For the GRI index and sustainability data see [peab.inpublix.com/2019](https://www.peab.inpublix.com/2019)

their own experiences of their physical, organizational and social work environment. Work on our safety culture will continue in 2020.

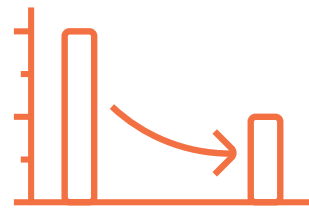
Follow-up shows we are progressing

Slowly but surely our comprehensive work with the work environment is having an effect. Most importantly we have nearly cut the number of serious accidents in half – from having 44 reported serious accidents in 2018 to we could report 24 in 2019. At the same time we redoubled the number of crucial preventative risk observations. Compared to last year the accident frequency¹⁾ dropped from 14.2 to 13.4 percent in 2019. We will continue our systematic work environment work (SAM) to achieve our vision, which will always be zero accidents. In order to further prevent incidents and accidents as well as promote health and well-being we will work systematically and proactively every day with risk observations, risk assessments, risk management and other preventive measures in our daily operations. Whenever we discover a risk we report and remedy it as part of SAM where follow-up is key. Everyone (100 percent) at Peab's workplaces is covered by an internally reviewed health and safety management system.

As a complement to quantitative measuring, and as part of SAM, a qualitative work environment evaluation was conducted during the year where all the employees in the Group's three countries were given the opportunity to evaluate their work environment in the categories working hours, workload and equal treatment. The result showed clear improvements in the work environment and generated a work environment index over benchmark. Peab had particularly good numbers in the area of equal treatment. Nonetheless challenges remain, above all in uneven workloads. This is therefore a prioritized areas in 2020.

The annual health and work environment focus week, when members of Peab's management visit workplaces, was held in August. The theme for 2019 was safety culture. We garnered challenges in discussions during the week along with the good examples that contribute to a safe, healthy and secure work environment. In 2019 management visited 467 (558) workplaces and held 797 (940) discussion meetings on how we can make our workplaces safer and healthier.

1) Definition: more than 8 hours absence, per million hours worked



The number of serious accidents dropped by 45 percent in 2019, from 44 to 24.



The Norwegian Parliament is inspired by the Peab School

Skills recruitment and getting more youths to choose vocational education are hot items, so hot that members of the Norwegian Parliament came to Gothenburg to visit the Peab School. Students and teachers described the school's pedagogy built on bringing real life into education and working with subject integration – like learning math while doing carpentry.

“What we have seen and learned here can be a model to test in Norway to improve vocational education,” said Turid Kristensen, Norwegian Parliament's Education and Research Committee.

“I don't think I've ever heard about a corporation that takes a local community responsibility the way Peab does,” said Elin Rodum Agdestein, Finance and Economic Affairs. “This visit has been truly inspiring!”

Goals and active measures to increase diversity

During the year there were a number of concrete measures in progress to reach the quantitative goals for gender balance that every business area formulated at the end of 2018. There are still too few women in the Group, 13 percent (13), and this requires putting considerable effort into existing measures and introducing some new ones to increase the rate, especially regarding female managers and skilled workers. We have been more successful in our endeavor to achieve gender balance in entry roles in production and female representation is now between 35 and 45 percent. These employees will receive support and opportunities so that in time we can improve the gender balance in production roles. A master thesis program was held during the year to increase understanding for the factors that affect gender balance in positions tied to production. The students' conclusions provided valuable insights into, for example, the need for mentorship and a more elaborate introduction packet and they have had a significant influence on which measures will be taken in the future.

Knowledge changes behavior

In 2019 we continued our comprehensive and awareness-raising work with equality, diversity and equal treatment based on the UN Global Compact, Peab's Code of Conduct and our core values. All employees should know what's what at Peab, be aware of their rights and obligations and feel a responsibility to hinder discrimination, violations, harassment, sexual harassment and mobbing. In 2019 we decided to merge the Group's equal treatment work with SAM (systematic work environment work) in order to further reinforce equal treatment issues as part of our common work environment and to make it easier for operations by working with one comprehensive concept. This year's Work Environment Evaluation gave equal treatment the highest grade of all categories, showed that Peab's zero tolerance for harassment and violations is very well-known and that no gender differences were detected in the experienced work environment. Nor were there any significant differences in how various professions experienced their situation. All this demonstrates that the method we have chosen, to build up knowledge and responsibility through dialogue with our employees, is the right way for Peab. New for this year was an in-depth course for HR personnel and management about employers' legal responsibility, and training in how to investigate and handle equal treatment matters.

We have become increasingly better at handling infringements and are strongly supported by Peab's Ethical Council which ensures that reports of victimization, harassment and discrimination are investigated by impartial expertise. In 2019 1,586 (2,054) employees were educated in diversity and equal treatment, which means we are getting close to altogether 10,000 educated employees since the start in 2015. The program will continue in 2020 and the year will begin with educating all our Norwegian managers.

Skills recruitment through integration

Another important part of our diversity work is our involvement in integrating newly arrived immigrants into the labor force. After having very satisfactorily achieved our goal with the national integration initiative, The 100 Club, we are determined to keep up the pace in our integration work. Therefore we launched a nationwide collaboration in Sweden with Galaxen which is a jointly owned trade organization that works with onsite rehabilitation and recruitment of newly arrived immigrants and longtime unemployed in the construction industry. The collaboration is built on matching immigrants in the labor force with Peab's recruitment needs.

The importance of good leadership

A sustainable organization starts with sustainable leadership. Every day 1,969 managers lead employees, processes and projects in our three countries. This is an enormous challenge which is why we have produced company-customized leadership programs on four levels so that all leaders, no matter which company they work in, have the



The 2019 work environment evaluation: equal treatment was given the highest grade of all categories and Peab's zero tolerance of harassment and violations is very well-known. No gender differences were detected in the experienced work environment.

1,586

During the year 1,586 employees were trained in diversity and equal treatment.

opportunity to develop in their role. In 2019 454 managers developed in these programs and as part of the support for day-to-day leadership Peab provides coaching and mentorship.

Everyone's right to develop

The construction and civil engineering industry is in sore need of people with qualified skills and continues to face major challenges in mirroring society's diverse composition. We need to attract and recruit a broader target group than before but most importantly we have to develop and retain existing personnel. One key factor we have identified is ensuring that everyone, regardless of their profession, receives the same opportunity to develop in their job. Therefore in 2019 Peab continued to offer an increasingly digitalized range of courses in order to make flexible learning available to more employees, regardless of profession or location. The career map that has now been in the organization a few years was further developed to include even more areas and paths to development. In their daily work, but also through the annual goal and developmental discussions, employees and supervisors can now plan each individual's long-term career path. The Learning Management System "Compass" facilitates our digital journey, although there is still work to do before it is fully developed. An important prioritization is ensuring that all goal and developmental discussions can be digitally registered. This function was launched in 2019 and during the year 8,864 discussions were registered, which represents 62 percent of Peab's personnel – a number that will increase in 2020 as the function gradually comprises more and more employees.

Naturally we need to attract and recruit new employees. Working together with educational facilities is crucial to attracting new skills and Peab continually tries to develop the framework and scope of this cooperation. Internships for both university graduates and vocational studies students, tutorial help with master's dissertations, lectures at many different universities and collaboration in various academic development projects are just a few examples. It is also vital that all managers involved in recruitment know how to base recruitment on competence so that choices are not made on the wrong or even right out discriminatory criteria. Peab teaches HR and managers in methods for recruiting without discriminating so that we do not lose out on valuable new competence.

Starting out right

A proper introduction to both our business and their role in it is essential for our new employees to get a good start. In 2019 708 (730) people participated in an introduction day for new employees aimed at broadening their knowledge about Peab's business and core values. During the year a digital version of the Group introduction was developed in order to more rapidly reach more employees. Everyone on a Peab worksite should have the same opportunity to do the right thing. Therefore Peab strives to make the digitalized version and our important message available to subcontractors as well. Peab will further develop mentorship in 2020 so that more young people will have access to a mentor in their first jobs. In collaboration with the Mentor Foundation 15 (40) Peab employees were mentors for youths in 2019.

Award to Norwegian apprenticeship engagement

Skills recruitment though engaging in youths is prioritized by Peab in all three countries. We work together with all kinds of educational facilities and where possible we collaborate over national borders, for example in the Peab School's annual project on the island Utöya that involved Norwegian apprentices. In 2019 Peab's Norwegian subsidiary Bjørn Bygg received Naeringsforeningen award "Årets foregangsbedrift 2019" because of its many years of high quality work with apprentices.

New safety park strengthens work on the work environment

Peab is one of the actors behind the Swedish construction industry's first safety park that was inaugurated in October next to Arlanda. The park contains training stations with different elements of risk in the construction and civil engineering sector, for example, working at heights and in traffic as well as exposure to vibrations and dust. The stations will be developed over time according to the needs of the industry. The safety park will be a training center where all actors and professions are welcome.



Peab course at Finnish Metropolia University of Applied Sciences continues

For the second year in a row Peab arranged a five-credit course at Metropolia University of Applied Sciences in Helsinki. The course included responsibility allocation on construction sites, diversity, communication, goal orientation and handling challenging situations. Leaders from Peab were also some of the lecturers. Around a hundred construction students participated in the course which ended with presentations of group projects at Peab's offices in Ultimes Business Garden in Helsinki.

Annual salary survey to ensure equal pay

At Peab the nature, performance and skills level of an employee's job decide their pay level, independent of gender, age or ethnic background. In accordance with Swedish law a salary survey is conducted every year containing an analysis of salaries aimed at identifying and establishing that all salaries are factually based. Peab's analysis of salaries paid in Sweden in 2019 detected 24 (23) cases of subjectively set salaries between women and men for comparable professions, skills and positions. These salary differences were corrected immediately. There are corresponding processes in Norway and Finland that follow the laws of those countries.

The Peab School continues to educate in vocational skills and value foundation

The Peab School, Peab's three independent upper secondary schools, continues to develop and in June 76 (65) students graduated. In 2019 there were about 230 (240) students in the construction and civil engineering program, 50 (50) in the introduction program for vocational training and 70 (90) students in the program Language introduction for newly arrived immigrants. This means that so far 1,268 youths have received their upper secondary education through the Peab School and since the start in 2006 about 60 percent of them have found work, most of them at Peab. Having access to internships at Peab's workplaces with our trained instructors is a key factor for success. In 2019 the Peab School was named one of the Swedish Schools Inspectorate's teaching examples of schools that work with equality and the school's work was profiled in, among other things, a film by the authority. Peab's long-term investment in our own schools has been broadened to include adult education and in 2019 our own educators taught 2,565 (3,301) Peab employees about areas like equal treatment, our value foundation, ethics, the safety culture, the work environment and held language courses. This work will continue in 2020.

Peab Life creates opportunities for more youths

For the past couple of years the sole focus of Peab's guidelines for sponsoring has been on young people and diversity and we have developed a unique method for running local community building projects. We wanted to take this a step further to give more youths meaningful, active free time and do more for the needy in local communities. Therefore in 2019 Peab launched the concept Peab Life where Peab combines sponsorship with engagement from our 14,000 employees and our substantial expertise in youths, education and local community building²⁾. The purpose of Peab Life is to provide youths with work experience, summer jobs and different free time activities through tailor-made projects. By making it possible for young people to participate in locally produced community building projects carried out in collaboration with local business, free and regardless of social factors, we hope to contribute to greater equality, diversity, community and participation amongst Nordic youths. During the year 40 Peab Life projects were conducted which is comparable to 26 community building projects carried out last year.

²⁾ This means that the sustainable aspects from previous years – sustainable sponsoring and local community building projects – have been replaced by Peab Life. Content has the same base but has been expanded. The key ratio will remain the same for comparability purposes.



The concept Peab Life was launched in 2019. It is a combination of sponsorship and employee engagement that benefits youths.



Peab Life and Rådningssmissionen

Peab Life is part of Peab's social sustainability work. The first social community project in Peab Life was the Rådningssmissionen's breakfast diner in Gothenburg. Rådningssmissionen is an idea-based organization that engages in social work for people in need. There are nearly 4,000 homeless in Gothenburg and help is really needed. For a week students from the Peab School, together with instructors from Peab, refurbished a storeroom where donated clothes are given to homeless and needy people. At the opening of the storeroom members of Sävahof's women's handball volunteered together with some Peab employees at the Rådningssmissionen's breakfast diner.



On the road to our environmental goals through Locally produced community building

In 2018 Peab's executive management gave the green light to a Group project called The Road to our Environmental Goals. The project was launched in 2019 aimed at identifying limitations, relevant key ratios and strategic improvement areas for Peab's environmental work in the coming years based on our goals. Parallel with the environmental goal project we carried out a number of environmental and climate friendly measures throughout the Group – some of them were structural in character, others focused on innovation.

Climate neutrality by taking responsibility and collaboration

As one of the largest Nordic construction companies Peab has a big responsibility for environmental and climate impact. This is one of the driving forces behind why we always strive to produce as locally as possible. One of our three comprehensive environmental goals is to be climate neutral by 2045. This is a challenge, especially since we operate in an industry, and are part of a production chain, that in many ways adds to society's energy consumption and carbon dioxide emissions. Most of our carbon dioxide emissions are generated by fossil fuel used in vehicles and construction machines, heating workplaces and manufacturing products. From a lifecycle perspective the production of material purchased for a project along with the operational phase of the end product after we turn it over is also important to consider. Material efficiency and circular flows therefore have a considerable effect on climate neutrality. Not taking responsibility for reducing emissions entails a

Sustainability aspects

- Climate impact
- Resource efficiency
- Phasing out environmentally and health hazardous substances

For the GRI index and sustainability data see peab.inpublix.com/2019

significant risk for both the climate and our business. Peab therefore works proactively to reduce, and in time, phase out and replace, fossil fuels with renewable fuels. We also work on producing energy saving measures and drive the development of climate smart methods and material, on our own and in collaboration with others in the industry.

An example of this collaboration is the work being done within the framework of the industry's roadmap for fossil free competitiveness. Peab stands behind the construction and civil engineering sector's climate goals for successively reducing greenhouse gases until we reach our net zero in 2045. In 2030 emissions of greenhouse gases should have dropped by 50 percent (compared to 2015).

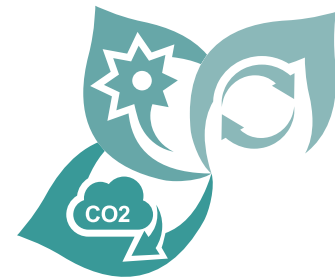
Green machines and vehicles hasten the transition

The entire construction and civil engineering sector is in the middle of an enormous transition from fossil dependent to fossil free. In 2019 Peab's subsidiary Lambertsson increased its ability to offer construction equipment run on electricity such as compactor tools, excavators, wheel loaders and hybrid excavators that through a power unit run entirely on electricity. The company has also added other models of excavators and broadened its range with new kinds of electrical machines like compactor machines and dumpers. The expanding green range makes it possible for more and more users to make sustainable choices.

Peab works to steadily increase the portion of fossil free fuel we use. We continue to streamline our logistics in order to reduce emissions there as well. Peab's subsidiary Swerock purchased another six hybrid trucks for concrete distribution run solely on renewable fuel. Their motors run on HVO (renewable diesel) and rotate on electricity. In addition to lower emissions this makes for a considerably quieter drive, which improves the work environment.

ECO-Asfalt® gains ground

Peab's ECO-Asfalt® continues to develop and currently is one of the Group's most innovative products. The bio-oil is used for drying and heating the gravel material in the manufacture of Peab's ECO-Asfalt®, which is the process that requires the most energy. Bio-oil is climate neutral and made from vegetable surplus products from food production. At the end of 2019 ECO-Asfalt® represented more than 95 percent of Peab's total production at stationary plants in Sweden. Since January



Peab's comprehensive environmental goals

- Year 2045 we will be climate neutral
- Year 2040 our business will be 100 percent material efficient
- Year 2030 we will have phased out environmentally and health hazardous substances



Climate-improved ECO-Betong™

It is durable, formable, moisture resistant, fireproof, 100 percent renewable and absorbs carbon dioxide. These are some of the characteristics that have made concrete the most widely used construction material in the world. Today we know that the price has been high carbon dioxide emissions, 90 percent of which come from cement production. Replacing a part of the cement with slag, a byproduct in steel manufacturing, can cut its environmental impact nearly in half. This is an internationally tried and true method that also has technological advantages. In 2019 Peab subsidiary Swerock launched ECO-Betong™ that with its slag blend meets the levels required by Svensk Betong for climate-improved concrete. We also invested in a factory in Oxelösund where our own binder will be made from slag from SSAB. The investment of SEK 130 million received funds from Klimatklivet.

2015 climate impact from production has dropped by 63 percent or 153,000 tons. In 2019 the reduction was 41,000 tons (42,000), which is equal to approximately 31,000 cars driving 1,300 Swedish miles each (100 g CO₂ equiv./km). Another important step is recycling asphalt. There is considerable potential to increase the amount of return asphalt in new production without affecting the quality of the product.

Finland calculates climate footprint

Peab's Finnish operations are participating in a yearlong project that started in the autumn of 2019. The carbon dioxide footprint is calculated in our own developed housing projects that start up during the period. The calculations will contribute to the Group's goal of climate neutrality, primarily by spotlighting where changes in operations need to be made. Peab uses external experts for the calculations and the method has been developed by the Finnish Ministry of Environment, which is also running the project. The method comprises the entire lifecycle of the building – from production of the construction material, transportation, construction and use of the building to demolition and recycling at the end of its life.

Energy mapping provides basis for prioritization

Energy mapping has been carried out during the past three years in three business areas, Construction, Industry and Civil Engineering. In 2019 energy consumption was mapped in project development operations as well. At the same time a pilot project was conducted aimed at installing measurement infrastructure and implementing a Group energy monitoring system. Our ambition is to gain more knowledge about our energy consumption in order to prioritize the right energy saving measures. One such measure in 2019 was the launch of Peab subsidiary Lambertsson's system for temporary sealing construction sites, which means offering window and door modules that can be adjusted in height and width so that they effectively seal all openings and protect against weather and wind. The method reduces energy consumption and leads to less transportation and repair of traditional plastic wrapping.



Collaboration and innovation in Olskroken

Olskroken is one of the most important junctions in the West Sweden railroad system and Peab's civil engineering operations are doing work on the railroad tracks and building overpasses here. To meet the Swedish Transport Administration's climate demands Peab is doing several things where the importance of collaboration and innovation is apparent. For instance, we could test methods and recipes for developing concrete with lasting durability early on. Swerock supplies locally produced ECO-Betong™ with a 20 percent slag blend and it is delivered fossil fuel free. The leaner construction requires less material than before and, on top of that, by reordering the railroad tracks a planned overpass was not needed.



Innovative concrete pile generates environmental gains

Densification of Sweden means that an increasing number of construction projects are carried out on muddy soil with bad bearing capacity. It requires more and larger concrete piles in the ground to prevent settlements, which are more expensive and worse for the environment. Peab's engineering technicians created a solution that is environmentally friendly and competitive. They have developed a concrete pile with reinforced pile joints that has 30-50 percent higher resistance despite containing the same amount of concrete. This type of pile is used in, for example, the project Lilla Bommen in Gothenburg.

"Bigger piles push away more mud and if there are houses near the construction site they move. To avoid this we want to use the thinnest piles possible and yet strong in order to utilize the mud's bearing capacity," says Johnny Wallgren, geo constructor at Peab.

Stronger piles mean fewer piles, which is both an economical and environmental boon.



Service license for the Swan ecolabel and a Swan labeled school

Already back in 2017 the decision was taken that Peab Bostad's newly produced apartment buildings in Sweden would be certified according to the Swan ecolabel. In 2018 Peab received a service license in Sweden to build Swan labeled buildings, which means that we can offer simpler and more cost-efficient labeling of apartment buildings, schools and preschools to external customers as well. As a result, in 2018 Peab could begin construction of one of Sweden's first Swan labeled schools, Lindblad School in Vårgårda, which was completed in 2019.

Material efficiency and minimizing waste

Following laws and trade agreements regarding handling waste and residue products is self-evident for Peab. It is not enough however, which is why Peab has an overarching Group goal for our business to be material efficient by 2040. Getting there includes designing resource lean constructions, effective purchasing procedures and work methods that minimize waste as well as reusing products and sorting material so that it can be recycled.

Collaboration for reuse and more recycling

If Peab is going to achieve our environmental goal of material efficiency we have to both generate less waste and take care of, and recycle, as much as we can. Developing more material efficient methods requires creative collaboration within the entire industry in order to form new, efficient solutions. Based on The Swedish Construction Federation's resource and waste guidelines for building and demolishing and the Environmental Act's waste hierarchy, Peab strives to reduce the total amount of waste generated and sent to landfills or burnt, and instead recycle and reuse as much material as possible. Sorting in the Swedish construction business has increased from 60 percent (2010) to 83 percent (2019) and the amount of waste sent to landfills has dropped from 10 percent (2014) to 5 percent (2019). In 2019 a pilot project was carried out in Finland focused on increasing sorting levels to minimize the amount of unsorted construction waste and increase the amount of waste recycled. Through the project the costs for waste management were reduced by 25-30 percent compared to a reference object. Peab's waste contractors help us plan waste management so that we handle waste as efficiently as possible and they are responsible for taking

25–30 %

In a pilot project in Finland that focused on a higher degree of sorting costs for waste management were reduced by 25–30 percent compared to a reference project.

away and taking care of waste. We have internal statistical tools we use in analyzing where we can improve our waste management. This provides us with important knowledge about how we can become even more efficient.

A good example of reuse is a project in Varvstaden, Malmö where Peab reused inner doors and renovated windows when we rebuilt an existing building of the Lägenhets-hotellet Skeppshytten.

Locally produced recycling enables circularity

Peab subsidiary Swerock has run recycling operations for years and today there are sites all over Sweden. These operations contribute to a resource efficient society by value creating reused and recycled residue products from industrial processes and construction and civil engineering projects. Sustainable material with the same quality and capacity as the original material is produced from this residue, for which there is a growing demand from a market that is striving for circularity and natural resource conservation. The goal is to ensure an environmentally and financially efficient management that prolongs the life, and maximizes the usefulness, of the materials involved. Having these operations within the Group makes it possible for us to reuse more raw material in our own material production.

Phasing out environmental and health hazardous substances requires new alternatives

Peab's third environmental goal is to phase out environmentally and health hazardous materials by 2030. This is also a condition for being able to be more material efficient, circular and climate neutral. Getting there entails finding new alternatives that can replace chemical products, goods and material that can have a hazardous effect on humans or the environment. Since Peab can influence product choices we require that the products meet Byggarubedömningen's acceptance level on content or BASTA's criteria. This means that the products do not contain environmentally and health hazardous substances at all or only in very small quantities. Other systems than Byggarubedömningen or BASTA can be used due to customer demands or environmental certification. In addition to Peab's specification demands the phasing out process requires innovation and collaboration to produce better alternatives, and knowledge to be able to make choices that do not have an effect on health or the environment. Peab has a continuous dialogue with its suppliers about replacement products and is engaged in both Byggarubedömningen and BASTA to promote sustainable products. Since Peab's environmental goals are long range and product development takes time we have communicated our environmental goals to our suppliers to give them time for development.

The effects of the environmental step-up are becoming apparent

Peab is built on our employees which is why it is essential that everyone has the proper platform to do the right thing. In the past couple of years Peab has run a comprehensive educational program on the environment. Through target group adapted, theoretical e-education combined with workshops and physical meetings, the majority of our personnel has been given the opportunity to raise their level of competence. For example, 90 of our wheel loader drivers have been trained in eco-driving, which has led to lower emissions, less wear and tear, less vibrations and a driving cycle that is as fast or faster, which also saves money. The higher number of environmental rounds and implementation of logbooks for all projects over SEK 30 million has also increased awareness.

In 2019 we could definitely see improvements connected to raising competence and awareness in our daily environmental work. The external spring audit of construction operations showed dramatic improvements, among them zero environmental deviations. Greater environmental monitoring has created a larger environmental focus in both projects and management. Once again we note that knowledge and tools promote taking responsibility and action.



In the past couple of years Peab has run a comprehensive educational program on the environment. Through target group adapted, theoretical e-education combined with workshops and physical meetings, the majority of our personnel has been given the opportunity to raise their level of competence.

THE GATE
Hyllie, Malmö



Safe business through responsibility, monitoring and collaboration

Founded on our code of conduct

At Peab we build our sustainable work on our thoroughly grounded Code of Conduct, which in turn is based on the ten principles in the UN Global Compact. The Code is built on Peab's core values and comprises business ethics, business principals, human rights, work conditions, the climate and the environment. The Board of Directors adopts the Code of Conduct and it is applicable to everyone in the Peab Group and contains principles for how we ought to behave in different situations and towards each other. We also require that the Code of Conduct be respected and complied with by our business partners and anyone at our workplaces.

Peab continues to strive to have the most satisfied customers

The annual surveys conducted according to SCI (Satisfied Customer Index) are directed towards external and internal company customers and private housing customers. Their purpose is to provide a good understanding of our customers' needs and desires and foster lasting customer relations. In 2019 the total SCI result for the Peab Group was 78 (75) on a scale of 1–100. Peab's Finnish business achieved a SCI result of 80 with a value of 82.5 for customer loyalty and for the third year in a row had the highest rating of all construction companies on the Finnish quality rating EPSI. According to Prognosesenteret the three areas – business ethics, including the environment and the work environment (Peab's result 83/100), reliability (83/100) and quality in products and services (82/100) – continue to be prioritized and are areas where our customers expect a great deal of us.

Sustainability aspects

- Customer and supplier cooperation
- Responsibility in the supply chain
- Ethics and anti-corruption

For the GRI index and sustainability data see [peab.inpublix.com/2019](https://www.peab.inpublix.com/2019)

Demands for corporate social responsibility allow us to make a difference

One of the most rapidly increasing areas regarding customers’ demands in connection with procurements is CSR. These are primarily demands requiring that companies contribute to creating employment locally for youths, newly arrived immigrants or people who are physically impaired in connection with doing the procured work. These demands go together well with how we already work to facilitate integration and contribute to education and the employment of young people. The best situation is when we become part of project early on and can plan together with our customers, for example through partnering. In order to meet the social requirements in a procurement to an even higher degree the concept Peab Life, see the section Social for more details, was created in 2019.

Quality-ensured supplier chain through monitoring and dialogue

The Group’s four business areas are dependent on a large number of suppliers and subcontractors. Peab’s purchases make up more than 70 percent of net sales and involve more than 40,000 suppliers. This makes the work to guarantee a sustainable supply chain critical to safe business. In recent years Peab has taken long strides in the work to form quality-ensured purchasing. A key factor in this work is ensuring our supply chain which holds some of our biggest risks but also an enormous potential for development.

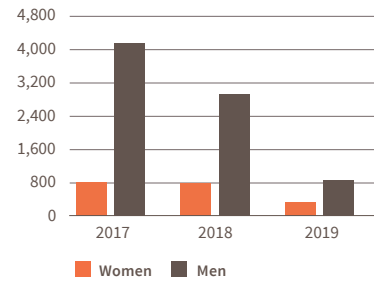
Peab makes the same high demands on our business partners as we put on ourselves, for example, demanding and making sure that we ourselves and those we work with maintain human rights in areas like child labor, forced labor and the right to organize. The Code of Conduct must be followed at all our own workplaces but it is also always included in written contracts with suppliers as well, which means a signed contract is an obligation to follow our Code of Conduct. Peab is also a forerunner and began following the agreement in The Confederation of Swedish Enterprise of 30 day payments to all our suppliers a long time ago. This is an important part of responsible purchasing for us.

All the suppliers in Peab’s supplier register go through a daily systematic check against predefined parameters. These parameters look at financial status and the risk of irregularities but they also check that the supplier has met social obligations like paying taxes and general payroll tax, and follows approved labor law conditions, e.g. SC2015. The result can then be found in the Group supplier register. This support will be broadened to comprise relevant parameters for our subcontractors’ supply chain. During 2019 Peab made it possible to see 66 (67) percent of purchases in the business area Construction via a system support that includes the Code of Conduct, according to the information above. In 2020 the work to implement system support in the entire Group will continue. Peab’s long-term goal is to be able to screen suppliers based on social and environmental criteria. However, this is a complex process that will take time to put in place.

In 2019 we developed a Group method for systematically reviewing suppliers through both self-assessment and onsite reviews. Peab trained internal reviewers and review teams were created based on supplier categories and areas of expertise. Suppliers were prioritized according to defined criteria that included, for example, the level of risk and purchasing volumes. All the reviews are founded on mutual development and learning dialogue. This is Peab’s approach whether or not we are doing the reviewing or being reviewed ourselves. The main purpose is to build, by working together, lasting partnerships in which the customer and supplier both care about quality, ethics and safety and promote sustainable innovation in methods and products. In 2019 we conducted nine supplier reviews.

Number of employees trained in ethics

Number of employees divided into gender



E-education in ethics, equal treatment training and To Lead Peab are included in the statistics for ethics education.



In 2019 a Group method for supplier reviews was developed: internal reviewers were trained and a review team was formed.

Steering purchasing reduces risks and ensures sustainable work methods

During 2018-2019 Peab has driven intensive internal development of steering purchasing to ensure cost-efficiency and sustainable work methods. Segmentation has been a key factor and consists of three levels; Approved, Checked or Rejected. Every month around a thousand receiver-customized auto-generated reports are produced for respective employees responsible for business deals that show any deviations and monitor purchasing behavior. The purpose is to develop our collaboration with the suppliers that create the most value and monitor the supplier categories with a potential risk.

Ethics and anti-corruption affect everyone

One of Peab's most prioritized areas is our work against corruption. We have zero tolerance to serious ethical violations in the Group and we are committed to the work conducted in the industry to fight corruption. Peab is a partner in the Joint Initiative Against Bribes and Corruption (JIABC) which works to jointly counteract bribes and corruption in the publicly funded construction and real estate sector, and we are also represented on the board of the Community Builder Sector's Ethical Council. Peab's work with ethical issues and against corruption is long-range, systematic and includes all our employees. We have strict consequences but we also work with education and tools. For example, all employees responsible for business deals are required to take a course through e-education in ethics and anti-corruption as well as competition law and as a supplement we have produced e-education for employees without this responsibility. In 2019 1,208 (3,689) employees were trained in ethics and/or anti-corruption.

Peab's Ethical Council ensures that incidents in the Group such as infringement of laws and the Code of Conduct receive the same consequences, regardless of context or position.

Anyone can blow the whistle

Transparency and openness are the watchwords for Peab's development of the business and work climate. Employees have an important role in reporting any law infringements or serious irregularities. We prefer open reporting but this is complemented by an external web-based whistleblower system that guarantees the anonymity of the reporter. The whistleblower system is accessible to external reporters as well. Read more about our whistleblower function on page 22.

Events during the year

During 2019, according to GRI 2015 Anti-corruption, (0) 0 incidents of anti-competitive activities, breaches of the competition law or monopolistic behavior leading to legal action were discovered. In 2019 Peab discovered 1 (2) case of suspected corruption and 4 (6) internal incidents of suspected financial irregularities. The responsible manager handled the incidents with support from members of the Ethical Council. All of these incidents led to labor law measures.

A sustainable industry grows through cooperation

As a community builder it is a given for Peab to contribute to developing social conditions in a sound, safe and attractive construction and civil engineering industry through cooperation. In 2019 we continued to engage in the industry's work on diversity, in the industry's safety training park, the work with entry controls and a more secure ID06, a collaborative project for a more attractive and inclusive vocational training program and the work for healthy competition and explicit rules for all players. We always prioritize collaboration and look forward to sharing our experience and learning from others in 2020.



“Air out the fear of tough issues”

A discussion on corruption in the real estate and community building sectors was held at Business Arena in Stockholm. Peab's company lawyer, Karin Malmgren, spoke for the construction industry, which gave her the opportunity to present Peab's goal oriented work over 15 years to raise awareness on every level about our regulations, values and our moral compass, the Code of Conduct.

“The industry has suffered from a cult of silence but that was before. You have to communicate and air out the old fear of tough issues. Corruption drags down development. How can the industry recruit the right people if we don't do our business the right way?” asks Karin Malmgren.

Board of Directors' Report

The Board of Directors and the Chief Executive Officer of Peab AB (publ), Corporate ID Number: 556061-4330, hereby submit the following annual report and consolidated accounts for the 2019 financial year.

NET SALES

Group net sales for 2019 amounted to SEK 54,008 million (52,233), which was an increase of three percent. Even after adjustments for acquired and divested units net sales increased by three percent.

Net sales in business area Construction grew by four percent and the increase was related to all three countries. Net sales includes a greater portion of other building construction. In business area Civil Engineering net sales decreased with three percent. Net sales grew in Local market but fell in Operation and maintenance and Infrastructure, which had several major projects in full production during 2018. Net sales in business area Industry were relatively unchanged. Net sales grew in all the product areas except Construction System where net sales were lower. In business area Project Development net sales decreased slightly which is attributable to Housing Development.

Of the year's net sales SEK 9,888 million (10,297) were attributable to sales and production outside Sweden.

PROFIT/LOSS

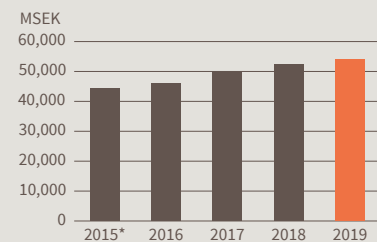
Operating profit for 2019 was SEK 2,568 million (2,573) and the operating margin was 4.8 percent (4.9). The operating profit was affected positively by SEK 23 million through additional IFRS 16, Leases during the year.

The operating margin in business area Construction was 2.4 percent which was unchanged compared to 2018. Business area Civil Engineering reported lower earnings in 2019 and the operating margin was 2.8 percent (3.0). The level of profitability in Operation and maintenance was lower than in previous years. The operating margin in business area Industry was 7.0 percent (7.4). The lower operating margin in part stems from higher costs in Rentals as a result of supplementary establishments to increase local presence that do not yet generate their full potential income. In addition, the business area has been charged by acquisition costs of SEK 40 million for YIT's paving and mineral aggregates operations in the third quarter and the acquisition of the remaining 40 percent of the shares in AB Smidmek Eslöv for SEK 47 million in the fourth quarter. The operating margin in business area Project Development improved to 12.4 percent compared to 10.0 percent last year. There was a slight increase in operating profit in Housing Development during the year where the somewhat lower operating profit in Sweden was countered by several projects that were turned over in Norway and Finland. The operating margin in Housing Development was 9.4 percent (8.7). In Property Development Peab's partially owned company Acturum divested a number of properties in the second quarter. The divestitures had a positive effect of SEK 170 million in profit contributions from partially owned companies. Apart from this no major property transactions have taken place during the year.

Eliminations and reversal of internal profit in our own projects have affected operating profit net by SEK -142 million (0). As a result of more construction on property on our own balance sheet including housing projects in Norway and Finland, apartments for rent in Sweden, Peab's own offices as well as other commercial property, a higher level of profit has been eliminated than in previous years. Elimination is reversed in connection with the external divestment of a project.

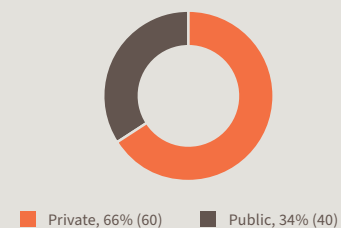


Net sales

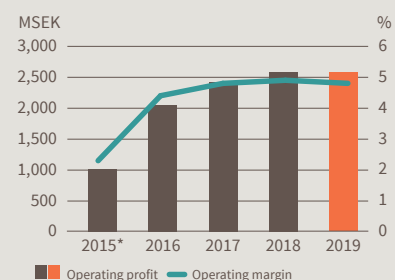


* Not recalculated taking IFRS 15 into account

Net sales per customer type, 2019



Operating profit and margin



* Not recalculated taking IFRS 15 into account

Depreciation and write-downs for the year were SEK -1,260 million (-1,024). Depreciation was affected by SEK -166 million through additional IFRS 16, Leases during the year.

Net financial items amounted to SEK -58 million (-55), of which net interest amounted to SEK -99 million (-48). Net interest was affected by SEK -27 million through additional IFRS 16, Leases during the year. Net financial items included positive effects from, among other things, dividends and activated interest rates.

Pre-tax profit was SEK 2,510 million (2,518). Tax for the year amounted to SEK -418 million (-418), which corresponds to 17 percent (17) in tax.

Profit for the year was SEK 2,092 million (2,100).

FINANCIAL POSITION

IFRS 16 LEASES

IFRS 16, Leases replaced IAS 17, Leases as of January 1, 2019. When changing over Peab chose the changeover method in which comparable periods are not recalculated. Additional leases primarily comprise office and premise rents, leaseholds, land rentals and vehicles. Total assets and net debt were affected at changeover on January 1, 2019 by SEK 850 million. IFRS 16, Leases is also applied in segment reporting. For further information see note 2.

FINANCIAL POSITION

The equity/assets ratio on December 31, 2019 was 31.7 percent compared to 30.4 percent at previous year-end. Excluding additional IFRS 16, Leases the equity/asset ratio on December 31, 2019 was 32.3 percent. Interest-bearing net debt amounted to SEK 7,507 million compared to SEK 3,551 million at the end of 2018. Excluding additional IFRS 16, Leases net debt on December 31, 2019 was SEK 6,743 million. The increase in net debt is explained by more construction on property on our own balance sheet and joint ventures, our own developed housing projects in Norway and Finland and investments in Industry. The average interest rate in the loan portfolio, including derivatives but excluding additional IFRS 16, Leases was 1.5 percent (1.4) on December 31, 2019.

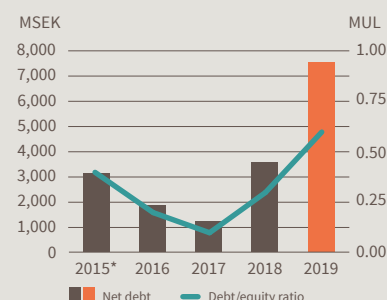
Group liquid funds, including unutilized credit facilities, were SEK 5,013 million at the end of the year compared to SEK 5,846 million on December 31, 2018.

At the end of the year Group contingent liabilities, including joint and several liabilities in trading and limited partnerships, amounted to SEK 9,217 million compared to SEK 10,404 million on December 31, 2018. Of contingent liabilities surety given for credit lines for tenant-owned housing associations under production was SEK 6,207 million compared to SEK 7,580 million on December 31, 2018.

Net debt

| MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---|--------------|--------------|
| Bank loans | 4,160 | 3,383 |
| Commercial papers | 1,359 | 730 |
| Bonds | 2,248 | 2,248 |
| Financial leasing liabilities | 579 | 593 |
| Additional leasing liabilities according to IFRS 16 | 764 | - |
| Other interest-bearing liabilities | 0 | 58 |
| Interest-bearing receivables | -1,230 | -2,085 |
| Liquid funds | -373 | -1,376 |
| Net debt | 7,507 | 3,551 |

Net debt and debt/equity ratio



* Not recalculated taking IFRS 15 into account



INVESTMENTS AND DIVESTMENTS

During 2019 SEK 1,676 million (1,021) was net invested in tangible and intangible fixed assets and investment property and consisted like last year primarily of office building construction and investments in machinery. During the fourth quarter 2018 the property Ångkraftverket 2 in Västerås, containing a hotel and Kokpunkten Actionbad, was divested for around SEK 800 million.

Net investments in project and investment properties totaled SEK 1,549 million (2,103) during 2019. Most of the investments refer to ongoing housing projects in Finland and Norway and our own developed rental projects in Project Development in Sweden.

CASH FLOW

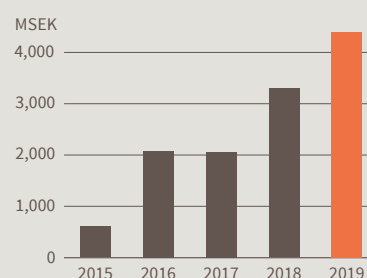
Cash flow from current operations was SEK 52 million (-250), of which cash flow from changes in working capital was SEK -3,100 million (-2,944). The change in working capital included, among other things, investments in project and development property, construction of own housing projects in Finland and Norway and our own rental projects in Sweden as well as lower operating debt.

Cash flow from investment activities was SEK -603 million (-771) and like last year is primarily explained by investments in machines and in operation properties. The amount also included sales of assets of SEK 1,181 million (1,327), which among others, included sales of investment properties and machines as well as repayment of loans from partly owned companies. Last year included, among others, the divestiture of the property Ångkraftverket 2 in Västerås, containing a hotel and Kokpunkten Actionbad, for around SEK 800 million.

Cash flow before financing amounted to SEK -551 million (-1,021).

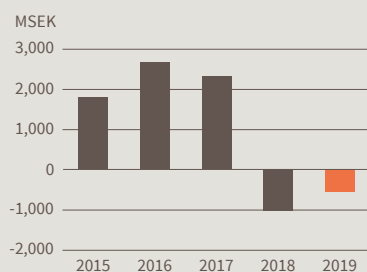
Cash flow from financing operations amounted to SEK -462 million (1,770), of which SEK -1,239 million (-1,180) consisted of paid dividends and changes in loans was SEK 776 million (2,950).

Net investments ¹⁾



¹⁾ Including project and development properties, shares and participations.

Cash flow before financing



ORDER SITUATION

Orders received for 2019 amounted to SEK 44,130 million compared to SEK 51,087 million for the last year. The level of orders received in business areas Construction, Civil Engineering and Project Development contracted. Orders received in the comparable year included the office project Platinan in Gothenburg for Vasakronan worth SEK 2,100 million in business area Construction and in business area Civil Engineering the extension of the West Sweden railroad system Olskroken in Gothenburg for the Swedish Transport Administration worth SEK 2,900 million, both with long production times.

Considering the high level of orders at the end of 2018 that contained several major projects, orders received during the year have been more along the lines of mid-sized or smaller projects. The level increased in business area Industry, primarily due to Asphalt. Orders received for the Group in the year are well spread geographically and there is good product diversity.

Order backlog yet to be produced at the end of the year was SEK 42,494 million compared to SEK 45,819 million at the end of the last year. Swedish operations accounted for 80 percent (84) of the order backlog.

BUSINESS AREA AND GROUP FUNCTION REPORTING

Peab is characterized by a decentralized and cost-efficient organization with four complementary business areas whose operations are based on local entrepreneurship close to the customer. Peab's business model with four collaborating business areas, Construction, Civil Engineering, Industry and Project Development, creates opportunities throughout the value chain in a construction project. The business areas are also operating segments.

Recognition of internal projects between business areas Construction and Project Development

Business area Construction recognize net sales and profit/loss referring to the construction contract part of our own housing developments, rental project developments and other property development projects for business area Project Development. Recognition takes place over time as the projects are completed. Business area Project Development reports net sales for both contract construction and the developer part of our own housing projects. The reported profit/loss consists of the profit/loss in the developer part recognized over time.

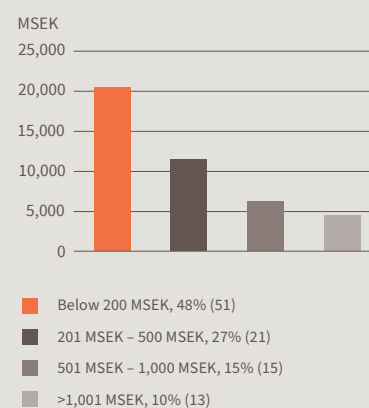
Orders received

| MSEK | 2019 | 2018 | 2017 |
|---------------------|---------------|---------------|---------------|
| Construction | 26,155 | 31,007 | 29,280 |
| Civil Engineering | 13,108 | 16,349 | 14,191 |
| Industry | 6,174 | 5,111 | 5,152 |
| Project Development | 6,164 | 6,681 | 8,496 |
| Eliminations | -7,471 | -8,061 | -8,120 |
| Group | 44,130 | 51,087 | 48,999 |

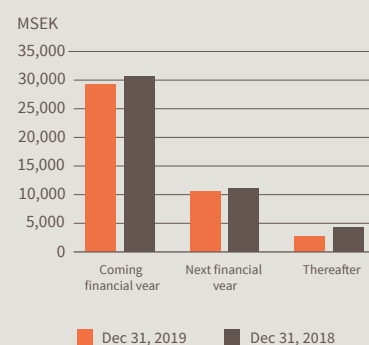
Order backlog

| MSEK | Dec 31, 2019 | Dec 31, 2018 | Dec 31, 2017 |
|---------------------|---------------|---------------|---------------|
| Construction | 26,928 | 29,776 | 26,805 |
| Civil Engineering | 13,446 | 13,620 | 10,832 |
| Industry | 2,548 | 2,246 | 2,533 |
| Project Development | 5,027 | 7,134 | 8,198 |
| Eliminations | -5,455 | -6,957 | -8,163 |
| Group | 42,494 | 45,819 | 40,205 |

Project allocation of order backlog, December 31, 2019



Order backlog allocated over time



Major investments and developments are underway in the Sälen Mountains. The Scandian Mountains Airport was completed in 2019, the first airport built in Sweden in 20 years. During the year Peab signed a contract to build The SkiStar Lodge Hundfjället, a hotel with 157 apartments, a garage, restaurant and ski rental close to the slopes at Hundfjället, Sälen.

Recognition of property projects on our own balance sheet

The underlying sales value of property projects on our own balance sheet, recognized as project and development property, that are sold in the form of a company via shares, is recognized as net sales and the book value on the balance sheet is recognized as an expense. When property projects recognized as operations property or investment property are divested the net effect on profit/loss is recognized as other operating income or other operating cost. Recognition takes place at one point in time.

Group functions

In addition to the business areas, central companies, certain subsidiaries and other holdings are presented as Group functions. The central companies primarily consist of the parent company Peab AB, Peab Finans AB and Peab Support (Shared Service Center). Peab AB's operations consist of executive management and shared Group functions. The internal bank, Peab Finans AB, handles the Group's liquidity and debt management as well as financial risk exposure. The company is also a service function for the subsidiaries and works out solutions for loans and investments, project-related financing and hedging. Peab Support delivers services within the process-oriented personnel and systems intensive operational areas Accounting, Payroll/Systems and IT to all Group entities.

Operating profit for the year for Group functions was SEK -275 million (-274).
Read more about Peab's business areas on pages 42-53.

Net sales and operating profit per business area

| MSEK | Net sales | | | Operating profit | | | Operating margin | | |
|--------------------------------------|---------------|---------------|---------------|------------------|--------------|--------------|------------------|-------------|-------------|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Construction | 29,416 | 28,340 | 26,726 | 713 | 670 | 602 | 2.4% | 2.4% | 2.3% |
| Civil Engineering | 13,339 | 13,745 | 11,825 | 368 | 415 | 374 | 2.8% | 3.0% | 3.2% |
| Industry | 13,339 | 13,284 | 12,761 | 938 | 977 | 867 | 7.0% | 7.4% | 6.8% |
| Project Development | 7,784 | 7,844 | 8,343 | 966 | 785 | 804 | 12.4% | 10.0% | 9.6% |
| <i>of which Property Development</i> | 786 | 738 | 1,013 | 305 | 170 | 98 | 38.8% | 23.0% | 9.7% |
| <i>of which Housing Development</i> | 6,998 | 7,106 | 7,330 | 661 | 615 | 706 | 9.4% | 8.7% | 9.6% |
| Group functions | 1,176 | 1,043 | 993 | -275 | -274 | -228 | | | |
| Eliminations | -11,046 | -12,023 | -10,667 | -142 | 0 | -1 | | | |
| Group | 54,008 | 52,233 | 49,981 | 2,568 | 2,573 | 2,418 | 4.8% | 4.9% | 4.8% |

Number of employees per business area at year-end

| | Dec 31, 2019 | | Dec 31, 2018 | | Dec 31, 2017 | |
|---------------------|---------------|-------------|---------------|-------------|---------------|-------------|
| Construction | 6,299 | 44% | 6,631 | 45% | 6,685 | 47% |
| Civil Engineering | 3,511 | 25% | 3,580 | 24% | 3,344 | 23% |
| Industry | 3,482 | 24% | 3,484 | 24% | 3,452 | 24% |
| Project Development | 343 | 2% | 379 | 3% | 361 | 3% |
| Group functions | 623 | 5% | 540 | 4% | 502 | 3% |
| Group | 14,258 | 100% | 14,614 | 100% | 14,344 | 100% |



PEAB CENTER SOLNA
Solna

BUSINESS AREA CONSTRUCTION

Increased demand for sustainable construction

Key ratios

| | 2019 | 2018 | 2017 |
|------------------------------------|--------|--------|--------|
| Net sales, MSEK | 29,416 | 28,340 | 26,726 |
| Operating profit, MSEK | 713 | 670 | 602 |
| Operating margin, % | 2.4 | 2.4 | 2.3 |
| Orders received, MSEK | 26,155 | 31,007 | 29,280 |
| Order backlog on 31 December, MSEK | 26,928 | 29,776 | 26,805 |
| Number of employees on 31 December | 6,299 | 6,631 | 6,685 |

With local roots close to customers business area Construction performs construction work for both external and internal customers. Construction projects include everything from new production of housing, public and commercial premises to renovations and extensions as well as construction maintenance.

Operations in business area Construction are run via some 150 local offices around the Nordic area, organized in eleven regions in Sweden, three in Norway and two in Finland. There are three specialized housing production regions in Stockholm, Gothenburg and the Öresund region. Construction maintenance operations are run in a nationwide region in Sweden primarily focused on the big city areas. Other regions are responsible for all types of construction projects in their geographic area.

THE BUSINESS 2019

Housing construction in Sweden continued to contract in 2019 while other building construction increased. A clear, pervading trend in construction projects is that more and more customers want buildings to be environment and climate certified.

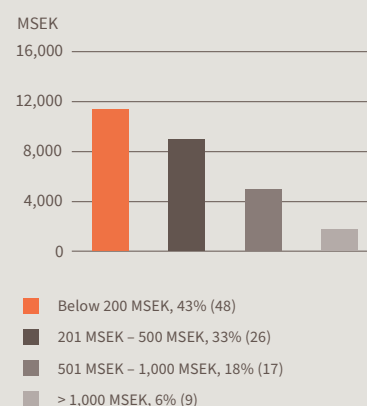
Peab is one of Sweden's largest housing construction companies and homes represent a substantial part of net sales in the business area. One example among all the housing projects underway during the year is the construction of 163 energy efficient apartments for rent for Enköpingsbostäder. The apartments will be Swan ecolabeled and the goal is that energy consumption in the building will amount to a maximum of 45 kWh/m² per year.

Several office buildings all over Sweden have been under construction in 2019. The Point at Hyllie station in Malmö was completed at the end of 2019 and is with its 110 meters is the highest office building in the Öresund region. Peab's ambition is to certify The Point according to Miljöbyggnad Gold. The office building Gårda Vesta will be Gothenburg's highest when it is ready in the summer of 2021. This building will be certified according to BREEAM and the American standard Well Building. Peab is also building the big office block Platinan for Vasakronan according to LEED certification with the goal of achieving the highest level, Platinum. Platinan is expected to be ready in the summer of 2022.

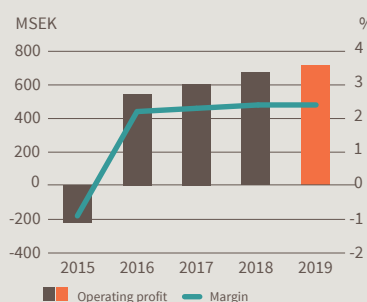
Peab has had three of its own office buildings under construction in 2019. Peab Center Stockholm in Ulriksdal opened in November. Energy consumption is half of BBR's (Boverket's building regulations) requirements and the building is planned for BREEAM certification, level Very Good. Peab Center Malmö was completed in the beginning of 2020 with occupation planned for March 2020.



Project allocation of order backlog, 31 Dec 2019



Operating profit and margin



The building was constructed according to Miljöbyggnad Silver. Construction of another Peab office building according to Miljöbyggnad Silver began in Helsingborg in 2019.

The need for new public buildings continues to be considerable. Peab is building a service building for Malmö Hospital and in Borås we continue to work on the renovation, extension and new construction of the psychiatric ward, infection ward and laboratory at Södra Älvsborg Hospital. New psychiatric offices are being built in Kalmar for Region Kalmar County. In December 2019 Peab finished building an elementary school in Vårgårda, the first project that was completed under the business area's Nordic Swan Ecolabel licence.

During the year we started on the renovation and extension of the Members of Parliament Building in the middle of Stockholm. The total renovation of Medborgarhuset in Södermalm is progressing and it is expected to open its doors to the public in the spring of 2020. A nationwide blanket contract was signed with federal Special Properties covering major construction projects worth more than SEK 100 million. Construction Service, which received three new national customers; Skandia Fastigheter, Moderna Försäkringar and the Swedish Courts, is an important component in the business area's aftermarket offer.

The Norwegian economy continued to be strong with a stable demand for housing and public premises. In Tønsberg in southeast Norway Peab was commissioned by Selvaag Bolig to build 64 homes with parking and commercial space. During the year Peab completed the new construction of Tromsøbadet in Nordnorge. The ongoing project Skir, also in Tromsø, contains 180 homes and will be ready at the end of 2021. The renovation and extension of Eikeli High School in Bærum near Oslo was launched in 2019. The building is going to be a certified BREEAM Excellent building and a Plus-Energy Building with innovative energy storage. This means the school will produce more electricity than it uses. The project will be carried out as a fossil-free construction site. In Oslo the work continues on our own developed apartments going up on Carl Berner Torg. In the autumn of 2020 there will be 111 homes ready for occupation. This is the first Peab project with a completely digitalized construction site and it will be certified BREEAM Very Good.

Peab is represented in most of the larger towns in Finland and construction operations have grown during the year. Housing production has not changed compared to previous years while other building construction has increased. In Helsinki our own developed office building Ultimes Business Garden II with 7,600 m² rentable office space was completed. Our own housing development project Goldfinger with 109 apartments in Helsinki will be completed in the beginning of 2020. In Helsinki the housing projects Golden Eye with 82 homes and Sumppari with 128 homes were launched during the year. Peab was commissioned to build another hospital for the real estate company Seinäjoen Terveysteknologiakeskus, in Seinäjoki. The project is expected to be completed in 2021.

NET SALES AND PROFIT

Net sales for 2019 increased by four percent and amounted to SEK 29,416 million (28,340). The increase is spread over all the three countries. There continues to be a greater portion of other building construction for both private and public customers in net sales.

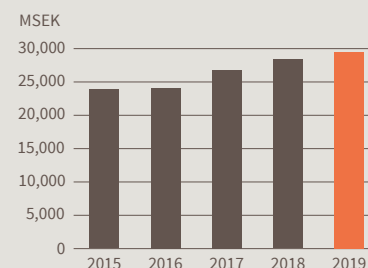
Operating profit for 2019 amounted to SEK 713 million (670) and the operating margin was 2.4 percent (2.4).

ORDERS RECEIVED AND ORDER BACKLOG

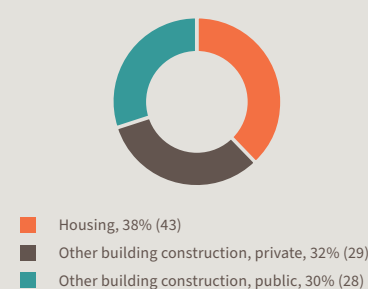
Orders received decreased in 2019 to SEK 26,155 million (31,007). Included in the comparable year is the office project Platinan in Gothenburg for Vasakronan worth SEK 2,100 million, which has a long production time. Orders received are relatively well diversified in terms of products and geography.

Order backlog 31 December 2019 was SEK 26,928 million compared to SEK 29,776 million at the end of December 2018.

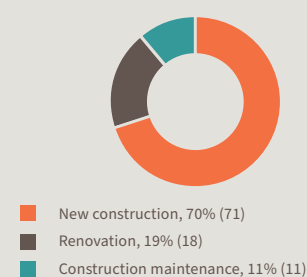
Net sales



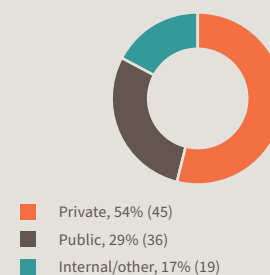
Per product area, 2019



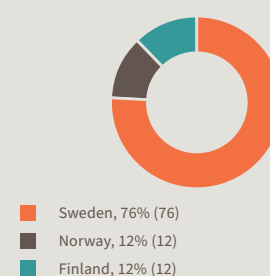
Per type of operation, 2019



Per customer type, 2019



Per geographic market, 2019



BUSINESS AREA CIVIL ENGINEERING

Fierce need for infrastructure creates good civil engineering market

Key ratios

| | 2019 | 2018 | 2017 |
|------------------------------------|--------|--------|--------|
| Net sales, MSEK | 13,339 | 13,745 | 11,825 |
| Operating profit, MSEK | 368 | 415 | 374 |
| Operating margin, % | 2.8 | 3.0 | 3.2 |
| Orders received, MSEK | 13,108 | 16,349 | 14,191 |
| Order backlog on 31 December, MSEK | 13,446 | 13,620 | 10,832 |
| Number of employees on 31 December | 3,511 | 3,580 | 3,344 |

Business area Civil Engineering is a leading actor in Sweden with operations in Norway and Finland as well. The business area works with landscaping and pipelines, builds and maintains roads, railroads, bridges and other infrastructure as well as foundation work. Operations are organized in geographic regions and the specialized product areas: Local market, Infrastructure and heavy construction and Operation and maintenance.

Local market works with landscaping and pipelines, foundation work and builds different kinds of facilities. Infrastructure and heavy construction builds roads, railroads, bridges, tunnels and ports. Operation and maintenance handles national and municipal highways and street networks, tends parks and outdoor property as well as operates water and sewage supply networks. The business area collaborates extensively over regional and country borders for joint development and experience exchanges, project management and to create scale advantages in larger and more complex projects.

THE BUSINESS 2019

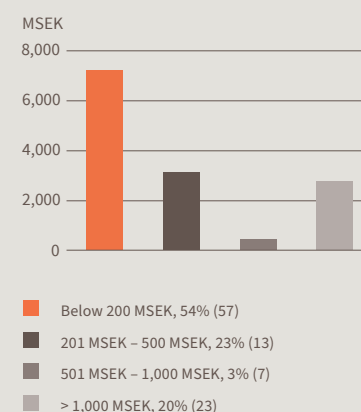
The market in Sweden and Norway developed well in both infrastructure and the local market during the year. The level of orders received has been good in the business area and filled order backlog with many projects that have a well balanced risk profile.

Right now the largest project in Civil Engineering's history, Olskroken, is underway in Gothenburg. It is one of the most important junctions in the West Sweden rail-road system. Rebuilding it with railway track overpasses was necessary to increase passability and operational safety for all train traffic to and from Gothenburg. The contract for the second stage was signed with the Swedish Transport Administration in May 2018 and will run until 2025. Two milestones for the project were successfully completed in 2019. In May four bridges were lifted into place over the western trunk line and Gamlestadsvägen. The heaviest bridge weighed around 100 tons. In November new tracks and switches were connected to part of the railroad.

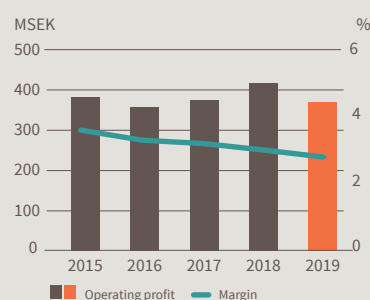
Several new projects were received in Local market, among them two for SCA – an extension of the sawmill in Bollstabruk and an extension of the paper mill in Obbola in Umeå Municipality. Peab is doing landscaping and groundwork for a new heating plant in Uppsala for Vattenfall AB. When the plant opens it will be able to provide



Project allocation of order backlog, 31 Dec 2019



Operating profit and margin



Uppsala residents with fossil free heating. The project, which also includes connecting roads, is expected to be completed in the spring of 2020. In June Peab was commissioned by the City of Stockholm to build new infrastructure around the block Tora in the Bromsten industrial area in Spånga. The project includes water and sewage pipelines, road bridges, pedestrian bridges, streets, green areas and parks.

During the year Civil Engineering received two new contracts for operation and maintenance of public roads for the Swedish Transport Administration in Kalmar and Uppsala for a cumulative order worth of SEK 393 million. The contracts are spread over four years with an option for an extension of one to two years.

Scandinavian Mountains Airport, which is Sälen's new airport, opened in December. Civil Engineering has built, among other things, the runways, standing surfaces and service areas as well as a terminal with connected garage and infrastructure.

In Norway Peab is building a new flyover on E6 in Moelv, between Hamar and Lillehammer. The new interchange is part of the extension of highway E6 between Kolomoen and Moelv. The project entails building around 1.1 km of new highway including on and off ramps, a 70 meter long highway bridge as well as two roundabouts and commuter parking.

Greater focus on the work environment, quality and the environment

During the year Norwegian operations were certified for quality according to ISO 9001:2015 and work is progressing towards environmental certification according to ISO 14001:2015 and work environment certification according to ISO 45001:2018. The operations in Sweden are expected to be certified for the work environment in the spring of 2020. Sweden is already certified for quality and the environment.

In order to make it easier for our customers to make climate smart product choices Civil Engineering now offers ECO-Betong™ and ECO-Asfalt® which business area Industry has developed. For example, ECO-Betong™ is being used in the Olskroken project. Read more in the section Environment on pages 28-32.

NET SALES AND PROFIT

Net sales contracted by three percent during 2019 and amounted to SEK 13,339 million (13,745). Even after adjustments for acquired units net sales decreased by three percent. Local market had slightly higher net sales, while Operation and maintenance and Infrastructure had lower net sales. In 2018 more projects in Infrastructure were in full production.

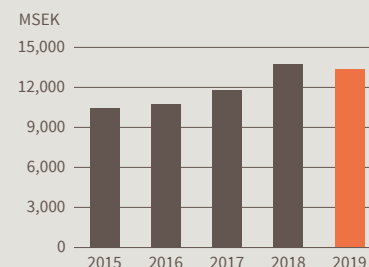
Operating profit for the year contracted to SEK 368 million (415) and the operating margin was 2.8 percent (3.0). The level of profitability in Operation and maintenance was lower compared to previous years.

ORDERS RECEIVED AND ORDER BACKLOG

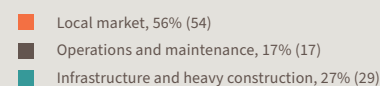
Orders received during 2019 amounted to SEK 13,108 million (16,349). Orders received in the comparable year included the extension of the West Sweden rail-road system Olskroken in Gothenburg for the Swedish Transport Administration worth SEK 2,900 million, which has a long production time.

Order backlog on December 31, 2019 amounted to SEK 13,446 million (13,620).

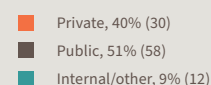
Net sales



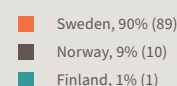
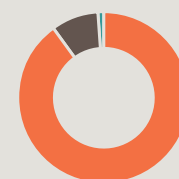
Per product area, 2019



Per customer type, 2019



Per geographic market, 2019



BUSINESS AREA INDUSTRY

Continued growth and focus on sustainability

Key ratios

| | 2019 | 2018 | 2017 |
|---|--------|--------|--------|
| Net sales, MSEK | 13,339 | 13,284 | 12,761 |
| Operating profit, MSEK | 938 | 977 | 867 |
| Operating margin, % | 7.0 | 7.4 | 6.8 |
| Orders received, MSEK | 6,174 | 5,111 | 5,152 |
| Order backlog on 31 December, MSEK | 2,548 | 2,246 | 2,533 |
| Capital employed on 31 December, MSEK | 6,897 | 6,432 | 5,781 |
| Number of employees on 31 December | 3,482 | 3,484 | 3,452 |
| Concrete, thousands of m ³ ¹⁾ | 1,344 | 1,294 | 1,221 |
| Asphalt, thousands of tons ¹⁾ | 2,718 | 2,706 | 2,619 |
| Gravel and Rock, thousands of tons ¹⁾ | 15,755 | 14,681 | 14,799 |

¹⁾ Refers to sold volume

Business area Industry is a complete supplier of the products and services needed to carry out a sustainable and cost-efficient construction and civil engineering project on the Nordic market. Industry offers everything from gravel and rock material, concrete, asphalt and temporary electricity to prefabricated concrete elements. Business area Industry also assists with crane and machine rental, distribution of binder to the concrete industry, transportation as well as recycles production waste and rubble.

Through good organic growth supplemented by strategic acquisitions business area Industry has built up strong brands that complement the Peab brand. Among these are Lambertsson, Swerock, Clifton, Swecem, Skandinaviska Byggelement, Glacell, Rådasand, Utform, ATS Kraftservice, Lättklinkerbetong, Smidmek, Virtanen and Kranor.

With local roots the companies take on jobs big and small. The business area is run in six product areas: Asphalt, Concrete, Gravel and Rock, Transportation and Machines, Rentals and Construction System.

THE BUSINESS 2019

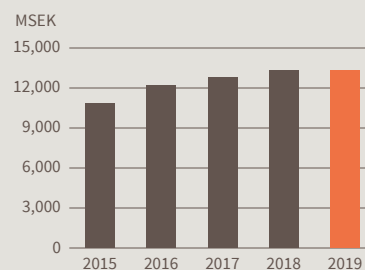
The Nordic construction and civil engineering market has been highly active during the year. In the summer Peab announced its intention to acquire YIT's Nordic paving and mineral aggregates business. Through the acquisition Peab will expand its presence in Sweden, Norway and Finland and become established in the paving business in Denmark. The business has around 1,700 employees, 200 strategically placed quarries and 63 asphalt plants in the Nordic region. This also creates opportunities for further expansion and development of Recycling and Concrete. The transaction was conditional on approval from competition authorities as well as the fulfillment of certain contractual conditions. At the end of March the acquisition was approved by the competition authorities and it was finalized on April 1, 2020.

Continued offensive development in Peab Asphalt

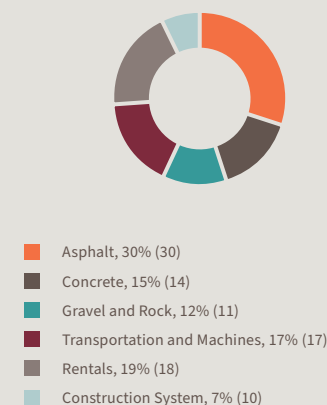
During the year Peab Asphalt has reached new record volumes. Its market position continues to be strong with a growing number of contracts from municipalities and business with the Swedish Transport Administration and Swedavia has remained the same. On April 1 the remaining shares in the milling operations that were previously run in Peab's partially owned company Svenska Fräs och Asfaltsåtervinning AB (SFA) were acquired. Incorporating another niche area strengthens and broadens asphalt operations.



Net sales



Per product area, 2019



The concept ECO-Asfalt® which was launched in 2015 is well established. The product is being further developed by mixing in more recycled asphalt, which has a positive effect on environmental goals in both climate and material efficiency. Read more about ECO-Asfalt® in the section Environment.

Swerock invests in climate-improved ECO-Betong™

Concrete production has been intense during the year. To a certain extent there has been a shift from housing to civil engineering projects in the big city regions. Investments were made in a concrete factory in Ylöjärvi, Finland and in one in Önnestad, Sweden as well as in Sweden's largest concrete boom pump with a mast length of 63 meters. In 2019 Swerock launched ECO-Betong™, a climate-improved concrete where a part of the cement is replaced with slag, a byproduct in steel manufacturing. Peab collaborates with SSAB and has invested in our own manufacturing in a new factory in Oxelösund. The investment, which received funds from The Swedish Environmental Protection Agency, contributes to reducing carbon dioxide emissions from Swerock's concrete production by 50,000 tons annually. This is equal to more than half a million trips between Gothenburg and Stockholm by car.

Gravel and Rock continue to ensure access to raw material. The added value of establishing concrete factories, asphalt plants and recycling operations with access to gravel and rock material is considerable. Recycling operations, which create new, sustainable material by making use of residue products from construction and civil engineering sites, have been expanded during the year with a new C&D Recycling Wash Plant in Sundsvall.

Focus on sustainability and development in Construction System

Construction System concentrated operations in 2019 to fewer production units. New products within prefabricated light outer walls have been developed in Hallstahammar.

Smidmek, which delivers comprehensive solutions within frame, wrought iron and sheet metal structures as well as complete concrete frame products, has developed positively since the acquisition of 60 percent of the shares in 2017 and contributed vital expertise in this area. The remaining 40 percent of shares were acquired in the autumn of 2019.

Higher external demands on Rentals

Crane operations in Sweden (Lambertsson), Norway (Kranor) and Finland (Virtanen) developed well in 2019. In Sweden Lambertsson expanded operations with new depots in Sundsvall, Umeå, Luleå and Sälen. Investments in fossil free machines, so-called green machines, continues. The growing green range of products makes it easier for more users to make a sustainable choice.

NET SALES AND PROFIT

Net sales for 2019 amounted to SEK 13,339 million (13,284). Even adjusted for acquisitions and divestitures net sales were unchanged compared to last year. Net sales increased in all product areas except Construction System where net sales fell.

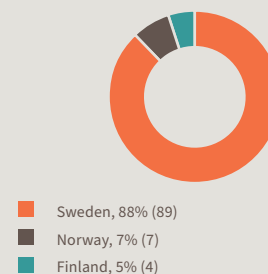
Operating profit for the year amounted to SEK 938 million (977) and the operating margin was 7.0 percent (7.4). The lower operating margin was due to higher costs in Rentals stemming from some supplemental establishments made to raise local presence that have not yet begun to generate their full revenue capacity. In addition, the business area has been charged in the third quarter with acquisition costs of SEK 40 million concerning YIT's paving and mineral aggregates operations and the acquisition of the remaining 40 percent of the shares in AB Smidmek Eslöv of SEK 47 million in the fourth quarter. The price of the remaining shares is based on the company's development and earning capacity. Since the development of the company has been better than expected the remaining shares have fetched a higher price, which had an effect on profit.

Capital employed in Industry was at the end of the year SEK 6,897 million compared to SEK 6,432 million at the end of last year. The increase is primarily attributable to investments in machinery. The effect of additional IFRS 16, Leases was SEK 98 million per December 31, 2019.

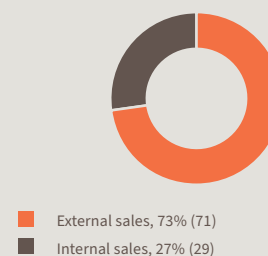
ORDERS RECEIVED AND ORDER BACKLOG

Orders received during 2019 amounted to SEK 6,174 million (5,111). The increase is primarily related to Asphalt. Order backlog on December 31, 2019 amounted to SEK 2,548 million (2,246).

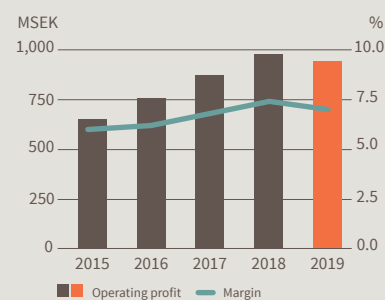
Net sales per geographic market, 2019



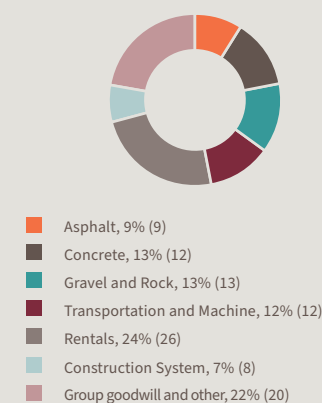
Share of net sales, 2019



Operating profit and margin



Capital employed per product area, 31 December 2019



BUSINESS AREA PROJECT DEVELOPMENT

Collaboration is the key to sustainable urban development

Key ratios

| | 2019 | 2018 | 2017 |
|---------------------------------------|--------|--------|-------|
| Net sales, MSEK | 7,784 | 7,844 | 8,343 |
| <i>of which Property Development</i> | 786 | 738 | 1,013 |
| <i>of which Housing Development</i> | 6,998 | 7,106 | 7,330 |
| Operating profit, MSEK | 966 | 785 | 804 |
| <i>of which Property Development</i> | 305 | 170 | 98 |
| <i>of which Housing Development</i> | 661 | 615 | 706 |
| Operating margin, % | 12.4 | 10.0 | 9.6 |
| <i>of which Property Development</i> | 38.8 | 23.0 | 9.7 |
| <i>of which Housing Development</i> | 9.4 | 8.7 | 9.6 |
| Capital employed on 31 December, MSEK | 15,964 | 12,984 | 9,986 |
| Orders received, MSEK | 6,164 | 6,681 | 8,496 |
| Order backlog on 31 December, MSEK | 5,027 | 7,134 | 8,198 |
| Number of employees on 31 December | 343 | 379 | 361 |

Project Development, which comprises Housing Development and Property Development, creates sustainable and vibrant urban environments with both residential and commercial property. The business area is responsible for the Group's property acquisitions and divestitures as well as project development which generates contract work for the other business areas. Project Development works through wholly owned projects or in collaboration with other partners in joint ventures.

Peab is one of the largest housing developers in Sweden and has a strong position on the market. Operations are spread throughout the country with a number of offices divided into four regions. In Finland Peab is represented in Helsinki and seven other large regional cities. In Norway operations are located in the Oslo area, Tromsø and Ålesund.

Property Development develops offices, premises and sometimes whole city districts in collaboration with municipalities and other partners. The business is primarily focused on the big city areas.

NET SALES AND PROFIT

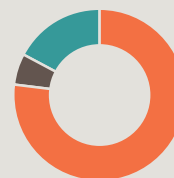
Net sales for 2019 in business area Project Development amounted to SEK 7,784 million (7,844) and operating profit was SEK 966 million (785). The reduction in net sales stems from Housing Development. In Property Development Peab's partially owned company Acturum divested a number of properties in the second quarter. The divestitures had a positive effect of SEK 170 million in profit contributions from partially owned companies.

Capital employed in Project Development at the end of the year amounted to SEK 15,964 million (12,984). The increase is due to investments in project and development properties, more ongoing housing projects in Norway and Finland, investments



Net sales

Per geographic market, 2019



- Sweden, 77% (76)
- Norway, 6% (6)
- Finland, 17% (18)

Capital employed

| MSEK | Dec 31, 2019 | Dec 31, 2018 | Dec 31, 2017 |
|--|---------------|---------------|--------------|
| Operations property | 1,332 | 915 | 1,036 |
| Investment property | 558 | 589 | 871 |
| Project and development property | 11,623 | 9,685 | 7,612 |
| <i>of which housing development rights</i> | 5,841 | 5,394 | 5,116 |
| <i>of which commercial development rights</i> | 556 | 656 | 627 |
| <i>of which ongoing housing projects in Norway and Finland</i> | 3,126 | 2,034 | 1,173 |
| <i>of which ongoing rental projects in Sweden</i> | 846 | 925 | 134 |
| <i>of which ongoing commercial projects</i> | 445 | 302 | 249 |
| <i>of which completed property</i> | 391 | 14 | 170 |
| <i>of which other</i> | 418 | 360 | 143 |
| Participation in joint ventures | 1,978 | 1,019 | 912 |
| Loans to joint ventures | 1,106 | 1,466 | 1,383 |
| Working capital and other | -633 | -690 | -1,828 |
| Total | 15,964 | 12,984 | 9,986 |

in rental projects as well as investments in operations properties in Property Development. The increase also included additional IFRS 16, Leases per December 31, 2019 of SEK 328 million.

HOUSING DEVELOPMENT

Peab's position on the Swedish market is strong. Our range of housing forms is broad; tenant-owned apartments, condominiums and apartments for rent as well as homeowner or tenant-owned single homes.

After the decline in the housing market in the Stockholm region in 2018 prices have stabilized in 2019 and sales on the succession market has accelerated. There are still a large number of newly produced tenant-owned homes on the market and the volume of new projects being started is relatively low. There are geographical variations in sales around Sweden and in demand among municipalities. For instance, demand in southern Sweden has been good while it has leveled out in the Gothenburg area. Demand in smaller places has been stable because of the widespread scarcity of housing in Sweden. In general, there has been an increase in demand from investors in newly produced apartments for rent in 2019.

Peab strives to be a forerunner in sustainable urban development which includes creating vibrant and safe neighborhoods with meeting places. All our new, own developed apartment buildings are certified according to the Swan ecolabel with Bra Miljöval (Good Environmental Choice) labelled electricity.

The development rights portfolio for the Swedish business is well spread over the country. Several major housing projects in Sweden are urban development projects where collaboration between a number of partners is an important success factor. In Lindholm's historical shipyard in Gothenburg, Peab is working closely with businesses and the City of Gothenburg to develop an attractive urban environment with a clear environmental profile. During the year the Swan ecolabeled apartment building project Brf Lindholmskajen was completed. At the same time Brf Lindholmsvarvet is under construction producing another 129 Swan ecolabeled apartments. More than 200 homes were completed in Partille in 2019, the first stage of around 800 homes in one of Sweden's largest housing projects, Partille Port. In Malmö sales of Brf Varvskajen, which will comprise 128 apartments in total, began in April 2019.

Price development in the Norwegian housing market was stable in 2019 although there are significant regional differences. The strongest growth in prices was in the Oslo region. Peab is advancing as an actor on the housing market in Norway and production of 350 apartments began in 2019. The largest project is in Lørenskog outside Oslo where Peab started up construction of 105 homes. All in all the project



Teleterrassen in Farsta comprises a total of 186 apartments. Construction on the project began in the second quarter 2019 and is divided into three stages. It is Swan ecolabeled and quality certified according to Trygg BRF. Occupation will begin in the third quarter 2021. Teleterrassen is centrally located close to both the center of Farsta and the subway. Demand for these homes has been very good.



Peab started sales of Brf Varvskajen containing 128 modern apartments with distinct interior designs produced for the area in April 2019. The apartments are strategically located in the middle of the city in the old shipyard area in central Malmö. Demand has been very high. The Varvskajen Block is Swan ecolabeled.



On Nadderudveien 1 in Bekkestua in Bærum, just outside Oslo, Peab is building 58 apartments and nine terraced houses. The residential area is directly connected to bus and train lines. The apartments are an average of 100 m² in size. Construction began in the first half of 2019 and is expected to be finished in the second quarter 2021.

Housing development rights

| Number, approx. | 31 Dec, 2019 | 31 Dec, 2018 | 31 Dec, 2017 |
|---|---------------|---------------|---------------|
| Development rights on our own balance sheet | 20,300 | 21,300 | 20,700 |
| Development rights via joint ventures | 4,600 | 5,000 | 4,800 |
| Development rights via options etc. | 9,500 | 9,100 | 7,100 |
| Total | 34,400 | 35,400 | 32,600 |

Own housing development construction

| | 2019 | 2018 | 2017 |
|---|-------|-------|-------|
| Number of housing starts during the year | 2,067 | 2,213 | 3,048 |
| Number of sold homes during the year | 2,709 | 1,825 | 2,734 |
| Total number of homes under construction, at year-end | 4,616 | 6,231 | 6,333 |
| Share of sold homes under construction, at year-end | 69% | 63% | 72% |
| Number of repurchased homes on the balance sheet, at year-end | 253 | 104 | 33 |

comprises 380 homes. In Tromsø construction on the second stage of the Skir project began where 100 homes are expected to be completed in the fourth quarter 2021.

A substantial number of housing projects started up in Finland in 2019. Sales have been satisfactory all over the country while demand in Helsinki has been high. The largest housing project start-ups were Helsingin Sumppari with 128 homes and the Helsingin Silhuetti with 72 homes in the Kruunuvuori area, both in Helsinki. Construction began on 79 homes in Oulu in the Mestari Block and on 75 homes in the Pappila area in Tammerfors. Several projects were also completed during the year such as the new block Itikanmäki with 294 apartments in a growing Seinäjoki and the fourth and final apartment building with 251 homes in the new district Klemettilänpuisto in Vasa.

Net sales and operating profit

Net sales decreased to SEK 6,998 million (7,106). Operating profit amounted to SEK 661 million (615) and the operating margin amounted to 9.4 percent (8.7). Operating profit and operating margin contracted slightly in Sweden but were for the most part countered by more turned over projects in Norway and Finland.

The number of start-ups of our own developed homes amounted to 2,067 units (2,213) with a good geographic spread in all countries. The number of sold homes was 2,709 (1,825). Sales are at a good level in all three countries. Greater sales efforts in Stockholm led to higher sales during the year compared to 2018. The number of own developed homes in production has decreased and was 4,616 (6,231) at the end of the year. The level of sold homes in production was 69 percent (63). The number of repurchased homes per December 31, 2019 was 253 (104). Most of the repurchased homes relate to Sweden and Finland. Peab develops and builds housing all over Sweden and in large parts of Norway and Finland. Our housing is primarily in the medium price segment and we see that there continues to be a considerable need for new production of housing in this range.

At the end of December 2019 the level of capital employed rose due to investments in project and development property along with rental projects in Sweden. The rental projects may be converted into tenant-owned housing or be sold on the investor market. The level of capital employed has also risen due to increased activity in our own developed housing projects in Norway and Finland, which remain on our balance sheet until they are finished. The diagram shows when in time the housing projects in Norway and Finland are expected to be completed. The total number of ongoing own housing developments in Norway and Finland was 1,662 (1,446) per December 31, 2019.

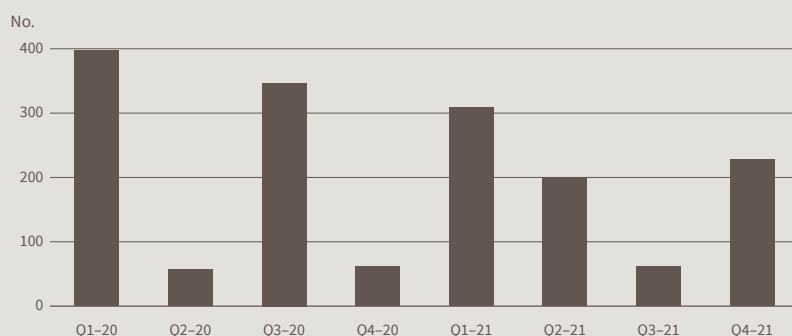


The triangle formed Goldfinger, with 109 apartments, is being built in Jätkäsaari, one of the areas most in demand in Helsinki, close to the sea and mass transit. The top floors have a metal coating that makes Goldfinger stand out from its surroundings by shining like gold. Occupation is planned for March 2020. For residents the area has been fitted for modern waste management via underground pipelines.



Brf Turbinen is being built in Trollhättan and occupation is planned for December 2020. The project comprises 69 apartments that maintain the historical heritage of the industrial building in the form of noticeably reused bricks, large glass façades, steel columns and high ceilings. Since construction began in September 2018 Peab has worked intensively to create exclusive homes that unite industrial history with modern architecture.

When in time ongoing homes in Norway and Finland will be completed



PROPERTY DEVELOPMENT

Property Development has broad, extensive expertise in refining and developing locations for commercial properties. It is primarily geared to run development projects based on development rights on our own balance sheet. Collaboration with partners via joint ventures may occur at different times during a project. In 2019 the market for office buildings in Swedish big city regions was strong and so was the transaction market. The market for office rentals and real estate prices are expected to have a stable development.

During the year Peab completed several major property projects in Sweden including the new Peab Center in Ulriksdal, Solna. This is where Peab has gathered all its offices in the Stockholm region and it was ready for occupation in November. The new office building in Solna is the first of a total six planned buildings. The second one of around 3,000 m² contains eight floors with a total of 475 parking spaces, offices and a gym on two floors. It is rented to the wellness chain Actic and is expected to be ready in the summer of 2020. Construction of a third building has begun and it will be completed in the autumn of 2021. Most of the building of around 4,500 m² is already rented to medtech company Carmeda.

Construction on the new Peab Center in Hyllie in Malmö continued. Peab has gathered all its offices in the Oresund region here under one roof. The new office building with around 5,000 m² office space is the first of a total five buildings in the project The Gate. The opening was in March 2020. Construction on the new Peab Center in Helsingborg also began in 2019. The building comprises about 3,000 m² office space, of which Peab has around 2,200 m². During 2019 Peab worked to complete The Point, Malmö region's highest office building with around 20,000 m² office space. It was ready for occupation in January 2020. The project is a joint venture with Volito Fastigheter.

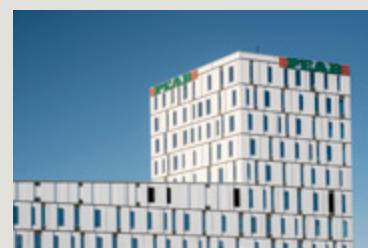
Varvstaden, which is a joint urban construction project with Balder in central Malmö, continued to develop in 2019. During the year Skeppshyttan, which is a long-stay hotel of about 4,200 m² run by Forenom, was completed.

Growth in the Finnish economy contributed to an active real estate market during the year. The office market in Finland is expected to be positive in 2020 as well. During the year the second stage of Ultimes Business Garden, in Sockenbacka Business Park in Helsinki, which comprises around 7,900 m² rentable office space and 150 parking spaces, was completed. A total of six office buildings are planned for the area.

The office market in Norway is developing stably with a continued good balance between supply and demand. In Oslo 3,600 m² commercial space in the Carl Berner Torg project is under construction and is expected to be completed in the autumn of 2020. Nadderuveien 1 in Bekkestua outside Oslo, a joint venture where Peab has a 50 percent participation, started up at the end of 2018. The project consists of 67



Ledvolten is an office building of about 4,500 m². The building contains five floors and a basement. It will be built with commercial space on the ground floor and four flexible open office floors which the medtech company Carmeda has rented and will move into during the fourth quarter 2021.



Peab's new office in Hyllie, Malmö was ready in the beginning of 2020, making it the first office building of five in the project The Gate. It is in a communicative area close to both the city, countryside and communications.

homes and about 3,500 m² commercial space, all of it rented out to Norgesgruppen. The entire project is expected to be completed in 2021.

Net sales and operating profit

During 2019 net sales were SEK 786 million (738) and operating profit was SEK 305 million (170). Our partially owned companies continue to develop well and profit during the year from partially owned companies amounted to SEK 266 million (101), of which SEK 170 million refers to divestitures in Acturum. In December 2018 Acturum signed a contract with Fastator and Offentliga hus to sell all its remaining property with the transfer in the second quarter 2019. Acturum was founded by Peab and FAM – The Wallenberg Foundations' holding company – as equal partners in 2013. The company acquired a property portfolio in Södertälje from AstraZeneca and has since then developed a number of properties. The divestitures had a positive effect of SEK 170 million in the second quarter in profit contributions from partially owned companies. No other major property transactions have taken place during the year.

In cases where no divestiture is planned properties can remain in the Group for a considerable length of time in order to garner rent and appreciation revenue or a combination of both. Capital employed in Property Development includes operations property for a recognized value of SEK 1,332 million (915), of which SEK 105 million is additional IFRS 16, Leases and SEK 558 million (589) is investment property, of which SEK 58 million is additional IFRS 16, Leases. The tables below show our major property projects per December 31, 2019.

In addition to the ordinary dividend, in February 2020 Peab's Board proposed an extra distribution of all the shares in a newly formed company holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided on March 24, 2020 to withdraw the proposal to the Annual General Meeting concerning an extra distribution of all the shares in the newly formed real estate company. For more information, see Extra distribution of a real estate company on page 6.



Peab is developing an entire new city district in Ulriksdal in Solna. Attractive and vibrant urban environments are being created with both residential and commercial properties. An important component is the pneumatic waste collection system that cuts down the amount of transportation in the area. In the summer of 2020 the wellness chain Actic will move its headquarters and gym to a building characterized by innovative architecture.

| Completed projects | Location | Area in m ² | Degree rented, % | Recognized value, MSEK |
|--|------------|------------------------|------------------|------------------------|
| Businesspark | Ängelholm | 63,500 | 81 | 241 |
| Businesspark | Ljungbyhed | 75,300 | 55 | 119 |
| Offices | Solna | 12,400 | 100 | 450 |
| Offices | Helsinki | 9,300 | 85 | 273 |
| Offices | Helsinki | 7,600 | 80 | 267 |
| Retail and offices | Gothenburg | 6,300 | 97 | 163 |
| Offices | Sigtuna | 3,600 | 74 | 65 |
| Other completed projects | | | | 138 |
| Total | | | | 1,716 |
| <i>of which operations property</i> | | | | <i>1,038</i> |
| <i>of which investment property</i> | | | | <i>500</i> |
| <i>of which project and development property</i> | | | | <i>178</i> |

| Ongoing projects | Location | Area in m ² | Degree rented, % | Recognized value, MSEK | Total investment at completion, MSEK | Timepoint of completion | Level of completion, % |
|--|-------------|------------------------|------------------|------------------------|--------------------------------------|-------------------------|------------------------|
| Office building | Malmö | 5,000 | 74 | 156 | 185 | Q1-2020 | 84 |
| Office building and parking | Solna | 2,900 | 89 | 211 | 279 | Q2-2020 | 76 |
| Retail | Oslo | 3,600 | 100 | 144 | 186 | Q4-2020 | 77 |
| Office building | Helsingborg | 2,900 | 77 | 33 | 109 | Q2-2021 | 30 |
| Office building and shops | Solna | 4,300 | 81 | 16 | 194 | Q3-2021 | 8 |
| Other ongoing projects | | | | 74 | | | |
| Total | | | | 634 | | | |
| <i>of which operations property</i> | | | | <i>189</i> | | | |
| <i>of which project and development property</i> | | | | <i>445</i> | | | |



Significant joint ventures

Peab's significant joint venture companies Fastighets AB Centur, Tornet Bostadsproduktion AB, Fastighets AB ML4 and Point Hyllie Holding AB are developing well and via them Peab has built up considerable indirect holdings in investment property and development property for both commercial and residential purposes. Ongoing returns are in the form of shares in the profit from joint ventures recognized in operating profit and interest income on lending. Changes in market values that effect booked values in joint venture companies are not included in Peab's accounts.

FASTIGHETS AB CENTUR

Own, manage and develop commercial property and housing.

Peab's share: 50 percent

Partner: Balder

Location: Stockholm, the Mälardalen region, Gothenburg and the Öresund region

Recognized value on properties December 31, 2019 ¹⁾: SEK 6,621 million (6,085)

Peab's portion of unrecognized fair value exclusive tax ¹⁾: SEK 421 million (353)

Major ongoing projects: Lyckholms Gothenburg, Rentable area 6,400 m²

TORNET BOSTADSPRODUKTION AB

Build and manage attractive and environmentally friendly rentals in larger cities in Sweden.

Peab's share: 33 percent

Partner: Folksam och Balder

Location: Stockholm, the Mälardalen region, Gothenburg and the Öresund region

Recognized value on properties December 31, 2019 ¹⁾: SEK 4,300 million (3,428)

Peab's portion of unrecognized fair value exclusive tax ¹⁾: SEK 260 million (212)

Major ongoing projects: Munkeböck, Gothenburg Rentable area 10,900 m², Kungsängen, Upplandsbro Rentable area 8,900 m², LP Parken, Gothenburg Rentable area 15,000 m², Tallbohov, Järfälla Rentable area 10,500 m² and several apartment building projects in Västerås and Helsingborg

FASTIGHETS AB ML4

Own and manage the research facility Max IV. The facility is rented to Lund University.

Peab's share: 50 percent

Partner: Wihlborgs

Location: Lund

Recognized value on properties December 31, 2019: 1,870 million (1,849)

Major ongoing projects: Research building 6,400 m²

POINT HYLLIE HOLDING AB

Develop, own and manage the office property The Point as well as own and manage the hotel property Vårdshuset 5 (Operator Quality Hotel View).

Peab's share: 50 percent

Partner: Volito

Location: Hyllie, Malmö

Recognized value on properties December 31, 2019: SEK 1,279 million (1,008)

Major ongoing projects: 29 floor office building, The Point, Rentable area 20,000 m²

Key ratios 2019 significant joint ventures ¹⁾

| MSEK | Fastighets AB Centur | Tornet Bostadsproduktion AB | Fastighets AB ML4 | Point Hyllie Holding AB |
|---|----------------------|-----------------------------|-------------------|-------------------------|
| Net sales | 368 | 151 | 97 | 35 |
| Profit for the year | 244 | 152 | 15 | 3 |
| Total assets | 6,891 | 4,457 | 2,058 | 1,341 |
| – of which recognized value of properties | 6,621 | 4,300 | 1,870 | 1,279 |
| Peab's portion of unrecognized fair value exclusive tax | 421 | 260 | | |

¹⁾ Refers to the recognized value of joint venture companies for January – December 2019 and per 31 December 2019. Since Fastighets AB Centur and Tornet Bostadsproduktion AB apply the market value of properties, the values in the table above differ from the values presented in the Peab Group for joint venture companies in note 19.



Risks and risk management

It is crucial for Peab's profitability to have well developed routines for identifying and managing risks. This also creates possibilities to take advantage of business opportunities that arise. Changes in, for example, external circumstances, the economy, customers' preferences and investment needs require constant vigilance and adaptability.

RISKS AND UNCERTAINTY FACTORS

Peab's business is exposed both to operational and financial risks. How much risks affect Peab's profits and position depends on how well the company handles daily operations. In addition, as a construction and civil engineering company, Peab is vulnerable to external risks such as developments in the economy and changes in circumstances due to amendments in laws and regulations, and other political decisions.

In 2019 the signs of a slowdown in the economy emerged and housing prices are expected to continue to fall, even if there are significant differences in demand depending on location and product. Peab's broad range of operations has meant that downturns in some product areas have been countered by upturns in others. In the beginning of 2020 the coronavirus spread to a large part of the world. At the time of writing this, countries are putting different measures into effect on short notice to limit the spread of the infection, for example entry and quarantine regulations. Stock markets all over the world have plunged during March. Governments and central banks are introducing different forms of crisis packages to mitigate the economic effects. This will affect the global economy but how profound and how lasting the effects will be is difficult to say. Peab is a major employer with many employees and many people at our workplaces. Our first and foremost mission is to keep our business running but we are monitoring developments and follow recommendations by the authorities in respective countries concerning the spread of the coronavirus and we

adapt accordingly. The short-term effects of the coronavirus on Peab's business are limited but how we will be affected in the long run as well as the economic consequences of the coronavirus pandemic cannot be foreseen at the time of publishing this year's Annual Report.

On December 13, 2019 Peab's supplier Nynas AB applied for a company reorganization and on March 12, 2020 Nynas AB applied for a further extension of three months which was granted. Nynas AB is an essential supplier of bitumen which is used as a binder in the manufacture of asphalt. If Nynas AB cannot fulfill its obligations it will cause considerable disturbances in the Nordic paving market and affect all the companies involved in asphalt paving, including Peab which is a major actor. Peab has chosen to complement with other suppliers to ensure deliveries of bitumen. Production is limited during the winter period which is why disturbances have not yet been noted.

See also External circumstances and the market for a description of economic developments on Peab's markets. The parent company is indirectly affected by the risks described in this section.

Peab's business is largely project-related. There are a number of different contract forms where risk levels vary depending on the type of contract. However, with any type of contract ambiguities can arise concerning the terms, which can lead to delimitation issues that create a dispute with the customer. Regarding the dispute related to the construction contract of Mall of Scandinavia see note 3.

RISK MANAGEMENT

Managing operative risks is a continuous process considering the large number of projects the Group is always starting up, carrying out and completing. Operative risks are managed in the line organization in the business areas through established procedures, processes and control systems. Financial risks are primarily associated with the company's need for capital, tied up capital and access to financing.

| Operative risks | Description | Action |
|--|--|--|
| Contract risks | <p>Peab's business is largely project related and each project is unique in its configuration and other circumstances.</p> <p>Erroneous calculations can lead to incorrect tenders, which can then lead to losses in projects regardless of how well they have been carried out. There are a number of contract types and the risk level varies accordingly. Regardless of the type of contract, grey areas in the terms can lead to disputes with customers about where responsibility lies. Disputes make it hard to assess the result of both ongoing and completed projects.</p> <p>Peab's operations are subject to market risks in the form of price risks such as unforeseen cost increases for material, subcontractors or employee salaries. The risks vary depending on the type of contract.</p> | <p>Structured risk assessment is crucial to ensure that risks are identified and priced in bids that are tendered and the underlying calculations. The right resources in projects ensure that they will be carried out according to stipulated procedures, and with the right products and methods.</p> <p>Peab established a Procurement Council, which is a decision-making authority that contributes to thoroughly processed calculations and tenders for projects over a certain size, a few years ago. The purpose is to reach greater opportunities and reduce risk-taking for Peab. The Council can also be consulted for smaller projects that are so complex this help is needed.</p> <p>Price risks are managed through efficient purchasing processes with the right suppliers, largely procured through central contracts.</p> |
| Risks relating to suppliers and subcontractors (SC) | <p>Suppliers/SCs who do not conform to existing laws, conventions and Peab's contracts and regulations can lead to infringements regarding the environment, ethics, human rights and the work environment. Choosing the wrong supplier/SC can lead to quality defects, delivery delays or no delivery at all in the case of bankruptcy.</p> <p>Purchases outside of Peab's framework contracts can entail considerable risk. Infractions, defects and delays caused by suppliers/SCs can have a negative effect on Peab's profitability and brand. Failure to ensure that information about Peab's regulations is received by every individual on a Peab worksite can also entail a risk. Flaws in the supplier chain or management of SCs is one of Peab's greatest sustainability risks, which our customers have also noted. Insufficient control of suppliers or shortcomings in reviews and analysis before a contract is signed are both risk factors.</p> | <p>All the contracts Peab signs with suppliers/SC stipulate the rules and regulations for the specific project and for doing business with Peab. The Code of Conduct and the ethics clause for suppliers are attached to all contracts. These clarify, among other things, what is expected of suppliers and consequences in cases of non-compliance with the Code of Conduct, working conditions and human rights requirements and workplace safety regulations.</p> <p>During the year Peab further developed procedures and methods in a number of sustainability areas with particular focus on the work environment, working conditions, reliable supplier chains and the environment. These include using a blocking system that makes it possible to stop rogue suppliers and SCs and through the system Peab Ease all the actors in a project can be checked. Peab's methodology for supplier reviews was implemented during the year.</p> |
| Skills recruitment risks | <p>Peab is dependent on attracting and keeping competent employees in order to fulfill customers' expectations. Competition for the skills Peab needs is intense, which makes the recruitment process a high priority. There is a considerable risk that Peab will not have qualified personnel in sufficient numbers; partly because the labor market is small and competition is high, partly because so few youths are interested in the industry and it lacks diversity.</p> | <p>Peab works strategically with short and long term skills recruitment as well as practical measures like establishing new supply channels in cooperation with the education system, active integration work, extensive internal training and running our own high school, the Peab School.</p> <p>The company has launched a career map aimed at clarifying and enabling paths for development for every employee, regardless of their role or background. Employees, skills development is documented and planned with the aid of a competence platform. Peab's goal-oriented work with diversity and equal treatment is a part of our effort to handle risks connected to recruiting needed skills, which also contributes to greater diversity. It is also an important attraction quality.</p> |
| Project development risks | <p>The risks affecting the profitability of Peab's housing project developments are, in addition to the risks linked to production, circumstantial factors such as the general economy, interest rates, customers' willingness to buy and other market conditions. Peab's commercial property development faces similar risks, including the fact that the investor market's willingness to buy also influences sales conditions. A common factor for development operations is the risk in zoning for the exploitation land since decisions taken by the authorities can have significant impact on land values and thereby future projects' profitability.</p> | <p>The sales risk is reduced through set requirements for advance sales before production starts in housing projects. Corresponding risk management for commercial property development is the requirement for a certain level of rented space before production start. From a risk perspective it is also important to shorten lead times from land acquisition to finished project in view of the risk for changed market prerequisites.</p> |
| Work environment risks | <p>Work related accidents at Peab's workplaces can lead to employees or suppliers/SCs getting hurt or, in the worst case, killed. In addition to injuries to individuals, this can lead to fines, legal sanctions and brand damage. A crucial risk area is the organizational and social work environment, which includes risks concerning stress and victimization. Taking care of underage youths at workplaces is another risk area.</p> | <p>To prevent incidents and accidents at workplaces Peab develops quality-ensured work methods and continuously trains personnel. Focus is on planning and risk assessment early on, and learning from reported risk observations, incidents and accidents. Efforts to increase the number of risk observations have been very effective and observations have redoubled. This generates important organizational learning about where, when and why risks occur. Peab teaches employees about equal treatment to prevent discrimination and abuse and to promote equality. Instructors that guide trainees and underage youths in production receive special education approved by the National Agency for Education.</p> |
| Ethical risks | <p>Ethical risks can entail Peab employees not following our Code of Conduct and involving themselves in irregularities, bribes or corruption. Ethical risks can also be connected to transgressions of human rights by in our own company or at suppliers (see above also). This can lead to fines, legal sanctions and brand damage and Peab's exclusion from public procurements. There are even ethical aspects of failings concerning discrimination and victimization.</p> | <p>Peab conducts systematic ethic work focused on preventive education, a well-defined Code of Conduct and strict consequences for transgressions. Supplier checks and reviews prevent ethical risks in the supplier chain and a whistleblower system ensures the right to anonymously point out ethical risks, internally and externally. Peab's Ethical Council ensures that infractions of the Code of Conduct and laws, as well as matters concerning discrimination and victimization are investigated and dealt with consistently and impartially.</p> |

| Operative risks | Description | Action |
|----------------------------|---|---|
| Environmental risks | <p>Peab is exposed to a large number of environmentally related risks, which can damage the environment and individual as well as profitability and brand. A lack of external monitoring and competence in combination with adjusting too slowly can lead to the products and services Peab offers not meeting the demands and expectations of customers, which can be a considerable risk. If Peab should be found guilty of an environmental crime, by not running operations that follow valid legal demands and permits according to the Environmental Code, the company runs the risk, for example, of not being able to participate in public procurements.</p> <p>A lack of risk management in acquisitions can lead to Peab purchasing substantial environmental debt in the form of polluted land/water or operations that cannot deliver as promised.</p> <p>Based on known climate scenarios global warming will likely create physical risks such as extreme weather, floods and a material and energy shortages, which can affect ongoing projects and our own property and facilities. Climate change also leads to conversion risks and opportunities, such as changes in demand, higher raw material prices and new laws, which can affect business conditions.</p> <p>SCs/suppliers that do not hold a sufficiently high environmental standard can lead to environmental damages and compensation demands as well as hurt Peab's brand. The use of forbidden or unsuitable material, products or substances as well as the improper use of material can cause serious damage to human health and the environment as well as lead to compensation demands and hurt Peab's brand.</p> | <p>Peab has extensive external monitoring that includes an active and broad stakeholder dialogue. Internal risk prevention takes place within the Group's three prioritized environmental areas, which are also covered by our environmental goals: climate impact, resource efficiency and phasing out environmentally and health hazardous substances.</p> <p>Our environmental work starts locally and operations work systematically with environmental issues based on overriding and operative procedures in a business management system that is for the most part environmentally certified. These procedures comprise, for example, how monitoring laws and that they are followed is conducted but also enable practical support of environmental steering in a project and regulate environmental delegation in order to ensure that responsibility is clear. Due Diligence is performed on acquisitions and includes environmental matters. In addition, Peab has environmental damage insurance.</p> <p>To ensure that all employees have the right environmental competence for their jobs education and training is ongoing as part of Peab's risk management.</p> <p>Preventively, operation specific in-depth analyses are performed within the framework of Peab's established, systematic risk management. Peab has already begun to take practical measures to suit operations to predicted climate changes. An example of this is the work being done to produce methods for climate calculations in construction projects. Another is that Peab has invested in a factory for alternative binder in concrete which can reduce the use of climate-impacting cement. Peab offers ECO-Concrete™ and ECO-Asphalt™ with a lower carbon footprint than conventional products and participates in developmental projects aimed at suiting construction technology solutions to more extreme weather.</p> |
| IT risks | <p>Peab is raising the level of digitalization in our business, which in turn requires greater access to our IT system. A growing identifiable risk area is IT attacks that can lead to shutdowns in operations. Because of our dependence on IT systems these shutdowns can be extensive and have a major effect on our business for a long time. This can have far-reaching consequences on both our financial results and brand.</p> | <p>Together with external experts Peab's IT function works systematically with IT security to map out IT risks based on accumulated information, routine follow-ups according to a review plan and continuity planning. Focus is on preventative actions to ensure access to information and IT tools from internal and external sources. External monitoring is continually analyzed and prioritized in order to meet new threats and requirements.</p> |

| Financial risks and risk connected to financial reporting | Description | Action |
|---|---|---|
| Financial risk-taking | <p>Financial risk-taking is connected to the business' capital and investment needs. The need for capital is different for each of Peab's four business areas. Contract construction in Construction and Civil Engineering normally have a positive working capital that contributes to financing the other operations. Industry binds capital in fixed assets with an ongoing need for investments. Project Development binds capital when investing in land and development rights until they are sold.</p> | <p>Peab's financial goal of an equity/assets ratio of over 25 percent is the means by which the Group governs financial risk-taking. For business areas Industry and Project Development tied-up capital is managed through set frameworks. Investments in Peab follow a set investment procedure in which an investment group decides on all investments. Tied-up capital in business areas Construction and Civil Engineering is managed through payment balance requirements.</p> |
| Financial risks | <p>The Group is exposed to financial risks, such as interest rate risks, liquidity risks, refinancing risks, raw material risks, currency risks and credit risks.</p> | <p>For further information on financial risks, see note 35.</p> |
| Risks connected to financial reporting | <p>Since Peab applies recognition over time as a project is completed for most of our ongoing projects, erroneous project forecasts means that recognition and monitoring can be misleading.</p> <p>A number of balance items, including project and development property, are valued based on estimations and assessments. This value can be affected by, for example, the current market, interest rates and customers' preferences, which can lead to impairment.</p> | <p>A prerequisite for correct recognition over time is reliable forecasting of the outcome. Well-developed procedures and system support for the monitoring and forecasting of each project is crucial to limiting risks of erroneous revenue recognition.</p> <p>The recognized value for project and development property has been calculated as the lowest of the purchase price and the net sales price based on current price levels in the respective locations. Peab is continuously testing the values of project and development property by using an internal model. As a complement to this valuation external market values are annually reviewed for some of the properties.</p> |

Sensitivity analysis

Peab's operations are sensitive to changes in, among other things, volumes and margins. The sensitivity analysis below describes how pre-tax profit is affected by changes in some of the important Group variables.

| MSEK | Calculation basis | Change | Pre-tax profit effect |
|---|-------------------|------------------|-----------------------|
| Operative | | | |
| Volume (operating margin constant) | 54,008 | +/- 10% | +/- 259 |
| Operating margin (volume constant) | 4.8% | +/- 1 percentage | +/- 540 |
| Production costs | 37,798 | +/- 1% | +/- 378 |
| Financial | | | |
| Net debt excluding additional IFRS 16 (interest rate constant) | 6,743 | +/- 10% | +/- 10 |
| Average effective interest rate ¹⁾ (net debt constant) | 1.5% | +/- 1 percentage | +/- 70 |

¹⁾ The calculation is based on the assumption that SEK 6,971 million of the interest-bearing net debt has a fixed interest term shorter than one year and which is therefore relatively immediately affected by a change in market rates.



Other information and appropriation of profit

REVENUE RECOGNITION OF SWEDISH TENANT-OWNED HOUSING PROJECTS

Peab has in quarterly reports 2018 and 2019 and in the Annual Report 2018 communicated that together with several other major housing developers Peab has received questions from Nasdaq Stockholm AB (Nasdaq) during 2018 regarding the application of IFRS 15 Revenue from contracts with customers as well as whether the tenant-owned housing association or the final home buyers are, in terms of accounting, Peab's customers according to IFRS 15. The reconciliation between Nasdaq and ESMA (European Securities and Markets Authority) came to the conclusion that, in this case, the accounting review should be focused on the application of IFRS 10 Consolidated financial statements and to what extent tenant-owned housing associations should be included in Peab's consolidated financial statements.

Regarding the matter of whether or not a company has controlling interest over a tenant-owned housing association, and thereby ought to consolidate the association, there is, taking into consideration all relevant facts and circumstances, room for companies within the framework of IFRS 10 Consolidated financial statements to arrive at different conclusions. After a review of several crucial factors our conclusion is that Peab cannot be considered to have controlling interest over tenant-owned housing associations from the time a tenant-owned housing association signs a contract for a land transfer and turnkey contract according to the stipulations in IFRS 10 Consolidated financial statements. This conclusion is shared by our accountants.

In the beginning of December 2018 Nasdaq sent a letter to Peab with the information that Nasdaq had decided to criticize Peab for a lack of clarity in the Annual Report for 2017 concerning the grounds for Peab's assessment that controlling interest does not exist when revenue over time is applied to tenant-owned housing associations. Nasdaq required that clearer information should be presented in the Annual Report for 2018, which Peab has done. The letter also stated that Nasdaq considered the case closed and that Finansinspektionen had been notified, which took over the matter as of January 1, 2019. During the spring of 2019 Finansinspektionen continued to examine the matter and put further questions to Peab which the company has answered. On June 3, 2019 Peab received a reconciliation letter from Finansinspektionen containing observations and preliminary judgements from Finansinspektionen. Finansinspektionen's preliminary judgement is that Peab should have consolidated the tenant-owned housing associations in 2017. Peab was given the opportunity to reply in the form of an opinion regarding Finansinspektionen's reconciliation letter. Peab delivered its opinion on June 27, 2019 and contested Finansinspektionen's preliminary conclusion. Peab believes it is wrong to consolidate the tenant-owned housing associations since the company does not have a controlling interest. In addition, in Peab's opinion the current application best describes Peab's housing business both in terms of internal

steering and risk profile. This is also how the Board and the executive management follow operations. On November 26, 2019 Finansinspektionen notified Peab that the matter had been turned over to the Legal Unit.

On January 28, 2020 Peab received another reconciliation letter from Finansinspektionen maintaining that Peab should have consolidated the tenant-owned housing associations. Peab has concluded that Finansinspektionen does not share the company's interpretation of IFRS 10 Consolidated financial statements regarding recognition of Swedish tenant-owned housing associations and that the interpretations of Finansinspektionen and Peab differ greatly. Peab does not believe there is any point in continued polemics and it is not in the interest of Peab's stakeholders.

Peab has therefore decided to change accounting principles as of January 1, 2020, regardless of the decision from Finansinspektionen, and consolidate Swedish tenant-owned housing associations as of the fiscal year 2020 and translate the comparable year 2019. This means that income and expenses for projects will be recognized first when homebuyers take possession of the condominiums and that the assets and liabilities of the tenant-owned housing associations will be consolidated until that time. In Group operative reporting, such as segment reporting, our own developed housing projects in Sweden, Norway and Finland will be reported as external customers while the construction projects are underway with revenue recognized over time as the projects are successively completed.

Peab's risk situation and financial position are not altered by the change in accounting, nor does it affect Peab's financing agreements.

Peab will present translated income and balance sheets as well as key ratios for 2019 in good time before the first quarterly report is presented. Even translated operative reports will be published.

On March 25, 2020 Finansinspektionen informed the company that the matter would be put to rest since Peab would, as of January 1, 2020, change accounting principles.

PEAB'S SUSTAINABILITY WORK

As a community builder and a major employer Peab's operations have an impact on society and those living and working in it, both long and short term. Therefore we put great effort into ensuring that what we plan and carry out is ethical and sustainable throughout an entire life cycle. Our aim is to run our company sustainability and responsibly encompassing Social (employees and society), Environmental and Economic aspects. Peab's strategic sustainability work is primarily focused on preventing risks, systematic quality work and, in an inventive and responsible manner, enabling sustainable development. In accordance with the Annual Reports Act chapter 6 paragraph 11 Peab has chosen to present the statutory sustainable report

outside of the Board of Directors' Report. The required parts of a sustainable report can be found under sections Goals and strategies, Our take on sustainable business, Social, Environment, Economic, Risks and risk management and Corporate governance report.

OPERATIONS REQUIRED TO HAVE PERMITS OR SUBMIT REPORTS

Operations required to have permits and submit reports according to the environmental code are found in the Swedish sub-groups Swerock, Skandinaviska Byggelement, Peab Asphalt, Peab Anläggning and Peab Bostad. In Finland permit operations are run according to the Environmental Protection Act. Operations required to have permits in Sweden are land remediation, intermediate rubble storage, managing polluted water that can cause clouding of the recipient, gravel and rock quarries, transportation of waste and hazardous waste and asphalt plants. These operations primarily affect the environment through the extraction of finite resources, future land use and emissions. Operations required to have permits in Finland are mainly concrete manufacturing and ballast operations. Renewal and supplementation of permits is continuous.

Swerock's concrete factories in Sweden and Skandinaviska Byggelement's concrete product factories as well as Peab Asphalt's permanent and mobile asphalt plants are operations that must submit reports.

RESEARCH AND DEVELOPMENT

The purpose of Peab's research and development is to provide society, our customers and ourselves with added value and sustainable development by using new discoveries to improve or to develop new products, services and production processes. Research and development is run close to operations in the different business areas in order for it to be steered by current needs. Therefore Peab does not have a central unit for research and development. Peab collaborates with universities, colleges and trade organizations and is an active participant in many trade organization projects.

Some examples of trade organization projects in business area Construction in 2019 were "Heat recycling from waste water in apartment buildings", "Production automation in concrete construction", "Paving systems for wooden parking decks", "Energy use in climate control and dehumidification during construction", "Digital construction establishment – Digitalized construction establishment". Some in business area Civil Engineering: "Evaluation of mechanical properties in stabilized material", "Packing embankments for high velocity railroads with varying foundation conditions", "Productivity in the deep foundation acoustic method", "Uncertainty models optimizing infrastructure projects", "Methodology for stabilizing dredged masses" and "Nondestructive testing of concrete constructions with synthetic sensor groups". Examples in business area Industry: "REWOFUEL – in collaboration with nine countries residual soft wood is converted into airplane fuel and one of the coproducts is a lignin assumed to be able to function as a binder replacement in asphalt", "Sustainable community building with resistant concrete", "Evaluation method for adhesion of half-warm asphalt pavements".

IMPORTANT EVENTS DURING THE YEAR

On July 4, 2019 Peab signed an agreement to acquire YIT's Nordic paving and mineral aggregates business. Through the acquisition Peab will expand its presence in Sweden, Norway and Finland and become established in the paving business in Denmark and this will give Peab a unique and market leading position in this business in the Nordic region. The deal will also increase the importance of industrial operations for the Group as well as reduce sensitivity to fluctuations in the business cycle.

Peab is currently a leading actor in manufacturing and paving of asphalt as well as in mineral aggregates operations in Sweden and Norway. The acquisition entails taking over some 200 strategically located quarries along with 63 production asphalt plants in the Nordic region. The acquisition also entails taking over some 1,700 employees. Greater geographic proliferation in businesses that are normally less sensitive to the business cycle increases stability in the Group. It also provides conditions for further expansion and development in other operations such as Recycling and Concrete.

The transaction is a combination of an asset deal and a share purchase. The purchase price is expected to amount to SEK 2,966 million for a debt-free business and is fully financed.

The acquired business had net sales of SEK 6,005 million with an adjusted EBITDA of SEK 240 million in 2018.

The transaction was conditional on approval from competition authorities as well as the fulfillment of certain contractual conditions. At the end of March 2020 the transaction was approved by the competition authorities and the acquisition was finalized on April 1, 2020.

IMPORTANT EVENTS AFTER THE END OF THE YEAR

Extra distribution of a real estate property

In addition to the ordinary dividend, in February 2020 Peab's Board proposed an extra distribution of all the shares in a newly formed company holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided on March 24, 2020 to withdraw the proposal to the Annual General Meeting concerning an extra distribution of all the shares in the newly formed real estate company. With the uncertain situation in the world this is not the right time to list the company. Peab continues to believe that a distribution of the properties is the solution that will over time provide shareholders with the greatest value. Therefore the operative work of building and structuring the real estate company is continuing as planned. The Board intends to summon an extraordinary General Meeting to decide on distribution of the real estate company when the situation has stabilized and conditions are more favorable.

Peab consists of four collaborating business areas – Construction, Civil Engineering, Industry and Project Development, each one of them an essential component of the Group. In recent years Peab has invested considerable resources in the

capital intense business areas Industry and Project Development, a strategy that will continue in the future.

Project development operations comprise development of both housing and commercial projects and are run primarily in wholly owned form but in certain cases through partially owned companies as well. For appreciation purposes fully developed properties have mainly been kept in partially owned companies but they have also been on Peab's balance sheet. In order to create the right conditions in the future for operative steering, tied up capital and income recognition in project development operations various alternatives have been analyzed. At the beginning of 2020 the Board and executive management therefore evaluated the future direction of wholly owned, fully developed commercial property.

With this in mind the Board has decided that for Peab's shareholders the best alternative for long-term value growth is to form a separate real estate company, Annehem Fastigheter, holding Peab's wholly owned, fully developed commercial and housing properties that will be distributed to existing shareholders according to Lex Asea and listed. In this way Peab can focus on developing and building while Annehem Fastigheter can focus on owning and managing fully developed property.

Annehem Fastigheter manages and develops centrally located, high quality commercial, community and residential property with a clear environmental profile in the Nordic growth areas Stockholm, Skåne/Göteborg as well as Helsinki and Oslo. Annehem Fastigheter builds lasting relationships and value through management close to customers. Initially Annehem Fastigheter owns fully developed properties with a total market value of around SEK 3,000 million. In addition, 50 percent ownership in two joint venture companies – Nya Bara Utvecklings AB and Point Hyllie Holding AB – is included. Annehem Fastigheter has also signed a contract with Peab to acquire three properties located in Solna, Oslo and Helsingborg respectively, which will be taken over after they are completed.

After the distribution Peab's project development operations will consist of wholly owned development rights for housing and commercial projects, projects under construction as well as ownership of the major joint ventures that contain fully developed property but also a large portion of future project developments. This consists primarily of Peab's 50 percent in Fastighets AB Centur and 33 percent in Tornet Bostadsproduktion AB.

The board of Annehem Fastigheter consists of Göran Grosskopf, Pia Andersson, Jesper Göransson and Anders Hylén. Göran Grosskopf has been appointed chairman. Before it is listed further board members will be added to Annehem Fastigheter's board. Jörgen Lundgren has been appointed CEO and Jan Egenäs will be CFO of Annehem Fastigheter. Jörgen Lundgren leaves his position as CEO of Solnaberg Property AB (publ). Jörgen has previously held positions as President and CEO of Fastighetsaktiebolaget Norrporten and is, among other things, currently a board member of Aros Bostäder and vice chairman of Mäklarhuset.

When the conditions are right the Board intends to summon an extraordinary General Meeting to propose an extra distribution of all the shares in Annehem Fastigheter to existing shareholders according to Lex Asea. Peab's shareholders will then receive shares in Annehem Fastigheter in addition to their existing stake in Peab.

The distribution is conditional on the consent of Peab's lenders and that Annehem Fastigheter receives financing on market terms. The level of equity and pledges in Annehem Fastigheter will be decided in consultation with the financing banks.

When Annehem Fastigheter is distributed the difference between market values and book values as well as eliminated construction contract profit will be taken up as income in Peab's consolidated accounts. In February 2020 this amounted preliminarily to around SEK 1,200 million, which primarily corresponds to the reduction in equity in the Group caused by the extra distribution. The effect on profit will be updated in connection with the future distribution decision based on circumstances at the time.

Further information to Peab's shareholders regarding the proposal for distribution of Annehem Fastigheter, in the form of an information brochure, will be published on Peab's website in connection with publishing the summons to attend the extraordinary General Meeting.

Coronavirus

In the beginning of the year the coronavirus has spread to a large part of the world. Countries are putting different measures into effect on short notice to limit the spread of the infection, for example entry and quarantine regulations. Stock markets all over the world have plunged during March. Governments and central banks are introducing different forms of crisis packages to reduce the financial effects. This will affect the global economy but to what extent is difficult to say at this moment.

Peab is a major employer with many employees and many people at our workplaces. We are monitoring developments and follow recommendations by the authorities in respective countries concerning the spread of the coronavirus and we adapt accordingly. We are doing our utmost to prevent the spread of the infection while continuing to run our operations. How Peab will be affected and what the financial consequences will be during the year remains to be seen. For more information see section External circumstances and the market and Risks and risk management.

Acquisition of YIT's paving and mineral aggregates operations

On July 4, 2019 Peab signed a contract to acquire YIT's paving and mineral aggregates operations in the Nordic region. The transaction was conditional on approval from competition authorities as well as the fulfillment of certain contractual conditions. At the end of March 2020 the transaction was approved by the competition authorities and the acquisition was finalized on April 1, 2020.

For further information see section Important events during the year.

THE PEAB SHARE

At the end of 2019 Peab's share capital amounted to SEK 1,583,866,056 divided among a total of 296,049,730 shares, resulting in a nominal value of SEK 5.35 per share. Of the shares, 34,319,957 are A shares with ten votes per share, and 261,729,773 are B shares with one vote per share. All shares carry equal rights to participation in the company's assets, profits and dividends. There are no restrictions in the articles of association concerning transferring shares or the disposal of votes at the AGM. On December 31, 2019 there were approximately 46,000 shareholders in Peab. As part of the generation shift, in the spring of 2017 the Paulsson families merged the majority of their indirect holdings into a holding company, Ekhaga Utveckling AB, which is controlled by Mats Paulsson's son Fredrik Paulsson. Ekhaga Utveckling AB has 48.2 percent of the votes. At the end of 2019 the collective ownership connected to the Paulsson families amounted to a total of 25.7 percent of the capital and 57.7 percent of the votes. The company has no knowledge of any agreements between shareholders that can result in restriction of the right to transfer shares.

Peab's AGM decided on 9 May 2019 to authorize the Board to decide, during the period up to the next AGM, on new issues of B shares with rights for current shareholders to participate in the issue or without preferential rights for current shareholders to participate in the issue in connection with acquisitions. The authorization may be used on one or more occasions and correspond to, at the most, a total of 10 percent of the registered share capital at the time of the authorization. During the year the Board has not decided to issue any new shares.

In 2007 Peab established a profit-sharing foundation. According to the foundation's placement policy its capital should be placed primarily in Peab shares. On December 31, 2019 the foundation owned 11,374,000 B shares in Peab, corresponding to 3,8 percent of the total number of shares.

HOLDINGS OF OWN SHARES

At the beginning of 2019 Peab's own B shareholding was 1,086,984 which corresponds to 0.4 percent of the total number of shares. Peab's AGM on 9 May 2019 resolved to authorize the Board to, during the period until the next AGM, acquire shares so that the company would have at most 10 percent of the total shares in Peab. No own shares were purchased nor divested during 2019 which means that Peab's own shareholding was 1,086,984 B shares at the end of 2019. For more information see note 28.

CORPORATE GOVERNANCE

For a detailed description of the work of the Board of Directors, corporate governance and systems for internal control see here, Corporate governance report.

RENUMERATION FOR SENIOR OFFICERS

The proposal for the Remuneration Policy has been revised according to changed legal requirements in the Companies Act, valid as of June 10, 2019 and the Swedish Code of Corporate Governance valid as of January 1, 2020. The Board hereby proposes that the AGM adopts the following Remuneration

Policy. The Remuneration Policy will be reviewed if material changes occur, however no later than in four years.

Scope

The Remuneration Policy comprises the CEO and the other members of executive management. Included also are members of the Board whose remuneration is established at some other point in time than the AGM.

This Remuneration Policy is applied to new contracts, or changes in existing contracts, with the CEO and the other members of executive management after Peab's AGM has adopted the policy.

Basic principles

The Remuneration Policy will contribute to the company's business strategy, long-term value growth and sustainability. This is ensured through the basic principles by:

- offering remuneration based on market terms so that Peab can attract and retain competent executive management. Remuneration levels are regularly compared with other companies active in the same markets to ensure that remuneration is on market terms,
- offering long-term incentive programs and bonus programs focused on the company's business strategy, long-term goals and sustainability,
- annually reviewing individual performances and goal achievement in regards to the company's financial results.

The basic principles ensure that the company has the right competence in executive management through remuneration on market terms as well as incentive programs and bonus programs focused on (result measurement) business strategies, a long-term perspective and sustainability.

Remuneration components

The total remuneration is made up of basic pay, annual short-term incentives on an individual basis (STI), long-term incentive programs (LTI), defined contribution pensions as well as a company car and other non-monetary benefits.

Basic pay

Basic pay is reviewed annually and takes into consideration the senior officer's area of responsibility, qualifications and market terms for the salary.

Short-term incentives (STI)

From time to time executive management may be offered STIs. A STI may not exceed 60 percent of basic pay and is based primarily on the Peab Group's profitability and, at each time, other material Group goals. In the current program result measurements are connected to the company's strategy in the form of profitability, customer focus and sustainability.

STIs are determined for each fiscal year and are settled the year after being earned. They may either be paid out as salary or be invested as a pension savings in a financial instrument connected to the Peab share.

Long-term incentive programs (LTI)

Every year the Board of Directors must consider whether or not to propose a share-based incentive scheme to the AGM. From time to time the CEO, other members of executive management and key personnel may be offered participation in a LTI program. The maximum annual amount in a LTI program (including social security costs) may not exceed 40 percent of annual basic pay. The programs are performance-based and only deliver an outcome if predefined goals are met. The outcome of a LTI program is invested as a pension savings in a financial instrument connected to the Peab share.

Pension

Members of executive management are entitled to pension according to collective bargaining agreements and contracts with Peab. All pension obligations are defined contribution pensions. The maximum pension contribution is 47 percent of annual basic pay and retirement age is 62. The level corresponds to previous market practice. Current practice is maximum 35 percent and retirement at 65. Salary waivers may be used to increase pension provisions through one-off pension contributions in the form of salary or bonus exchanges.

Company cars

The CEO and other members of executive management have the right to a company car according to the gross salary deduction model.

Non-monetary benefits

Members of executive management are entitled to extra health and health care insurance up to 30 basic amounts as well as those benefits otherwise enjoyed by other Peab employees. On average the benefits amount to five percent of base pay.

Period of notice and severance pay

The period of notice from Peab is, at the most, 24 months and the period of notice from members of executive management is, at the most, 6 months. If severance pay is paid the total remuneration for salary during the period of notice and severance pay may not exceed 24 months salary. Severance pay is calculated on base pay and is not pensionable.

Other employees

The basic principles for salaries and other remuneration to other employees is reflected and considered in the Remuneration Policy. Corresponding remuneration components are included. Remuneration in the form of short-term incentives on an individual basis (STI), long-term incentive programs (LTI) as well as company cars are only provided to certain categories of employees based on their positions or needs.

Other employees' total remuneration is based on market terms so that Peab can attract, develop and retain personnel with the right skills. Remuneration levels are compared regularly.

Pensions follow the ITP plan as well as SAF-LO. Defined contribution plans are applied up to a maximum of 30 percent of the pensionable salary. Either traditional plans or premium ladders are applied to defined benefit plans for personnel with basic pay over ten income basic amounts.

Decision-making process

The Board of Directors has appointed a committee responsible for preparing the guidelines for remuneration to members of executive management that are decided on by the AGM and making proposals to the Board regarding the salary and employment terms of the CEO. The Board decides on matters concerning the salary and employment terms of the CEO based on proposals from the Remuneration Committee. The Board's Remuneration Committee decides on salaries and employment terms of members of executive management that report directly to the CEO. The Remuneration Committee reports regularly to the Board. The CEO and other members of executive management are not present when their respective remuneration terms are adopted.

Exceptions

Deviations may be made from the Remuneration Policy in cases where there are special circumstances. Only if it is necessary to fulfill the company's long-term interests, sustainability or financial viability may the Board deviate from the Remuneration Policy adopted by the AGM. Deviations must be reported and motivated in a subsequent remuneration report.

Previous guidelines

The Remuneration Policy has been revised and supplemented with texts to meet changed legal requirements in chapter 8, 51-53 §§ in the Companies Act regarding the content of the company's Remuneration Policy. Even changes in the Swedish Code of Corporate Governance valid as of January 1, 2020 have been taken into consideration in the revision.

EXPECTATIONS CONCERNING FUTURE DEVELOPMENT

New construction of housing declined in Sweden in 2019 and is expected to continue downward in 2020. The weakening economy is expected to have a negative effect on new construction of other private building construction while public building construction is expected to increase in 2020. A growing and aging population is keeping the demand for new construction of public premises up. Added to that is the need to modernize in primarily schools and healthcare, which promotes renovation investments. All in all building construction investments are expected to remain on the same level as 2019 in 2020. Civil engineering investments are expected to grow over the next two years.

Housing construction contracted in Norway in 2019 and is expected to level out in 2020. The public sector is expected to drive development in 2020, especially considering the drastic change in circumstances at the beginning of 2020. Civil engineering investments are expected to grow at a good rate during 2020.

Housing construction in Finland is expected to decline in 2020 but the market for housing renovations looks better. Weaker growth in the economy is reflected in the forecasts for other building construction with a certain amount of growth expected in 2020. The forecast of total building construction indicates a reduction in 2020 but the effects of the coronavirus contribute to uncertainty. The forecasts for civil engineering investments signal a leveling out in 2020.

PARENT COMPANY

The parent company's business consists of executive management and Group functions. Net sales in 2019 were SEK 348 million (299) and consisted primarily of internal Group services. Operating profit for the year was SEK -160 million (-171). Profit after net financial items amounted to SEK -98 million (1,128). Net financial items included dividends from subsidiaries of SEK 200 million (1,509). Of the appropriations, Group contributions were SEK 2,130 million (2,698). Profit for the year amounted to SEK 1,263 million (2,809).

PROPOSED DIVIDEND

In February 2020, Peab's Board proposed an ordinary dividend of SEK 4.20 per share as well as extra distribution of all the shares in Annehem Fastigheter holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided to withdraw the proposals to the Annual General Meeting. The Board's ambition is to regularly evaluate dividend capacity and depending on developments be able to make a decision on both the ordinary dividend and the right time to distribute Annehem Fastigheter.

Proposed appropriation of profit

The following amounts in SEK are at the disposal of the Annual General Meeting;

| | |
|------------------------|----------------------|
| Share premium reserve | 2,308,208,948 |
| Profit brought forward | 3,584,566,148 |
| Profit for the year | 1,262,600,780 |
| Total | 7,155,375,876 |

The Board of Directors propose the following appropriation of disposable profit and non-restricted reserves;

| | |
|-------------------------------|----------------------|
| Carried forward ¹⁾ | 7,155,375,876 |
| Total | 7,155,375,876 |

¹⁾ Of which to share premium reserve.

2,308,208,948



Income statement - the Group

| MSEK | Note | 2019 | 2018 |
|---|-----------------|--------------|--------------|
| Net sales | 4,5 | 54,008 | 52,233 |
| Production costs | 12 | -48,734 | -47,045 |
| Gross profit | | 5,274 | 5,188 |
| Sales and administrative expenses | 12 | -2,879 | -2,784 |
| Other operating income | 7 | 280 | 216 |
| Other operating costs | 8 | -107 | -47 |
| Operating profit | 5,9,10,11,19,36 | 2,568 | 2,573 |
| Financial income | | 130 | 100 |
| Financial expenses | | -188 | -155 |
| Net finance | 13 | -58 | -55 |
| Pre-tax profit | | 2,510 | 2,518 |
| Tax | 15 | -418 | -418 |
| Profit for the year | | 2,092 | 2,100 |
| Profit for the year attributable to: | | | |
| Shareholders in parent company | | 2,092 | 2,100 |
| Non-controlling interests | | 0 | 0 |
| Profit for the year | | 2,092 | 2,100 |
| Profit per share before and after dilution, SEK | | 7.09 | 7.12 |

Statement of comprehensive income - the Group

| MSEK | Note | 2019 | 2018 |
|--|------|--------------|--------------|
| Profit for the year | | 2,092 | 2,100 |
| Other comprehensive income | | | |
| Items that have been reclassified or can be reclassified to profit for the year | | | |
| Translation differences when translating foreign operations for the year | | 49 | 86 |
| Change for the year in fair value of cash flow hedges | | 13 | 23 |
| Change in fair value of cash flow hedges carried over to profit for the year | | -4 | -3 |
| Shares in joint ventures' other comprehensive income | | 0 | 0 |
| Tax referring to items that have been reclassified or can be reclassified to profit for the year | 15 | 6 | -3 |
| Other comprehensive income for the year | | 64 | 103 |
| Total comprehensive income for the year | | 2,156 | 2,203 |
| Total comprehensive income for the year attributable to: | | | |
| Shareholders in parent company | | 2,156 | 2,203 |
| Non-controlling interests | | 0 | 0 |
| Total comprehensive income for the year | | 2,156 | 2,203 |

Balance sheet - the Group

| MSEK | Note | 2019 | 2018 |
|--|----------------|---------------|---------------|
| Assets | | | |
| Intangible assets | 16 | 2,334 | 2,250 |
| Tangible assets | 17, 36 | 6,811 | 5,741 |
| Investment property | 18, 36 | 558 | 589 |
| Participation in joint ventures | 19 | 1,884 | 1,076 |
| Securities held as fixed assets | 22, 34, 35 | 77 | 109 |
| Interest-bearing long-term receivables | 21, 30, 34, 35 | 1,086 | 1,445 |
| Deferred tax recoverables | 15 | 8 | - |
| Other long-term receivables | 23 | 131 | 107 |
| Total fixed assets | | 12,889 | 11,317 |
| Project and development properties | 24, 36 | 11,407 | 9,685 |
| Inventories | 25 | 533 | 441 |
| Accounts receivable | 26, 34, 35 | 9,285 | 10,166 |
| Interest-bearing current receivables | 21, 34, 35 | 144 | 640 |
| Tax assets | | 101 | 118 |
| Worked-up not invoiced income | 27 | 2,387 | 2,312 |
| Prepaid expenses and accrued income | | 544 | 529 |
| Other current receivables | 23 | 678 | 732 |
| Securities held as current assets | 22, 34, 35 | 388 | 0 |
| Liquid funds | 34, 35 | 373 | 1,376 |
| Total current assets | | 25,840 | 25,999 |
| Total assets | | 38,729 | 37,316 |
| Equity | | | |
| | 28 | | |
| Share capital | | 1,584 | 1,584 |
| Other contributed capital | | 2,576 | 2,576 |
| Reserves | | -4 | -68 |
| Profit brought forward including profit for the year | | 8,108 | 7,255 |
| Equity attributable to shareholders in parent company | | 12,264 | 11,347 |
| Non-controlling interests | | 2 | 1 |
| Total equity | | 12,266 | 11,348 |
| Liabilities | | | |
| Interest-bearing long-term liabilities | 29,34,35 | 5,617 | 5,194 |
| Other long-term liabilities | 32,34 | 72 | 161 |
| Deferred tax liabilities | 15 | 148 | 123 |
| Provisions | 31 | 942 | 816 |
| Total long-term liabilities | | 6,779 | 6,294 |
| Interest-bearing current liabilities | 29, 34, 35 | 3,493 | 1,818 |
| Accounts payable | 34, 35 | 4,295 | 5,177 |
| Tax liabilities | | 111 | 69 |
| Invoiced income not worked-up | 27 | 5,618 | 6,841 |
| Accrued expenses and deferred income | | 4,007 | 4,046 |
| Other current liabilities | 32, 34 | 1,946 | 1,457 |
| Provisions | 31 | 214 | 266 |
| Total current liabilities | | 19,684 | 19,674 |
| Total liabilities | | 26,463 | 25,968 |
| Total equity and liabilities | | 38,729 | 37,316 |

Report on changes in Group equity

| Equity attributable to owners in parent company | | | | | | | | | | |
|---|---------------|---------------------------|---------------------|--------------------|-----------------|--|---------------|---------------------------|---------------|--|
| MSEK | Share capital | Other contributed capital | Translation reserve | Fair value reserve | Hedging reserve | Profit brought forward including profit for the year | Total | Non-controlling interests | Total equity | |
| Opening balance equity 2018-01-01 | 1,584 | 2,576 | -138 | 4 | -33 | 6,338 | 10,331 | 1 | 10,332 | |
| Adjustment for retroactive application of IFRS 9 per 1 January 2018 | | | | -4 | | -3 | -7 | | -7 | |
| Adjusted equity 2018-01-01 | 1,584 | 2,576 | -138 | - | -33 | 6,335 | 10,324 | 1 | 10,325 | |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | | | | | | 2,100 | 2,100 | | 2,100 | |
| Other comprehensive income for the year | | | 87 | | 16 | | 103 | | 103 | |
| Total comprehensive income for the year | - | - | 87 | - | 16 | 2,100 | 2,203 | 0 | 2,203 | |
| Contribution from, and value transferred to, owners | | | | | | | | | | |
| Cash dividends | | | | | | -1,180 | -1,180 | | -1,180 | |
| Closing balance equity 2018-12-31 | 1,584 | 2,576 | -51 | - | -17 | 7,255 | 11,347 | 1 | 11,348 | |
| Opening balance equity 2019-01-01 | 1,584 | 2,576 | -51 | - | -17 | 7,255 | 11,347 | 1 | 11,348 | |
| Total comprehensive income for the year | | | | | | | | | | |
| Profit for the year | | | | | | 2,092 | 2,092 | | 2,092 | |
| Other comprehensive income for the year | | | 57 | | 7 | | 64 | | 64 | |
| Total comprehensive income for the year | - | - | 57 | - | 7 | 2,092 | 2,156 | 0 | 2,156 | |
| Contribution from, and value transferred to, owners | | | | | | | | | | |
| Cash dividends | | | | | | -1,239 | -1,239 | | -1,239 | |
| Shareholder contribution | | | | | | | - | 1 | 1 | |
| Total contribution from, and value transferred to, owners | - | - | - | - | - | -1,239 | -1,239 | 1 | -1,238 | |
| Closing balance equity 2019-12-31 | 1,584 | 2,576 | 6 | - | -10 | 8,108 | 12,264 | 2 | 12,266 | |

Cash flow statement - the Group

| MSEK | Note | 2019 | 2018 |
|---|------|---------------|---------------|
| Current operations | 43 | | |
| Pre-tax profit | | 2,510 | 2,518 |
| Adjustments for non-cash items | | 980 | 961 |
| Income tax paid | | -338 | -785 |
| Cash flow from current operations before working capital changes | | 3,152 | 2,694 |
| Cash flow from changes in working capital | | | |
| Increase (-) /Decrease (+) project and development properties | | -1,661 | -2,068 |
| Increase (-) /Decrease (+) inventories | | -89 | -39 |
| Increase (-) /Decrease (+) current receivables | | 367 | -1,921 |
| Increase (+) /Decrease (-) current liabilities | | -1,717 | 1,084 |
| Cash flow from changes in working capital | | -3,100 | -2,944 |
| Cash flow from current operations | | 52 | -250 |
| Investment operations | | | |
| Acquisition of subsidiaries/businesses, net effect on liquid funds | | -22 | -23 |
| Sale of subsidiaries/businesses, net effect on liquid funds | | 163 | 15 |
| Acquisition of intangible assets | | -124 | -100 |
| Acquisition of tangible assets | | -1,330 | -1,285 |
| Sale of tangible assets | | 186 | 455 |
| Acquisition of investment property | | -62 | -249 |
| Sale of investment property | | 180 | 597 |
| Acquisition of financial assets | | -409 | -456 |
| Sale of financial assets | | 815 | 275 |
| Cash flow from investment operations | | -603 | -771 |
| Cash flow before financing | | -551 | -1,021 |
| Financing operations | | | |
| Raised loans | | 2,087 | 2,127 |
| Loan amortization | | -1,532 | -1,062 |
| Raised bonds | | 200 | 1,698 |
| Bond amortization | | -200 | -100 |
| Leasing liabilities amortization | | -408 | -243 |
| Change in issued commercial papers | | 629 | 530 |
| Dividend distributed to shareholders in parent company | | -1,239 | -1,180 |
| Shareholder contribution holding with non-controlling interest | | 1 | - |
| Cash flow from financing operations | | -462 | 1,770 |
| Cash flow for the year | | -1,013 | 749 |
| Cash at the beginning of the year | | 1,376 | 595 |
| Exchange rate differences in cash | | 10 | 32 |
| Cash at year-end | | 373 | 1,376 |

Income statement - the parent company

| MSEK | Note | 2019 | 2018 |
|--|-------|--------------|--------------|
| Net sales | 5 | 348 | 299 |
| Administrative expenses | 10,11 | -513 | -470 |
| Other operating income | | 5 | - |
| Operating profit | | -160 | -171 |
| Profit/loss from financial investments | 13 | | |
| Profit/loss from participation in Group companies | | 130 | 1,388 |
| Profit/loss from securities and receivables held as fixed assets | | 0 | 3 |
| Interest expenses and similar profit/loss items | | -68 | -92 |
| Profit/loss after financial items | | -98 | 1,128 |
| Appropriations | 14 | 1,656 | 2,083 |
| Pre-tax profit | | 1,558 | 3,211 |
| Tax | 15 | -295 | -402 |
| Profit for the year ¹⁾ | | 1,263 | 2,809 |

¹⁾ Profit/loss for the year corresponds to comprehensive profit/loss for the year and therefore only one income statement is presented without a separate one for comprehensive profit/loss.

Balance sheet - the parent company

| MSEK | Note | 2019 | 2018 |
|---------------------------------------|----------|---------------|---------------|
| Assets | | | |
| Fixed assets | | | |
| Intangible assets | 16 | 51 | 51 |
| Tangible assets | 17 | 1 | 1 |
| Financial assets | | | |
| Participation in Group companies | 41 | 12,050 | 12,045 |
| Other securities held as fixed assets | 22,34,35 | 0 | 0 |
| Deferred tax recoverables | 15 | 119 | 111 |
| Total financial assets | | 12,169 | 12,156 |
| Total fixed assets | | 12,221 | 12,208 |
| Current assets | | | |
| Current receivables | | | |
| Accounts receivable | 26,34,35 | 1 | 0 |
| Receivables from Group companies | 34 | 2,479 | 2,736 |
| Current tax assets | | 60 | 85 |
| Other current receivables | 23 | 44 | 2 |
| Prepaid expenses and accrued income | | 10 | 11 |
| Total current receivables | | 2,594 | 2,834 |
| Cash and bank | 34 | 0 | 0 |
| Total current assets | | 2,594 | 2,834 |
| Total assets | | 14,815 | 15,042 |
| Equity and liabilities | | | |
| Equity | 28 | | |
| Restricted equity | | | |
| Share capital | | 1,584 | 1,584 |
| Statutory reserve | | 300 | 300 |
| Fund for development costs | | 17 | 21 |
| Non-restricted equity | | | |
| Share premium reserve | | 2,308 | 2,308 |
| Profit brought forward | | 3,585 | 2,011 |
| Profit for the year | | 1,263 | 2,809 |
| Total equity | | 9,057 | 9,033 |
| Untaxed reserves | 42 | 2,403 | 1,930 |
| Provisions | | | |
| Other provisions | 31 | 41 | 36 |
| Total provisions | | 41 | 36 |
| Long-term liabilities | | | |
| Liabilities to Group companies | 29,34 | 2,791 | 3,883 |
| Total long-term liabilities | | 2,791 | 3,883 |
| Current liabilities | | | |
| Accounts payable | 34 | 32 | 31 |
| Liabilities to Group companies | 34 | 404 | 59 |
| Other current liabilities | 32 | 12 | 4 |
| Accrued expenses and deferred income | 33 | 75 | 66 |
| Total current liabilities | | 523 | 160 |
| Total liabilities | | 3,314 | 4,043 |
| Total equity and liabilities | | 14,815 | 15,042 |

Report on changes in equity - the parent company

| MSEK | Restricted equity | | | Non-restricted equity | | | Profit for the year | Total equity |
|--|-------------------|-------------------|----------------------------|-----------------------|-----------------|------------------------|---------------------|--------------|
| | Share capital | Statutory reserve | Fund for development costs | Share premium reserve | Special reserve | Profit brought forward | | |
| Opening balance equity, 2018-01-01 | 1,584 | 300 | 17 | 2,308 | 55 | 1,123 | 2,017 | 7,404 |
| Profit for the year | | | | | | | 2,809 | 2,809 |
| Other comprehensive income for the year | | | | | | | | - |
| Total comprehensive income for the year | - | - | - | - | - | - | 2,809 | 2,809 |
| Allocation of profit | | | | | -55 | 2,072 | -2,017 | - |
| Change in fund for development costs | | | 4 | | | -4 | | - |
| Cash dividends | | | | | | -1,180 | | -1,180 |
| Closing balance equity, 2018-12-31 | 1,584 | 300 | 21 | 2,308 | - | 2,011 | 2,809 | 9,033 |
| Opening balance equity, 2019-01-01 | 1,584 | 300 | 21 | 2,308 | - | 2,011 | 2,809 | 9,033 |
| Profit and comprehensive income for the year | | | | | | | 1,263 | 1,263 |
| Total comprehensive income for the year | - | - | - | - | - | - | 1,263 | 1,263 |
| Allocation of profit | | | | | | 2,809 | -2,809 | - |
| Change in fund for development costs | | | -4 | | | 4 | | - |
| Cash dividends | | | | | | -1,239 | | -1,239 |
| Closing balance equity, 2019-12-31 | 1,584 | 300 | 17 | 2,308 | - | 3,585 | 1,263 | 9,057 |

Cash flow statement - the parent company

| MSEK | Note | 2019 | 2018 |
|---|------|-------------|-------------|
| Current operations | 43 | | |
| Pre-tax profit | | -98 | 1,128 |
| Adjustments for non-cash items | | 80 | 128 |
| Income tax paid | | -276 | -714 |
| Cash flow from current operations before working capital changes | | -294 | 542 |
| Cash flow from changes in working capital | | | |
| Increase (-) /Decrease (+) current receivables | | -50 | 37 |
| Increase (+) /Decrease (-) current liabilities | | 22 | -27 |
| Cash flow from changes in working capital | | -28 | 10 |
| Cash flow from current operations | | -322 | 552 |
| Investment operations | | | |
| Shareholder contributions | | -51 | -311 |
| Acquisition of intangible assets | | -4 | -16 |
| Sale of financial assets | | 22 | 0 |
| Cash flow from investment operations | | -33 | -327 |
| Cash flow before financing | | -355 | 225 |
| Financing operations | | | |
| Received Group contribution | | 2,699 | 3,427 |
| Paid Group contribution | | -1 | -8 |
| Loan amortization | | -1,104 | -2,464 |
| Dividend distributed | | -1,239 | -1,180 |
| Cash flow from financing operations | | 355 | -225 |
| Cash flow for the year | | 0 | 0 |
| Cash at the beginning of the year | | 0 | 0 |
| Cash at year-end | | 0 | 0 |

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Note 1 Accounting principles

COMPLIANCE WITH STANDARDS AND LEGISLATION

The consolidated accounts have been drawn up in accordance with those International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) which have been adopted by EU. In addition, the Swedish Financial Reporting Board recommendation RFR 1 Supplementary accounting rules for groups has also been applied.

The parent company applies the same accounting principles as the Group except in the cases stated in the section below on Parent company accounting principles.

The Annual Report and the consolidated accounts have been approved of by the Board and CEO for publication on April 7, 2020. The consolidated income statement and balance sheet and parent company income statement and balance sheet will be presented for adoption by the AGM on 6 May 2020.

VALUATION BASIS

Assets and liabilities are recognized 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, contingent considerations and shares and holdings that are not subsidiaries, joint arrangements or associated companies.

FUNCTIONAL CURRENCY AND REPORTING CURRENCY

The parent company's functional currency is the Swedish krona, which is also the currency in which the accounts of the parent company and the Group are reported. Unless otherwise indicated all amounts are rounded off to the nearest million.

ASSESSMENTS AND ESTIMATES IN THE FINANCIAL REPORTS

Preparing the financial reports requires on the one hand making assessments concerning the application of accounting principles and on the other hand estimating the value of assets, liabilities, revenues and costs. Estimates and assumptions are based on historical experience and other factors considered relevant. Estimates and assumptions are regularly reviewed and compared to the actual outcome. Important assessments are described in more detail in note 3.

AMENDED ACCOUNTING PRINCIPLES

IFRS 16 Leases

IFRS 16 Leases, replaced IAS 17 Leases, as of 1 January 2019. IFRS 16 basically requires Peab as a lessee to report all leasing contracts as assets and liabilities on the balance sheet, representing the right to use the leased asset respectively the obligation to pay leasing fees. Peab has chosen to apply IFRS 16 in segment reporting as well. The effects of IFRS 16 Leases are described in note 2.

Other amended IFRSs applied as of 2019 have not had any material effect on Group accounting.

COMING CHANGES IN ACCOUNTING PRINCIPLES

New IFRSs and interpretations that have not yet been applied

Other new or amended IFRSs together with interpretations that have been adopted by IASB are not expected to have any material effect on Group accounting.

Changed accounting principles concerning projects with Swedish tenant owned housing associations

According to current accounting principles Peab does not consolidate projects with Swedish tenant owned housing associations from the time land transfer and turnkey contracts are signed.

As of the financial year 2020 Peab will consolidate projects with Swedish tenant owned housing associations from the time the final homebuyers take over their apartments and at the same time become members of the housing association. This means that Peab will report the projects as work-in-progress and interest-bearing liabilities. Revenue and costs for

the projects will be recognized as homebuyers take over. According to previous principles revenue and costs were recognized over time based on the degree of completion of the project. The change will be implemented as of January 1, 2020 with retroactive translation of the comparative year 2019.

In segment reporting housing projects for Swedish tenant owned housing associations, Norwegian condominiums and share housing and Finnish residential limited companies are recognized over time as the projects are successively completed.

OPERATING SEGMENTS

An operating segment is a section of the Group engaged in similar business activities that generates revenues and expenses and the result of which is regularly reviewed by executive management.

CLASSIFICATION

Fixed assets consist of amounts which are expected to be recovered or paid more than twelve months after the balance sheet date. Long-term liabilities consist of amounts which are due for payment more than twelve months after the balance sheet date as well as other amounts the company has an unconditional right to defer payment on until a point in time more than twelve months after the balance sheet date. Other assets and liabilities are recognized as current assets and current liabilities. Inventories in the form of project and development properties with a normal operating cycle that is longer than twelve months are also recognized as current assets.

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are entities over which Peab AB exercises a direct or indirect controlling interest. Controlling interest exists if the parent company has direct or indirect influence over an investment object, is exposed to or has the right to variable yields from its interest in an investment object and can use its influence over an investment object to affect the size of its yield.

Subsidiary financial reports are recognized in the consolidated accounts from the day controlling interest occurs until it no longer exists.

Joint ventures

For accounting purposes, joint ventures are entities where the Group through cooperation agreements with one or more parties exercises a joint controlling interest, where the Group has the indirect right to net assets.

Associated companies and joint ventures are consolidated in accordance with the equity method. The equity method means that the recognized value of shares corresponds to the Group's share of the company's equity as well as Group goodwill and any other Group deficit and surplus values. The Group's share of the profit/loss in holdings after tax, adjusted for depreciation, write-downs or dispersal of acquired deficit and surplus values are recognized in consolidated profit/loss. Received dividends reduce the recognized value of the investment.

The equity method is applied until the time the joint controlling interest ceases.

Joint operations

Joint operations, usually run as a company, are joint arrangements where Peab and one or more partners have the right to all the financial advantages related to the assets of the operations. How the liabilities of the operations are settled depends on the partners' purchases of output from them or capital infusions to them. Joint operations are recognized according to the proportional method which means each party in a joint operation recognizes their respective share in assets, liabilities, income and expenses.

Associated companies

Associated companies are those companies in which the Group has a significant but not controlling interest over operating and financial

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1 governance usually through shareholdings of between 20 and 50 percent.
2 Associated companies are recognized according to the equity method.

3 **Business combinations**

4 Business combinations are recognized using the purchase accounting
5 method. The method is applied from the point in time the Group has a
6 controlling interest over the acquisition. The purchase accounting method
7 means acquisitions are regarded as transactions through which the Group
8 indirectly acquires the assets of the subsidiary and takes over its liabilities.
9 The consolidated acquisition value is calculated in an acquisition
10 analysis in conjunction with the acquisition. The analysis establishes the
11 acquisition value of the participations or the business and the fair value
12 on acquisition date of the acquired identifiable assets and the liabilities
13 taken over. If ownership and controlling interest is successive a re-meas-
14 uring of previous holdings to fair value at the point in time the company
15 gets controlling interest over the acquisition is performed and this
16 change in value is recognized in profit/loss.

17 Goodwill is calculated as the sum of payment for the participations or
18 the business in step acquisitions together with the fair value of previously
19 acquired shares less the fair value of the subsidiary's identifiable assets
20 and overtaken liabilities. When the difference is negative this is recognized
21 directly in profit/loss for the year. Transaction costs for business combina-
22 tions are charged upon acquisition.

23 Contingent considerations are measured at fair value at the time of
24 acquisition and subsequent changes in fair value are recognized in profit/
25 loss as they occur.

26 Net assets attributable to holdings of non-controlling interest (the
27 minority) are recognized either as the fair value of all net assets excluding
28 goodwill or the fair value of all assets including goodwill. The choice of
29 principle is made for each acquisition individually.

30 Issued sales options referring to participations held by holdings of
31 non-controlling interest are recognized according to the "Anticipated
32 Acquisition Method". According to the method no holdings of non-con-
33 trolling interest are recognized in the Group's total equity. Instead a financial
34 liability is recognized that corresponds to the current estimated exercise
35 price. The consequent changes in the value of the liability are recognized
36 in profit/loss for the year, attributable to parent company owners.

37 When controlling interest has been achieved the change in ownership
38 is recognized as a transfer in equity between the parent company and the
39 non-controlling interest, without remeasuring the subsidiary's net assets.

40 If partial disposal of a subsidiary results in the loss of controlling interest
41 any residual holding is revalued to fair value and the amount of the change
42 is recognized in profit/loss.

43 **Asset acquisition**

44 When acquisitions of subsidiaries involve the acquisition of net assets
45 which do not comprise operations, the acquisition cost of each identifiable
asset and liability is divided up based on its fair value at the time of
acquisition. Transaction costs are added to the purchase price of the
acquired net assets when assets are acquired and changes in contingent
consideration after acquisition are added to the purchase price of the
acquired assets. If the acquisition of a subsidiary is successive and is an
asset acquisition no remeasuring of previous acquisitions is performed
when controlling interest occurs. If the holding diminishes through partial
divestiture of shares in subsidiaries and is an asset divestiture, unlike a
transfer of operations, the remaining holdings are not remeasured if the
remaining holdings constitute a joint venture or associated company.
Holdings of non-controlling interest in subsidiaries recognized as asset
acquisitions are recognized according to the same principles as for busi-
ness combinations but without the inclusion of goodwill.

46 **Transactions eliminated upon consolidation**

47 Internal Group receivables and liabilities, revenues or costs or unrealized
48 gains or losses stemming from internal Group transactions are eliminated
49 completely when preparing the consolidated accounts.

Unrealized gains arising from transactions with joint ventures, joint opera-
tions and associated companies are eliminated to the extent these refer to
the Group's ownership in the company. Unrealized losses are eliminated in
the same way as unrealized gains but only to the extent there is no impair-
ment requirement. When subsidiaries considered to be operational become
joint ventures or associated companies the residue holding is remeasured
to fair value according to the principles above about recognition when
controlling interest ceases.

50 **FOREIGN CURRENCY**

51 **Transactions in foreign currency**

52 Transactions in foreign currency are converted to the functional currency
53 at the exchange rate on the transaction date. The functional currency is
54 the currency of the primary financial bases the company operates in.
55 Monetary assets and liabilities in foreign currency are converted to the
56 functional currency at the exchange rate applying on the balance sheet
57 day. Exchange rate differences arising during translation are recognized
58 in profit/loss for the year. Non-monetary assets and liabilities which are
59 recognized at their historical acquisition value are converted to the
60 exchange rate at the time of the transaction. Non-monetary assets recog-
61 nized at fair value are recalculated to the functional currency at the
62 exchange rate at the time of valuation at fair value.

63 **Foreign company financial reports**

64 Assets and liabilities in foreign entities including goodwill and other Group
65 deficit and surplus values are converted from the foreign company's func-
66 tional currency to the Group's reporting currency, Swedish krona, at the
67 exchange rate on balance sheet day. Revenue and costs in a foreign entity
68 are converted to Swedish krona at an average rate that approximates the
69 rates on the respective transaction dates. Translation differences arising
70 when converting the currency of foreign companies are recognized in other
71 comprehensive income and are accumulated in a separate component in
72 equity as a translation reserve.

73 **Net investment in a foreign company**

74 Translation differences arising from the translation of a foreign net invest-
75 ment are recognized via other comprehensive income in the translation
76 reserve in equity. Translation differences also comprise exchange rate differ-
77 ences from loans which form a part of the parent company's investment in
78 foreign subsidiaries (so-called extended investment). When a foreign sub-
79 sidiary is divested, the accumulated translation differences attributable to
80 the company are reclassified from equity to profit/loss for the year.

81 **REVENUE**

82 The Group recognizes revenue when the Group meets a performance
83 obligation, which happens when a promised good or service is delivered
84 to the customer and the customer takes control over the good or service.
85 Control of a performance obligation can be transferred over time or at a
86 certain point in time. The revenue consists of the amount the Group
87 expects to receive as compensation for the transferred goods or services.
88 The Peab Group's revenue primarily consists of the following revenue
89 flows: Construction contracts, Sales of goods, Sales of property projects,
90 Transportation services, Rent revenue and Other revenue.

91 Revenue recognition requires assessing the facts and relationships in
92 each contract at the same time legal aspects must be taken into account.
93 These assessments primarily concern identification of one or more per-
94 formance obligations, any variable compensation and whether or not the
95 revenue is recognized over time or at one point in time and at what point
96 in time the revenue is recognized.

The following principles are applied on each revenue flow.

97 **Construction contracts**

98 Revenue from construction contracts comes from business areas Con-
99 struction, Civil Engineering, parts of business area Industry and parts of
100 business area Project Development, primarily Housing Development, i.e.

tenant-owned housing projects in Sweden and single homes (Own Home).

A contract exists when enforceable rights and obligations occur for the Group as well as the customer. These rights and obligations normally occur when both parties sign the contract. In the case of a framework agreement without guaranteed volumes a contract exists with a customer first when the customer places an order/call-off based on the framework agreement's terms since it is at that point in time enforceable rights and obligations occur for the Group and the customer. In certain situations two or more contracts are combined into one contract if they are negotiated as a package with a single commercial purpose, if the price in one contract is dependent on the price or performance in the other contract or if the goods and services promised in the contracts constitute a single performance obligation.

In certain transactions, like Swedish tenant-owned housing projects, two contracts are signed between Peab and the customer at the same time, a sale of land contract and a construction contract. Both these contracts are contingent on each other and treated in accounting as a single contract. The combined contract comprises a single performance obligation where land and construction are input in the process of delivering a completed new building.

Recognition of revenue due to contract changes, related to changes or additional work, compensation for shortcomings in procurement conditions and such does not begin until enforceable rights and obligations occur between the Group and the customer. This normally occurs when both parties have agreed on a change in the contract and there is a legal right to payment. Contract changes are normally recognized as if they were a part of the existing contract.

A determination is made for every contract or combined contract on whether one or more performance obligations exist. This can vary from contract to contract. Normally a construction contract constitutes one performance obligation.

The transaction price in each contract with the customer consists normally of fixed amounts, variable amounts or a combination thereof. To the extent that the transaction price includes variable compensation amounts the transaction price consists of an estimated anticipated value. Variable compensation is only recognized when it is very likely that a material reversal of accumulated income will not occur when uncertainty ceases and the compensation sum becomes definite.

Revenue from construction contracts is recognized over time since Peab performs the work on the customer's land or the asset or service does not create any alternative use for Peab and where Peab has the right to compensation including a margin for the performance reached at specific points in time. This means that control is transferred over time which is why the income is recognized over time. In addition to construction contracts some other contracts for services such as operation contracts exist. Control is also transferred over time in these contracts since the customer consumes the service at the same it is received. This revenue is recognized through the input method based on the worked-up rate in each project. This means that expenses are recognized as costs when they occur and the worked-up rate is determined on the basis of project costs in relationship to the project's calculated total expenses, which mirrors how control is transferred to the buyer and how the Group's lowest right to compensation including a margin from customers is worked-up. This is the basis of revenue recognition.

Recognition over time entails some uncertainty since unforeseen events can occur leaving the final level of profit/loss higher or lower than expected. The degree of uncertainty is higher at the start of a project, particularly in projects spanning over a long period of time. Reviews of a project's total estimated revenue and expenses are performed regularly during the entire production period.

Fearred losses are charged to income as soon as they become known, and these amounts charge profit/loss.

Construction contracts are recognized on the balance sheet project by project either as Worked-up not invoiced revenue under current assets

or as Invoiced revenue not worked-up under current liabilities. Projects with higher worked-up revenue than invoiced are recognized as assets while projects which have been invoiced in excess of the worked-up revenue are recognized as liabilities. The not worked-up part of a feared loss is recognized as a provision.

Obligations issued by Peab to acquire homes from tenant-owned housing associations that remain unsold for a given period of time after final inspection are recognized according to the regulations regarding loss-making contracts in IAS 37 Provisions, contingent liabilities and contingent assets. Assessments are made based on the probability of the obligation being invoked and the risk that the acquisition will be a loss-making contract. Fulfillment of the obligation means Peab pays the purchase price and acquires a share in the tenant-owned housing association. The shares are financial instruments. The obligation is therefore not a variable compensation according to IFRS 15 Revenue from contracts with customers. Recognition of Swedish tenant-owned housing associations is also described in note 3 Important estimates and assessments.

Sales of goods

Revenue from the sales of goods comes primarily from business area Industry and is recognized at the point in time the good is transferred to the customer.

Sales of property projects

Own developed housing projects in Finland and Norway

In this revenue flow revenue is recognized from housing projects in Finland and Norway included in the segment Project Development, i.e. the sections of Housing Development that are not Construction contracts according to the above. Peab does not have an external independent other party at the start of a project in our housing projects in Finland and Norway, i.e. there is no customer, which is why revenue recognition cannot begin. When a customer signs a contract enforceable rights and obligations occur for the Group and the customer. Normally these consist of a performance obligation for a fixed price. Control is not transferred over time in these contracts since the customer does not consume the service at the same it is received. Peab is building on its own land and even if an asset that does not have any alternative use for Peab is created, there is no right to compensation including a margin for work performed at a specific point in time. Since none of these criteria are met control is considered to be transferred at one point in time which normally coincides with the customer taking over the home.

Expenses are recognized as work-in-progress on the balance sheet under Project and development property. On account invoices to customers are recognized as non-interest-bearing liabilities and loans to finance housing projects are recognized as interest-bearing liabilities.

Sales of properties

In this revenue flow revenue is recognized from project and development property, operations property and investment property, primarily in business area Project Development. These sales are either direct sales of the asset or via the sale of shares. The underlying sales value of project and development property sold in the form of a company via shares is recognized as net sales. The net profit effect from the sales of operations property or investment property is recognized as Other operating income or Other operating costs.

Revenue from the sales of property is recognized at one point in time, normally on the takeover date when control is transferred to the customer. The transaction price is fixed although there can be instances of variable compensation such as rent guarantees in the case of unrented space and operation guarantees.

Transportation services

Revenue from transportation services comes primarily from business area Industry and is recognized at the point in time the transportation/service is carried out.

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Rent revenue

Rent revenue from investment property as well as from cranes and machinery is recognized linearly according to IFRS 16 (IAS 17) Leases. Rent rebates are spread linearly as a reduction in rent over the contract period, except for rebates given because certain factors temporarily curtail a renter's ability to fully utilize an already rented premise (for example, delayed customization to a renter). These rebates are recognized during the period the curtailment exists.

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Other revenue

Other revenue refers to administrative revenue as well as various other revenue. This revenue is recognized both over time and at one point in time based on when control is transferred from Peab to the customer.

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FINANCIAL INCOME AND EXPENSES

Financial income and expenses consist of interest income on cash in bank, receivables and interest-bearing securities, interest expenses on liabilities, dividend revenues, changes in fair value of financial investments and changes in fair value of derivatives used within the financial business.

Interest income on receivables and interest expenses on liabilities are calculated in accordance with the effective interest rate method. The effective interest rate is the exact discount rate for estimated future payments and disbursements during the expected life of the financial instrument at the recognized gross value of a financial asset or the accrued acquisition value of a financial liability. Interest income and interest expenses include accrued transaction costs as well as possible discounts or premiums.

Dividend income is recognized when the right to payment is established. The results of sales of financial investments are recognized on the trade date.

Interest costs are charged to profit/loss 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 is included in the acquisition price is an asset which must necessarily require considerable time to prepare for the intended use or sale.

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TAXES

Income tax consists of current tax and deferred tax. Income tax is recognized in profit/loss for the year except when the underlying transaction is recognized in other comprehensive income or equity, in which case the relevant tax is recognized in other comprehensive income respectively in equity.

Current tax is tax that will be paid or received during the current year. This also includes current tax attributable to earlier periods. Current and deferred tax is calculated applying the tax rates and tax rules valid on or in practice valid on the balance sheet day.

Deferred tax is calculated according to the balance sheet method based on temporary differences between the reported and fiscal values of assets and liabilities. Valuation of deferred tax is based on how the underlying value of assets or liabilities is expected to be realized or regulated. Temporary differences for the difference generated by recognition of consolidated goodwill or the temporary difference from the acquisition of subsidiaries that are so-called asset acquisitions are not taken into account.

When shares in subsidiaries are acquired such acquisitions are either business combinations or an asset purchase. An asset purchase refers to, for example, acquiring a company that only owns one or more properties with tenancy agreements but the acquisition does not comprise the processes required to operate a business. In business combinations deferred tax is recognized at the nominally valid tax rate with no discount according to the principles presented above. When an asset is acquired deferred tax is not recognized at the time of acquisition. Instead the asset is recognized at a purchase value corresponding to the asset's fair value after deductions for a discount received in the transaction for the current value of the fiscal value of future fiscal deductions regarding the difference between recognized and fiscal value that do not materialize. After the acquisition only deferred tax on temporary differences that occur after the acquisition is recognized.

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Deferred tax assets in the form of deductible temporary differences and tax loss carry-forwards are recognized only when use of them is probable. The value of deferred tax assets is reduced when use of them is deemed no longer probable.

FINANCIAL INSTRUMENTS

Financial instruments recognized on the balance sheet include on the assets side liquid funds, short-term investments, accounts receivable, securities holdings, loan receivables and derivatives. On the liabilities side, they include accounts payable, borrowings and derivatives.

Recognition on and removal from the balance sheet

Financial assets and financial liabilities are recognized on the balance sheet when Peab becomes involved according to the instrument's contractual terms. Receivable are recognized when Peab has performed and the other party has a contractual responsibility to pay, even if the invoice has not yet been sent. Accounts receivable are recognized on the balance sheet when the invoice has been sent. Liabilities are recognized 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 recognized when the invoice is received.

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

Financial assets and financial liabilities are offset and recognized at a net amount on the balance sheet only where there is a legal right to offset the amounts and the intention is to clear the items with a net amount or to at the same time capitalize the asset and settle the liability.

On-demand acquisitions and on-demand sales of financial assets are reported on the transaction date, which is the date Peab undertakes to acquire or sell the asset.

Valuation at initial recognition

Financial instruments are initially recognized at fair value with the addition/reduction of transaction costs except for instruments current recognized at fair value via profit/loss for which transaction costs are instead expensed as they occur. Accounts receivables (without any material financing components) are initially valued at the transaction price determined according to IFRS 15.

Classification and following valuation of financial assets

Financial assets are initially classified as valued at accrued acquisition value, at fair value via other comprehensive income (liability instrument investment), at fair value via other comprehensive income (equity investment) or fair value via profit/loss. How the Group's various holdings of financial assets are classified is described below.

Holdings of unlisted funds

The Group has participations in unlisted funds. The fund participations do not meet the criteria for an equity instrument and cash flows from the funds do not consist solely of payments of principal and interest. The funds are therefore valued at fair value via profit/loss.

Holdings of shares and participations in unlisted companies

The Group's holdings of shares and participations in unlisted companies (that are not subsidiaries, associated companies or joint ventures) are valued at fair value via profit/loss

Derivatives not used for hedge accounting

Derivatives that for Peab have a positive fair value on the balance sheet day are recognized as assets in the report on financial position. Derivatives that are not used for hedge accounting are valued at fair value via profit/loss.

Other financial assets

All other financial assets are recognized at accrued acquisition value. This is because they are held within the framework for a business model aimed at receiving the contractual cash flows at the same time that cash flows from the assets consist solely of payments of principal and interest.

Classification and following valuation of financial liabilities

Financial liabilities are classified as valued at accrued acquisition value or valued at fair value via profit/loss. The financial liabilities valued at fair value via profit/loss consist of contingent considerations for business combinations and derivatives that for Peab have a negative fair value and are not hedged. All other financial liabilities are recognized at accrued acquisition value by applying the effective interest rate method.

Hedge accounting

Peab's holds interest, currency and raw materials derivatives utilized to hedge risks of changes in exchange rates, interest rate changes and changes in the price of raw materials.

Hedging interest risks (cash flow hedging)

Interest rate swaps and hedge accounting (cash flow hedging) are used to hedge against interest risks connected to Group loans. Interest rate swaps are valued at fair value in the balance sheet. The coupon rate part is recognized on a current basis as a correction of the interest expense in net financial items. Unrealized changes in the fair value of interest rate swaps are recognized in other comprehensive income and are part of the hedging provision until the hedged item (i.e. payment of interest on the hedged loan) affects profit/loss and as long as the criteria for hedge accounting is met.

Hedging raw materials price risks (cash flow hedging)

The Group uses derivatives to hedge the price risk of purchasing bitumen. The hedges are identified as cash flow hedging of very probable future purchases of bitumen. The derivative is recognized at fair value on the balance sheet and the unrealized value changes for the period are recognized in the hedging reserve via other comprehensive income.

Hedging currency risks (cash flow hedging)

From time to time the Group uses forward exchange contracts to hedge currency risks when purchasing foreign currency. The forward exchange contracts are valued at fair value on the balance sheet and the period's unrealized value changes are recognized in the hedging reserve via other comprehensive income.

Hedging net investments

To a certain extent measures have been taken to reduce currency risks connected to investments in operations abroad. This has been done by taking out loans in the same currency as the net investments. At closing these loans are recognized at the translated rate on balance sheet day. The effective part of changes in the period's exchange rate in relation to hedge instruments is recognized in other comprehensive income and the accumulated changes in a separate component of equity (the translation reserve), in order to meet and partly match the translation differences that affect other comprehensive income concerning net assets in the hedged operations abroad. In cases where the hedge is not effective, the ineffective part is recognized directly in profit/loss as a financial item.

Liquid funds

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

PROPERTY

Group property holdings are recognized as follows:

- Operations property among fixed assets
- Investment property among fixed assets
- Project and development properties as inventory among current assets

Operations property

Properties used in the Group's own operations consisting of office buildings, production buildings and other operations properties are recognized as buildings and land among tangible assets. They are measured at cost minus accumulated depreciation and possible write-downs.

The accounting principles involved are described below under "Tangible assets".

Investment property

Investment properties are property classified as fixed assets held to earn rentals or for capital appreciation or a combination of both. Even properties under development and redevelopment which are intended to be used as investment property when completed are classified as investment property. Like operations property, investment property is recognized at cost less accumulated depreciation and possible write-downs. Other accounting principles are presented under "Tangible assets".

Information is presented regarding the fair value of investment property. The valuation is based on an internal valuation model. As a complement to this valuation annual external market valuations are obtained for a number of objects. External valuation of properties is performed every third year.

Project and development property

Project and development property is recognized under current assets and consists of undeveloped land and redeveloped tracts for future development, developed investment properties for project development, improvement and subsequent sale, ongoing work attributable to housing projects in Finland and Norway as well as indirect holdings. The property is expected to be realized during our normal operational cycle. Valuation is made in accordance with IAS 2, Inventories, at the lowest of either acquisition value or net sales value, see below under "Inventories".

TANGIBLE ASSETS**Owned assets**

Tangible assets are recognized in consolidated accounts at acquisition value minus accumulated depreciation and any write-downs. The acquisition value consists of the purchase price and costs directly attributable to putting the asset in place in the condition required for utilization in accordance with the purpose of the acquisition.

The value of a tangible asset is derecognized from the balance sheet upon scrapping or divestment or when no future financial benefits are expected. Any recognized values of exchanged components, or parts of components, that are not depreciated are scrapped and expensed in connection with the exchange.

Gains and losses arising from divestment or disposal of an asset consist of the difference between the sale price and the asset's recognized value less direct sales costs.

Write-downs are described in separate section below.

Additional costs

Additional costs are only added to the acquisition value if it is likely that the future financial benefits associated with the asset will benefit the Group and the acquisition value can be reliably estimated. Additional costs include the cost of exchanging entire, or parts of, identifiable components as well as the cost of creating new components. Costs that do not meet asset criteria are recognized as costs as they occur.

Borrowing costs

Borrowing costs which are directly attributable to the purchase, construction or production of an asset and which require considerable time to complete for the intended use or sale are included in the acquisition value of the asset. Borrowing costs are included in the purchase price of our own developed real estate.

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Depreciation principles

Depreciation is based on the original acquisition value minus the calculated residual value. Depreciation is linear over the assessed useful life of the asset.

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| Buildings (operations property and investment property) | 25–100 years |
| Land improvements | 25–50 years |
| Asphalt and concrete factories | 10–15 years |
| Vehicles and construction machinery | 5–10 years |
| Other equipment and inventories | 3–10 years |

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

Gravel and rock quarries are written down based on substance depletion, i.e. the amount of gravel and rock removed in relation to the calculated total amount of substance deemed recoverable in the gravel and rock quarry.

INTANGIBLE ASSETS**Goodwill**

Goodwill is valued at acquisition value minus any accumulated write-downs. Goodwill is divided between cash-generating units and is tested at least once a year for write-down needs. Goodwill stemming from the acquisition of joint ventures and associated companies is included in the recognized value of participations in joint ventures and associated companies.

Balanced development costs

Development costs are primarily derived from developing IT systems and are reported as an asset on the balance sheet, if the application is technically or commercially useful and the Group is believed to have adequate resources for completing development and then applying the intangible asset. The recognized value includes all directly attributable expenses, for example for software, purchased services, personnel and, in cases where projects run for more than twelve months, loan costs. Other development costs are reported in profit/loss for the year as costs as they arise. Balanced development costs are recognized on the balance sheet at cost less accumulated depreciation and possible write-downs.

Other intangible assets

Other intangible assets refer to acquired assets recognized at acquisition value less accumulated depreciation and write-downs. These intangible assets consist of:

- Brands
- Customer relations
- Utilization rights, primarily gravel and rock quarries

Depreciation policies

Depreciation is linearly recognized in profit/loss for the year over the estimated useful life of the intangible asset. Goodwill and other intangible assets with an indeterminate useful life is not depreciated but is tested for impairment 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:

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| Brands that refer to business area Industry when repurchased by Peab 2008 | 20 years |
| Brands, other | 5–10 years |
| Customer relations | 3–5 years |
| Balanced development costs | 5–10 years |
| Rights of use | Correspond to contract period |

The useful life of assets are assessed annually.

LEASES

Described below are Peab's principles for reporting leases as a lessee.

Principles applied as of January 1, 2019.

An agreement is, or contains, a leasing agreement if the agreement transfers during a period the right to decide over the use of an identified asset in exchange for compensation. Peab's leases primarily refer to rent for offices and other premises, leaseholds, land leases and vehicles.

A right of use asset and a leasing liability are recognized on the commencement date of the leasing agreement, which is the date Peab acquires access to, and can begin to use, the underlying asset. The right of use is initially valued at acquisition cost, which consists of the leasing liability's initial value and the leasing fees paid before or on the commencement date plus any initial direct costs. The right of use is amortized linearly from the commencement date normally until the end of the leasing period. In cases where the acquisition cost for the right of use reflects that an option to buy the underlying asset will be used, the asset is amortized over the period the underlying asset is used.

Leasing liabilities – which are divided into long-term and current parts – are initially valued at the remaining leasing fees during the assessed leasing period. The leasing period is made up of the period that cannot be terminated and additional periods under the agreement if, on the commencement date, it is probable these will be used. The calculations for leaseholds are based on a never ending leasing period, in cases where the lessee (Peab) cannot terminate the leasehold agreement.

The leasing fees are normally discounted with the Group's marginal borrowing interest rate, which in addition to the Group's credit risk reflects the respective agreement's leasing period, currency and the quality of the underlying asset which is the intended collateral. In cases where the implicit interest rate of the leasing agreement is easily determined this interest rate is used instead, which is the case for parts of the Group's leases for vehicles.

The value of the liability increases with the interest rate cost for the respective period and is reduced by leasing payments. The interest rate cost is calculated as the value of the liability multiplied by the discount rate.

Variable leasing fees that are not index or interest rate based are expensed in the period they occur.

Leasing liabilities for premises or land with rent subject to indexation are calculated on the rent at the end of the respective report period. When the rent level has been raised according to the index the liability is adjusted, based on the new rent level, with a corresponding adjustment of the reported asset value of right of use. The value of the liability and asset is adjusted in the same way in connection with a reevaluation of the leasing period. This occurs when the final termination date within the previously assessed leasing period for a premise rental contract has passed or when significant events occur or circumstances change materially in a way that is under the control of the Peab Group and affects the existing assessment of the leasing period.

The Group recognizes right-of-use assets together with the same type of owned assets as the underlying leased asset on the balance sheet. The leased assets are specified per asset type in the note about leases.

Right-of-use assets and lease liabilities are not recognized for leases with a leasing period of 12 months or less or that have an underlying asset of low value. Leasing fees for these leases are expensed linearly over the leasing period.

Principles applied up to and including December 31, 2018.

Leases were classified in the consolidated accounts either as financial or operational leasing. Financial leasing was applied in circumstances where the financial risks and benefits associated with ownership were substantially transferred to the lessee, otherwise the leasing agreement was operational.

Assets rented under financial leases were recognized as assets on the consolidated balance sheet. Payment obligations associated with future leasing charges were recognized as long-term and current liabilities. Leased assets were depreciated over the leasing or utilization period if the underlying assets was expected to be taken over while leasing payments were recognized as interest and amortization of liabilities. Variable fees were expensed in the period they occurred.

Assets rented under operational leases were not recognized as assets on the consolidated balance sheet. Leasing charges for operational leases were expensed linearly over the leasing period. Benefits received in connection with signing an agreement were recognized in profit for the year linearly over the leasing agreement's period. Variable fees were expensed in the period they occurred.

INVENTORIES

Inventories are comprised of raw materials and consumables, products in progress, finished products and goods for resale. Project and development properties are recognized according to the principles for inventories but are presented as a separate item on the balance sheet under current assets.

Inventories are valued at the lowest of acquisition value and net sale value. The acquisition value of stock is calculated using the first-in, first-out method and includes expenses connected to the acquisition of the stock assets and transportation to their current location and condition. For manufactured goods the acquisition value includes a reasonable share of the indirect costs based on a normal capacity.

The net sale value is the estimated sales price in the current business minus estimated costs for completion and bringing about the sale.

IMPAIRMENT LOSSES

The recognized value of Group assets is checked every balance sheet day to assess whether there is a write-down requirement.

Impairment tests of tangible/intangible assets, investment property and participation in subsidiaries, joint ventures, associated companies etc.

If an impairment is indicated, the recovery value of the asset is estimated according to IAS 36. Moreover, the recovery value of goodwill, other intangible assets of indeterminate useful life and intangible development assets which are not yet ready for use is estimated each year. If it is not possible to establish materially independent cash flows for a certain asset, when testing for impairment the assets are grouped at the lowest level where it is possible to identify materially independent cash flows – a so-called cash-generating unit.

Write-downs are recognized when the recognized value of an asset or a cash-generating unit exceeds its recovery value. Write-downs are expensed in profit/loss for the year. Write-downs of assets attributable to a cash-generating unit, or a group of units, are first allocated to goodwill, followed by a proportional write-down of the other assets in the unit (or group of units).

The recovery value is the highest of fair value minus sales costs and useful value. When calculating useful value, future cash flows are discounted by a discount factor that takes into consideration the risk-free interest rate and the risks which are associated with the specific asset.

When calculating useful value leasing payments have been handled as cash flows in operations. This means that leasing liabilities do not affect the discount rate. The cash-generating unit's reported value includes right of use assets. Leasing liabilities are deducted from the cash-generating unit's reported value since the useful value is reduced by future leasing payments.

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

Impairment tests for financial assets

The Group recognizes loss reserves for anticipated credit losses on financial assets valued at accrued acquisition value. The loss reserve for accounts receivables is valued at an amount that corresponds to

the anticipated losses for the remaining time to maturity. For other receivables the loss reserve is valued at an amount that corresponds to 12 months anticipated credit losses, given that the credit loss has not significantly increased from when the receivable was originally recognized. If the credit loss has significantly increased from when the receivable was originally recognized the loss reserve is valued at an amount that corresponds to the anticipated losses for the remaining period time to maturity.

The loss reserve is calculated as the current value of all deficits in cash flows (i.e. the difference between cash flows according to a contract and the cash flows the Group anticipates receiving). Current receivables are, however, not discounted. Assets are recognized in the balance sheets net after any write-downs. Write-downs are recognized in profit/loss.

The reserve for anticipated credit losses regarding accounts receivables is calculated by, for receivables where no individual impairment has been identified, making a further reserve for anticipated credit losses based on the Group's history of credit losses in the different business areas. The model is updated regularly to take into account changes in loss statistics over time.

The loss reserve for other receivables is calculated by the Group assessing the probability of default in the counterpart based on available statistics from rating institutes as well as the loss the Group would suffer in the eventuality of a loss given default.

The gross value of a financial asset is written off when the Group no longer has any feasible expectations of recovering part of or the entirety of a financial asset.

Impairment tests for other assets

The principles for write-downs of inventories and deferred tax recoverables are presented in the respective sections above.

EQUITY

Repurchase of own shares

Holdings of own shares and other equity instruments are recognized as a reduction in equity. Liquid funds from the divestment of such equity instruments are recognized as an increase in equity. Any transaction costs are charged directly to equity.

Dividends

Dividends are recognized as liabilities after they have been approved by the AGM.

When value transfers of non-cash assets occur through dividends to owners a liability is recognized in the consolidated accounts corresponding to the fair value of the net assets subject to distribution at the point in time the AMG approves the value transfer. The reported amount of the dividend liability corresponds to an equally sized reduction of Group equity. During the time between approval and distribution of the dividend the dividend liability is revalued to the current fair value with a corresponding revaluation recognized in equity. At the point in time the dividend is distributed to the owners the dividend liability is derecognized while a revaluation profit (loss) is recognized in consolidated profit/loss corresponding to the realized difference between the fair value distributed to the owners and the recognized value of distributed net assets.

The purpose of this accounting application is to equate distribution in kind with cash dividends by reporting as if the net assets were first sold at fair value and then the received purchase price was distributed in cash to the owners.

Transaction fees directly due to distribution are recognized directly in Group equity after any tax. Transaction fees primarily comprise costs for producing preparation documents to support shareholders in the decision on dividends and for information in general to the market concerning the distribution.

Earnings per share

The calculation of earnings per share is based on consolidated profit/loss for the year attributable to the shareholders of the parent company

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and on the weighted average number of outstanding shares during the year. There have been no effects from diluting potential shares since 2012.

EMPLOYEE BENEFITS

Defined contribution pension plans

Pension plans are only classified as defined contribution pension plans when the Group's obligations are limited to the contributions the Group has undertaken to pay to an insurance group or to another independent legal entity. In such cases the size of an employee's pension depends on the size of the contributions the Group pays to this legal entity and the yield it generates on the capital. The Group's obligations concerning contributions to defined contribution plans are expensed in profit/loss for the year as they are earned by the employee performing work for the Group during the period.

Defined benefit pension plans

Pension plans that are not defined contribution plans are defined benefit plans, which means the employer is obligated to pay pension fees on a certain benefit level. The Group's defined benefit plans consist of the Swedish ITP 2 Plan for Salaried Staff which is managed through insurance with Alecta. The ITP 2 pension plan, which is secured through insurance from Alecta, is recognized as a defined benefit plan that encompasses several employers. However, the plan is recognized as a defined contribution plan since Alecta cannot provide the necessary information required for each member company to report its proportional share of the plan obligations, assets and expenses. There are no other defined benefit pension plans.

Pension plans with endowment insurance

There are pension plans where the Group has acquired endowment insurance which is hedged in favor of employees through pledges. The employees in question only have the right to compensation equal to the value of the endowment insurance at redemption. The endowment insurance is valued at its current fair value while the pension liability is revalued to the corresponding value of the endowment insurance. Endowment insurance and pension liability have been reported net. Provisions for special payroll tax are reserved calculated on the fair value of the endowment insurance, except in cases where the contract stipulates that the endowment insurance covers special payroll tax.

Remuneration upon resignation or dismissal

A reserve for remuneration relating to the dismissal of staff is only established if the company is demonstrably subject to, without any realistic opportunity for avoidance, the termination of employment prior to the normal time and the affected groups of employees have been informed about the dismissal plan. Reserves are made for severance compensation which will be paid without requiring any service from the employee.

Short-term remuneration

Short-term remuneration to employees is calculated without a discount and reported as an expense when the related services are received.

The expected costs of participations in profits and bonus payments are recognized as an accrued cost when the Group has a valid legal or informal obligation to make such payments for services rendered from employees and the obligations can be reliably estimated.

PROVISIONS

Provisions are recognized on the balance sheet when the Group has a legal or informal obligation due to events that have occurred and it is likely that financial resources will be required to meet the obligation, and a reliable estimate of the amount can be made.

CONTINGENT LIABILITIES

Contingent liabilities are provided when there is a possible obligation attributable to events that have occurred, the occurrence of which can only be confirmed by one or more uncertain future events out of the control of the Group, or when there is an undertaking not recognized as a liability or

provision because it is not likely that the use of resources will be required or the amount cannot be calculated with sufficient reliability.

FIXED ASSETS HELD FOR SALE/DISTRIBUTION AND DISCONTINUED OPERATIONS

The reason why a fixed asset or divestment group is classified as a holding for sale or value transfer to owners is that their reported value will be recuperated primarily through divestment or distribution and not through use. An asset or divestment group that comprises all the assets and liabilities subject to divestment is classified as a holding for sale or distribution if it is available for immediate divestment in its existing state, and that it is very likely divestment or distribution will take place.

These assets or divestment groups are recognized as separate items as a current asset respectively current liability on the balance sheet. The comparable year's assets and liabilities are not translated. Depreciation on depreciable assets ends after they are reclassified as assets held for sale.

The reported value of the assets, and all the assets and liabilities in a divestment group, is decided according to applicable standards immediately before reclassification as a holding for sale or distribution. At the first classification as a holding for sale or distribution the fixed assets and divestment groups are recognized at the lowest of the reported value and fair value with a deduction for divestment costs respectively transaction costs attributable to distribution.

Certain assets, alone or included in a divestment group, are exempt from the valuation rules described above. For the Group, financial assets and deferred tax recoverables are exempt and are instead valued according to principles applicable to assets that are not classified as a holding for sale or distribution.

A discontinued operation is an operation that represents an independent material operational area, an operation within a geographical area or a subsidiary acquired with the sole purpose of reselling it. Profit/loss after tax from discontinued operations is recognized as a separate item in the income statement, and the same is done for the comparable year.

PARENT COMPANY ACCOUNTING PRINCIPLES

The parent company has prepared its annual report in accordance with the Swedish Company Accounts Act (1995:1554) and Swedish Financial Reporting Board recommendation RFR 2 Accounting rules for legal entities. RFR 2 requires that the parent company, in the annual report for the legal entity, use all EU adopted IFRSs and interpretations as far as possible within the framework of the Swedish Company Accounts Act, the Job Security Law and with due regard for the relationship between accounting and taxes. The recommendation states which exceptions and additions must be made to the IFRSs.

Changed accounting principles

IFRS 16 Leasing, has not affected the parent company since Peab has chosen to use the relief rule in RFR and not apply the standard in legal entities.

The parent company's accounting principles are therefore unchanged compared to the Annual Report 2018.

Other new or amended IFRSs including interpretations that have been adopted by IASB but not yet applicable are not expected to have any material effect on parent company accounting.

Differences between the Group's and parent company's accounting principles

Classification and presentation

The parent company's income statement and balance sheet are presented according to the structure in the Swedish Company Accounts Act. The departure from IAS 1 Presentation of financial statements, which is used in structuring the consolidated financial reports is primarily regarding presenting financial income and expenses, fixed assets, equity and provisions reported under a separate heading on the balance sheet.

Subsidiaries, joint ventures and associated companies

Participations in subsidiaries, joint ventures and associated companies are recognized in the parent company according to the acquisition value method. This means that acquisition costs are included in the reported value of the holding in the subsidiary. In Group accounting acquisition costs are recognized directly in profit/loss as they occur.

Financial guarantees

The parent company's financial guarantee agreements mainly consist of sureties for the benefit of subsidiaries and joint ventures. The parent company recognizes financial guarantee agreements as provisions on the balance sheet when the company has an obligation for which payment is likely to be required to settle the obligation.

Taxes

Untaxed reserves including deferred tax liabilities are recognized in the parent company. In the Group accounting however, untaxed reserves are divided into deferred tax liabilities and equity.

Shareholder contributions

Paid shareholder's contributions are activated in shares and participations in the provider after taking into consideration any impairments.

Group contributions

Group contributions are recognized as appropriations whether or not the Group contribution has been given or received.

Leased assets

The parent company does not apply IFRS Leasing in accordance with the exception in RFR2. As a lessee leasing fees are expensed linearly over the leasing period and therefore right of use assets and lease liabilities are not recognized on the balance sheet.

Fixed assets held for sale/distribution and discontinued operations

Fixed assets held for sale or distribution and discontinued operations are not recognized separately in the parent company's income statement and balance sheet since the parent company follows the format for income statements and balance sheets in the Annual Accounts Act. Information on fixed assets held for sale or distribution and discontinued operations is instead provided as note information. Furthermore, fixed assets held for sale or distribution are depreciated according to the Annual Accounts Act.

Fund for development costs

Amounts that are activated through internally generated development costs among intangible assets are transferred from non-restricted equity to the fund for development costs in restricted equity. The fund contracts as the activated costs are depreciated or written down. Provisions to the fund for development costs were first actualized in 2017 to develop IT systems.

Note 2 New IFRSs 2019**IFRS 16 LEASES – GROUP**

IFRS 16 Leases replaced IAS 17 Leases as of 1 January 2019. IFRS 16 basically requires Peab as a lessee to report all leasing contracts as assets and liabilities on the balance sheet, representing the right to use the leased asset respectively the obligation to pay leasing fees. Regarding leasing contracts, depreciation of the leasing asset and interest rate expenses on the leasing liability are recognized in the income statement. Affected leases primarily cover rent for offices and other premises, leaseholds, land rentals and vehicles. IFRS 16 Leases is also applied in segment reporting.

When changing over to the new standard Peab elected the modified retroactive method with the alternative to let the right of use asset be measured at the amount of the lease liability at the changeover with adjustments for any prepaid or accrued leasing fees. The elected changeover method does not require recalculating comparable periods.

Contracts with leasing periods 12 months or less from the changeover date are classified as current leases and therefore were not included in the recognized right of use assets or liabilities.

Financial leases that were previously reported according to IAS 17 Leases have been reclassified according to IFRS 16 and recognized at the amounts they were reported on the day immediately prior to application of the new standard on December 31, 2018.

An incremental borrowing rate has been determined per country, right of use period and type of asset as of January 1, 2019. The weighed average incremental borrowing rate used when calculating the lease liability was 3.1 percent.

The difference between additional recognized leasing liabilities on January 1, 2019, SEK 850 million, and the amount of future non-cancelable leasing payments presented in the note information in the annual accounts for 2018, SEK 746 million, stem primarily from the additional effects of leaseholds and land rentals of SEK 342 million and the excluded effects of current leases, low value leases and discounting of SEK -238 million.

Effects of the changeover to IFRS 16 are given below.

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1 **REPORT ON GROUP BALANCE SHEET IN SUMMARY, 2018-12-31 RESPECTIVELY 2019-01-01**

| 2 | Group, MSEK | Reported balance sheet 2018-12-31 | Adjustment IFRS 16 2019-01-01 | Adjusted balance sheet 2019-01-01 |
|----|--|-----------------------------------|-------------------------------|-----------------------------------|
| 3 | Assets | | | |
| 4 | Intangible assets | 2,250 | | 2,250 |
| 5 | Tangible assets | 5,741 | 618 | 6,359 |
| 6 | Investment property | 589 | 53 | 642 |
| 7 | Interest-bearing long-term receivables | 1,445 | | 1,445 |
| 8 | Other financial fixed assets | 1,292 | | 1,292 |
| 9 | Total fixed assets | 11,317 | 671 | 11,988 |
| 10 | Project and development properties | 9,685 | 206 | 9,891 |
| 11 | Inventories | 441 | | 441 |
| 12 | Interest-bearing current receivables | 640 | | 640 |
| 13 | Other current receivables | 13,857 | -27 | 13,830 |
| 14 | Liquid funds | 1,376 | | 1,376 |
| 15 | Total current assets | 25,999 | 179 | 26,178 |
| 16 | Total assets | 37,316 | 850 | 38,166 |
| 17 | Equity and liabilities | | | |
| 18 | Equity | 11,348 | - | 11,348 |
| 19 | Liabilities | | | |
| 20 | Interest-bearing long-term liabilities | 5,194 | 702 | 5,896 |
| 21 | Deferred tax liabilities | 123 | | 123 |
| 22 | Other long-term liabilities | 977 | | 977 |
| 23 | Total long-term liabilities | 6,294 | 702 | 6,996 |
| 24 | Interest-bearing current liabilities | 1,818 | 148 | 1,966 |
| 25 | Other current liabilities | 17,856 | | 17,856 |
| 26 | Total current liabilities | 19,674 | 148 | 19,822 |
| 27 | Total liabilities | 25,968 | 850 | 26,818 |
| 28 | Total equity and liabilities | 37,316 | 850 | 38,166 |

29 **RECOGNITION OF ADDITIONAL LEASES ACCORDING TO IFRS 16**

| 30 | Group, MSEK | Jan-Dec 2019 | Group, MSEK | 2019-01-01 | 2019-12-31 |
|----|-----------------------------------|--------------|--|------------|------------|
| 31 | Production costs | 19 | Fixed assets | 671 | 627 |
| 32 | Sales and administrative expenses | 4 | Deferred tax recoverables | - | 1 |
| 33 | Operating profit | 23 | Current assets | 179 | 133 |
| 34 | Financial expenses | -27 | Total assets | 850 | 761 |
| 35 | Pre-tax profit | -4 | Equity | - | -3 |
| 36 | Tax | 1 | Interest-bearing long-term liabilities | 702 | 613 |
| 37 | Profit for the year | -3 | Interest-bearing current liabilities | 148 | 151 |
| 38 | | | Total equity and liabilities | 850 | 761 |
| 39 | | | Summa skulder och eget kapital | 850 | 761 |

40 **IFRS 16 LEASES – PARENT COMPANY**

41 The parent company does not apply IFRS 16 Leases in accordance with
 42 the exception in the Swedish Financial Reporting Board's RFR 2. As a
 43 lessee all leasing fees are recognized as a cost linearly over the leasing
 44 period and therefore liabilities and right of use assets are not reported
 45 on the balance sheet. The parent company only utilizes leases to a very
 little extent.

Note 3 Important estimates and assessments

Executive Management has together with the Board of Directors discussed developments, selections and information regarding the Group's important accounting principles and assessments, as well as the application of these principles.

Certain important accounting estimates made when applying the Group's accounting principles are described below.

The sources of uncertainty in the assessments given below refer to those that entail a risk that the value of assets or liabilities may have to be significantly adjusted in future financial years.

Peab's operative business is sensitive to changes in, among other things, volume and margins. The financial risks are connected to the business' tied-up capital, capital needs, interest risk and currency risk. For more information about how the changes in important variables affect Group profit/loss, see the section Risks and risk management under the Sensitivity Analysis.

CONSTRUCTION CONTRACTS RECOGNIZED OVER TIME

Profit/loss recognized for construction projects in progress is calculated over time based on the degree of completion of the project. This requires that project revenue and expenses can be calculated in a reliable manner. A prerequisite is a well functioning system for calculation, forecasting and project monitoring. Forecasts regarding the final outcome of the projects are critical estimates crucial to profit/loss recognition during the project. Project forecasts are evaluated on a regular basis as each project progresses and if necessary adjusted. There is a risk that the final profit/loss of a project may deviate from the profit/loss recognized over time.

IMPAIRMENT TESTS OF GOODWILL

Total Group goodwill amounts to SEK 1,836 million (1,843). When calculating cash generating units' recoverable amount in order to assess the need to write-down goodwill several estimations and assessments about the future have been made. They are presented in note 16. As is apparent in the description in note 16, changes beyond what can reasonably be expected during 2020 in these estimations and assessments could have an effect on goodwill. This risk, however, is very low since the recoverable values are to a large extent higher than the recognized values in those cases where goodwill values are substantial.

PROJECT AND DEVELOPMENT PROPERTY

Project and development property amounts to SEK 11,407 million (9,685), of which SEK 11,240 million refers to owned assets and SEK 167 million refers to leased assets. The recognized value for owned assets has been calculated as the lowest of the purchase price and the net sales price based on current price levels in the respective locations. Changes in supply and demand may alter recognized values and write-downs may be required. Peab is using an internal model to test the value of project and development property. As a complement to this valuation external market values are annually reviewed for some of the properties. For more information on project and development property, see note 24.

DISPUTES

Peab's business is largely project-related. There are a number of different contract forms where risk levels vary depending on the type of contract. However, with any type of contract ambiguities can arise concerning the terms, which can lead to delimitation issues that create a dispute with the customer.

The construction contract for the production of the Mall of Scandinavia in Solna was signed at the end of 2011. Major changes in the project during production together with insufficient dialogue with our customer led to significantly higher costs. The original contract was SEK 3.5 billion. The project was reviewed after the mall was inaugurated in November 2015 and then written down by SEK -800 million in the fourth quarter 2015. Negotiations with the customer have not yet reached a final agreement.

Peab's assessment of the financial situation is the same as what has previously been communicated.

The actual outcome in disputed amounts may deviate from those recognized according to the best estimate. For more information on disputes, see note 31.

TAXES

Changes in tax legislation and changed practice in the interpretation of tax laws can have a considerable impact on the size of recognized deferred taxes. For more information on taxes, see note 15.

ACCOUNTING PRINCIPLES

Assessments behind why Swedish tenant-owned associations are not consolidated

The issue of consolidating tenant-owned associations or not comprises assessments of complex relationships in relation to principle-based and partially unclear accounting standards that make more than one interpretation possible. IFRS is prepared for this circumstance and therefore stipulates that information regarding material assessments is presented when applying IFRSs. Below is a summary of the factors that are the basis of Peab's assessment.

Standard IFRS 10 Consolidated financial statements, provides guidance in assessing whether or not Peab has controlling interest over a tenant-owned association. Controlling interest exists if all three of the following criteria are met:

- Peab has power over the investment object (tenant-owned association),
- Peab is exposed to, or has the rights to, variable returns from its involvement in the investee (tenant-owned association), and
- Peab can use its power over the investee (tenant-owned association) to affect its returns.

Peab is not considered to have controlling interest over a tenant-owned association after an external board is appointed in the tenant-owned association and a contract has been signed for the transfer of land and the construction work.

Tenant-owned association board

The board in tenant-owned associations consist of external and independent board members with adequate professional competence and experience from board work in tenant-owned associations and developer responsibility for construction projects. These board members are also often members of boards of tenant-owned associations that have not been initiated by Peab. After a tenant-owned association board has been appointed Peab cannot replace a board member.

The duty of the board of the tenant-owned association is to represent the members (i.e. the tenant-owners) when called for and to look after their interests, and their interests alone. The board has a strict responsibility and is subject to review by members at the first tenant-owned association meeting after the building has been completed, gone through a final inspection and been approved. This means that the board members must be able to show that they have acted in the best interests of the association's members and not on behalf of Peab.

Sales of homes through a real estate agent

Different external real estate agents are signed on through a three-party listing agreement between Peab, the tenant-owned association and the real estate agents. The signed real estate agents handle the marketing and sales of the tenant-owned apartments. Customers who wish to reserve a tenant-owned apartment and a share in the tenant-owned association sign a binding preliminary agreement according to the Tenant Act (1991:614) with the tenant-owned association. The preliminary agreement is binding for both the homebuyer and the tenant-owned association.

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Contract between Peab and the tenant-owned association for the transfer of land and the construction work

Peab and the tenant-owned association sign a contract for the transfer of land and the construction work only when a considerable portion of the homes have been reserved through a binding preliminary agreement. The contract for the transfer of land and the construction work are based on offered terms from Peab with supplements for any modifications and additions that have been agreed on with the board of the tenant-owned association. Consequently the project is no longer recognized on Peab's balance sheet since the tenant-owned association is considered to be an external customer to Peab.

Financing the tenant-owned association

In order to acquire the land and pay for the construction work during construction the tenant-owned association finances the land and the construction work with a building loan from a bank.

In order to limit the cost of mortgages tenant-owned associations take out mortgages for the amount that corresponds to what is needed for the final financing of the completed building and accompanying land. The other building loan, that Peab provides surety for, is for temporary financing corresponding to the homebuyers' not yet paid contributed capital.

Obligations and customer rights

The construction contract provides the tenant-owned association the same customer rights from Peab that all other external construction contracts provide to counterparties that are not tenant-owned associations initiated by Peab.

In order to create an attractive offer at an early stage of a housing project with limited risk Peab foremost offers fixed prices and, in addition, conventional obligations regarding the completed building's occupancy level. In the construction contract with the tenant-owned association Peab promises to acquire the tenant-owned apartments not sold six months after the final inspection. These obligations are also made to customers that are not tenant-owned associations, in the form of guaranteed lowest levels of rented units or guaranteed operating net, which is common in the construction and real estate trades regarding real estate sales to commercial customers.

The risk Peab takes in obligations to acquire unsold apartments during a certain period is in reality limited since Peab and tenant-owned associations do not sign construction contracts until a large part of the homes have been reserved by homebuyers. Historically Peab's costs due to unsold apartments are not material. The few apartments bought by Peab are normally sold within a short amount of time without any more costs than a few months fees to the tenant-owned association. However, fluctuations in the market can lead to Peab having to repurchase a larger number than has previously been necessary.

Consolidating tenant-owned associations as of January 1, 2020

Peab and several other companies in the industry have been subject to a review by Finansinspektionen since 2019 on the issue of whether or not tenant-owned housing associations should be consolidated.

Swedish accounting oversight, in its various organizational forms, has in 17 years been reviewing the issue of whether or not tenant-owned housing associations should be recognized in the construction company. This underlines the complexity of the matter and the difficulty of in, based on existing principle-based accounting standards, arriving at one single possible application in the accounts.

On January 28, 2020 Peab received another reconciliation letter maintaining that it is Finansinspektionen's opinion that tenant-owned housing associations must be consolidated. Peab has the right to respond before Finansinspektionen makes its final decision. Peab has concluded that Finansinspektionen does not share the company's interpretation of IFRS 10 Consolidated financial statements regarding recognition of Swedish tenant-owned housing associations and that the interpretations of Finansinspektionen and Peab differ greatly. Peab does not believe there is any point in continued polemics and it is not in the interest of Peab's stakeholders.

Peab has therefore decided to change accounting principles as of January 1, 2020, regardless of the decision from Finansinspektionen, and consolidate Swedish tenant-owned housing associations as of the fiscal year 2020 and translate the comparable year 2019. This means that income and expenses for projects will be recognized first when homebuyers take possession of the condominiums and that the assets and liabilities of the tenant-owned housing associations will be consolidated until that time. In Group operative reporting, such as segment reporting, our own developed housing projects in Sweden, Norway and Finland will be reported as external customers while the construction projects are underway with revenue recognized over time as the projects are successively completed. Peab believes this operative reporting best describes Peab's housing business regarding both internal steering and risk profile, and it is also how the Board and executive management follow operations.

On March 25, 2020 Finansinspektionen informed the company that the matter would be put to rest since Peab would, as of January 1, 2020 change accounting principles.

ACCOUNTING STANDARDS AND INTERPRETATIONS

New or changed accounting standards and interpretations of other existing standards can lead to changes that may entail handling certain transactions in the future differently from current practice.

Note 4 Revenue

| Group 2019, MSEK | Construction | Civil Engineering | Industry | Project Development | Group | Eliminations | Group |
|--|---------------|----------------------|---------------|------------------------|--------------|----------------|---------------|
| Allocation per internal/external customer | | | | | | | |
| External sales | 24,265 | 12,141 | 9,784 | 7,726 | 92 | | 54,008 |
| Internal sales | 5,151 | 1,198 | 3,555 | 58 | 1,084 | -11,046 | - |
| Total | 29,416 | 13,339 | 13,339 | 7,784 | 1,176 | -11,046 | 54,008 |
| Allocation per country | | | | | | | |
| Sweden | 22,349 | 12,063 | 11,712 | 6,011 | 993 | -9,008 | 44,120 |
| Norway | 3,604 | 1,144 | 1,003 | 429 | 116 | -784 | 5,512 |
| Finland | 3,463 | 132 | 608 | 1,344 | 67 | -1,254 | 4,360 |
| Other | | | 16 | | | | 16 |
| Total | 29,416 | 13,339 | 13,339 | 7,784 | 1,176 | -11,046 | 54,008 |
| Allocation per type of customer | | | | | | | |
| Public sector | 8,457 | 6,782 | 3,085 | 98 | | | 18,422 |
| Private customers | 15,808 | 5,359 | 6,699 | 7,628 | 92 | | 35,586 |
| Internal customers | 5,151 | 1,198 | 3,555 | 58 | 1,084 | -11,046 | - |
| Total | 29,416 | 13,339 | 13,339 | 7,784 | 1,176 | -11,046 | 54,008 |
| Allocation per point in time | | | | | | | |
| At one point in time | 62 | 37 | 5,746 | 2,033 | 66 | -1,517 | 6,427 |
| Over time | 29,350 | 13,259 | 5,651 | 5,557 | 965 | -8,082 | 46,700 |
| Rent revenue ¹⁾ | 4 | 43 | 1,942 | 194 | 145 | -1,447 | 881 |
| Total | 29,416 | 13,339 | 13,339 | 7,784 | 1,176 | -11,046 | 54,008 |
| Allocation per type of revenue | | | | | | | |
| Construction contracts | 29,350 | 13,259 | 5,651 | 5,549 | 39 | -7,202 | 46,646 |
| Sales of goods | 3 | | 3,665 | | | -749 | 2,919 |
| Sales of property projects | | | | 1,866 | | | 1,866 |
| Transportation services | | | 1,893 | | | -659 | 1,234 |
| Administrative services | | | | 8 | 926 | -880 | 54 |
| Rent revenue | 4 | 43 | 1,942 | 194 | 145 | -1,447 | 881 |
| Other | 59 | 37 | 188 | 167 | 66 | -109 | 408 |
| Total | 29,416 | 13,339 | 13,339 | 7,784 | 1,176 | -11,046 | 54,008 |

¹⁾ Rent revenue is recognized according to IFRS 16

| Group 2018, MSEK | Construction | Civil Engineering | Industry | Project Development | Group functions | Eliminations | Group |
|--|---------------|----------------------|---------------|------------------------|--------------------|----------------|---------------|
| Allocation per internal/external customer | | | | | | | |
| External sales | 22,850 | 12,032 | 9,474 | 7,775 | 102 | | 52,233 |
| Internal sales | 5,490 | 1,713 | 3,810 | 69 | 941 | -12,023 | - |
| Total | 28,340 | 13,745 | 13,284 | 7,844 | 1,043 | -12,023 | 52,233 |
| Allocation per country | | | | | | | |
| Sweden | 21,578 | 11,878 | 11,791 | 5,949 | 889 | -10,149 | 41,936 |
| Norway | 3,389 | 1,712 | 935 | 494 | 91 | -741 | 5,880 |
| Finland | 3,368 | 155 | 539 | 1,401 | 63 | -1,128 | 4,398 |
| Other | 5 | | 19 | | | -5 | 19 |
| Total | 28,340 | 13,745 | 13,284 | 7,844 | 1,043 | -12,023 | 52,233 |
| Allocation per type of customer | | | | | | | |
| Public sector | 10,178 | 7,958 | 2,727 | 119 | 88 | | 21,070 |
| Private customers | 12,672 | 4,074 | 6,747 | 7,656 | 14 | | 31,163 |
| Internal customers | 5,490 | 1,713 | 3,810 | 69 | 941 | -12,023 | - |
| Total | 28,340 | 13,745 | 13,284 | 7,844 | 1,043 | -12,023 | 52,233 |
| Allocation per point in time | | | | | | | |
| At one point in time | 67 | 32 | 5,652 | 2,361 | 121 | -1,593 | 6,640 |
| Over time | 28,269 | 13,706 | 5,663 | 5,256 | 810 | -9,056 | 44,648 |
| Rent revenue ¹⁾ | 4 | 7 | 1,969 | 227 | 112 | -1,374 | 945 |
| Total | 28,340 | 13,745 | 13,284 | 7,844 | 1,043 | -12,023 | 52,233 |
| Allocation per type of revenue | | | | | | | |
| Construction contracts | 28,262 | 13,706 | 5,663 | 5,254 | | -8,240 | 44,645 |
| Sales of goods | 5 | | 3,545 | | | -822 | 2,728 |
| Sales of property projects | | | | 2,188 | | | 2,188 |
| Transportation services | | 1 | 1,901 | | | -672 | 1,230 |
| Administrative services | 7 | | | 2 | 810 | -816 | 3 |
| Rent revenue | 4 | 7 | 1,969 | 227 | 112 | -1,374 | 945 |
| Other | 62 | 31 | 206 | 173 | 121 | -99 | 494 |
| Total | 28,340 | 13,745 | 13,284 | 7,844 | 1,043 | -12,023 | 52,233 |

¹⁾ Rent revenue is recognized according to IAS 17

The Group recognizes revenue when the Group meets a performance obligation, which is when a promised good or service is delivered to the customer and the customer takes control over the good or service. Control of a performance obligation can be transferred over time or at a certain point in time. The Peab Group's revenue primarily consists of the following revenue flows: Construction contracts, Sales of goods, Sales of property projects, Transportation services, Rent revenue and other revenue.

RECOGNITION OVER TIME

Revenue from Construction contracts and some other revenue is recognized over time. The transaction price of contracts with customers usually consists of fixed amounts, variable amounts or a combination of the two.

Revenue in ongoing construction projects is recognized over time based on the project's degree of completion. This requires being able to calculate project revenue and project costs in a reliable manner. Project forecasts are regularly evaluated as a project progresses and are adjusted as needed.

Some contracts include several different performance obligations such as construction sales and contracts for operation and maintenance. Since operation and maintenance are not dependent on the construction contract this part is recognized as a separate performance obligation. In cases where contracts contain several performance obligations the transaction price is divided into each separate performance obligation based on their stand-alone sales prices.

In fixed price contracts the customer pays the agreed price on an established payment schedule. A receivable from the customer is recognized if a promised good or service Peab has delivered exceeds the payment. A liability to the customer is recognized if the payment exceeds the delivered services.

No financing component is considered to exist at the time of invoicing since the credit period is normally short. Terms of payment are usually 30 days. The Group's obligations to fix errors and shortcomings concerning completed projects are recognized as provisions. Guarantee periods are usually two to five years.

RECOGNITION AT ONE POINT IN TIME

Revenue from the sales of goods, property, transportation and certain other revenue is recognized at one point in time. Sales of goods is recognized as revenue when control of the goods is transferred to the customer, which normally occurs when the goods are delivered.

Revenue from the sales of property is recognized when control of the property is transferred to the customer, which normally coincides with the customer taking over the property.

Revenue is recognized based on the price in the contract, which is normally a fixed price. Variable components, such as rent guaranties, reduce the recognized revenue.

Normally invoicing takes place upon delivery and the credit period is usually short and therefore there is no financing component. Terms of payment are almost always 30 days. Credit periods exceeding 12 months are rare and in those cases the transaction price is adjusted for the effects of financing components.

The Group's obligations to fix errors and shortcomings connected to delivered goods are recognized as provisions. These are conventional guarantees and are not considered to be separate performance obligations.

The remaining performance obligations are presented in the tables below, otherwise known as order backlog.

| Group 2019-12-31, MSEK | Coming financial year | Next financial year | Thereafter | Total |
|------------------------|-----------------------|---------------------|--------------|---------------|
| Construction | 18,948 | 7,392 | 588 | 26,928 |
| Civil Engineering | 7,946 | 3,436 | 2,064 | 13,446 |
| Industry | 2,040 | 508 | 0 | 2,548 |
| Project Development | 4,186 | 823 | 18 | 5,027 |
| Eliminations | -3,863 | -1,548 | -44 | -5,455 |
| Total | 29,257 | 10,611 | 2,626 | 42,494 |

| Group 2018-12-31, MSEK | Coming financial year | Next financial year | Thereafter | Total |
|------------------------|-----------------------|---------------------|--------------|---------------|
| Construction | 20,552 | 7,482 | 1,742 | 29,776 |
| Civil Engineering | 8,385 | 2,915 | 2,320 | 13,620 |
| Industry | 1,799 | 447 | 0 | 2,246 |
| Project Development | 4,982 | 1,875 | 277 | 7,134 |
| Eliminations | -5,154 | -1,667 | -136 | -6,957 |
| Total | 30,564 | 11,052 | 4,203 | 45,819 |

Note 5 Operating segments

Group business is divided into operating segments based on how the company's highest decision makers, i.e. executive management, follow the business.

The Group is reported in the four business areas Construction, Civil Engineering, Industry and Project Development. The business areas are also operating segments.

IFRS 15 Revenue from contracts with customers, has as of 2018 replaced previous standards related to revenue recognition such as IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 15 Agreements for the construction of real estate. No material effects have been identified. IFRS 15 has not entailed any material change in when, or for what amount, revenue is recognized regarding Peab's construction contracts in business areas Construction and Civil Engineering. Business area Industry recognizes revenue according to both IFRS 15 and IAS 17 but the changeover to IFRS 15 has not entailed any material change in the way revenue is recognized. Business area Project Development recognizes most of its revenue as revenue over time. Swedish tenant-owned housing projects will continue to be recognized as previously through revenue over time while our own home developments in Sweden are now recognized according to revenue over time due to the implementation of IFRS 15. IFRS 15 has not led to any changes in recognition regarding housing projects in Finland and Norway since revenue is first recognized when the home is turned over to the buyer. After implementation of IFRS 15 segment reporting mirrors legal reporting. For more information

regarding accounting principles as well as important estimates and assessments, see note 1 and note 3.

Business area Construction recognizes net sales and profit referring to the construction contract part of our own housing developments, rental project developments and other property development projects to business area Project Development. Recognition take place over time as the projects are completed. Net sales for both the developer part and the construction contract part of our own housing developments are recognized in business area Project Development. The recognized profit/loss consists of the profit/loss in the developer part recognized over time. The underlying sales value of property projects on our own balance sheet, recognized as project and development property, that are sold in the form of a company via shares is recognized as net sales and the recognized value on the balance sheet is recognized as an expense. When property projects recognized as operations property or investment property are divested the net effect on profit/loss is recognized as other operating income or other operating cost. Internal net sales between business area Construction and business area Project Development regarding the construction cost of our own housing developments are eliminated in consolidated reporting. Net sales and profit/loss referring to the construction contract part of property development projects on our own balance sheets are eliminated on Group level. Internal profit is returned when the project is divested.

The Group's internal reporting is constructed so that executive management follows every business area up to and including operating profit and operating margin. For business area Industry and Project

Development executive management also follows the development of capital employed. The capital employed in the business areas consists of the business area's total assets reduced by deferred tax recoverables and internal receivables from the internal bank Peab Finans with deductions for non-interest-bearing liabilities and deferred tax liabilities.

Internal pricing between Group segments is based on the "arm's length principle", in other words, by well informed parties who are independent of each other and have an interest in the realization of the transactions.

Segments' operating profit includes directly attributable items and items that can be reasonably and reliably allocated to a segment. Non-allocated items consist of financial income and expenses, and taxes.

OPERATING SEGMENTS

The Group consists of the following operating segments:

- **Construction:** Business area Construction comprises Group resources in construction related services. Construction works for both external and internal customers, primarily business area Project Development. Operations are run through eleven regions in Sweden, three in Norway and two in Finland. There are specialized housing production units in Stockholm, Gothenburg and the Öresund region. Construction maintenance operations are run in a nationwide organization in Sweden focused on the big city areas. The other regions perform all kinds of construction projects within their geographic area.
- **Civil Engineering:** Business area Civil Engineering works with the construction of large infrastructure and civil engineering projects and smaller projects on the local market. Civil Engineering also operates and maintains roads and municipal facilities. The operations are run in geographical regions in Sweden, Norway and Finland. Customers are the Swedish Transport Administration, municipalities and local businesses.

• **Industry:** Business area Industry is run in six product areas; Asphalt, Concrete, Gravel and Rock, Transportation and Machines, Rentals and Construction System. All of them work on the Nordic construction and civil engineering markets. Customers are mainly Nordic construction and civil engineering companies.

• **Project Development:** Business area Project Development comprises Peab's developments in housing and property in Sweden, Norway and Finland. The business is run in two segments, Housing Development and Property Development. Housing Development develops all kinds of housing such as apartment buildings in tenancy ownership, ownership and rental form as well as single homes. Operations in Property Development revolve around the acquisition, development, management and divestiture of commercial properties. The business includes projects in wholly owned and partly owned companies. Included in partly owned companies are among others Peab's holdings in Fastighets AB Centur (ownership, management and development of commercial property and homes), Tornet Bostadsproduktion AB (ownership of rentals), Fastighets AB ML4 (ownership and management of the research facility Max IV in Lund) and Point Hyllie Holding AB (ownership and development of the office building The Point as well as ownership and management of the hotel property Vårdshuset 5). Projects in wholly owned subsidiaries consist of a number of holdings that include everything from land for development where zoning is being worked out to completed projects ready for sale. Net sales and operating profit from operations are derived from running our wholly owned property, shares in the profit from partly owned companies as well as capital gains from the divestiture of completed property and shares in partly owned companies.

Other operations are reported under "Group functions" and consist of central companies and Group functions.

| Group 2019, MSEK | Construction | Civil Engineering | Industry | Project Development | Group functions | Elimination | Group |
|----------------------------------|---------------|-------------------|---------------|---------------------|-----------------|--------------------|---------------|
| External sales | 24,265 | 12,141 | 9,784 | 7,726 | 92 | | 54,008 |
| Internal sales | 5,151 | 1,198 | 3,555 | 58 | 1,084 | -11,046 | |
| Total revenue | 29,416 | 13,339 | 13,339 | 7,784 | 1,176 | -11,046 | 54,008 |
| Operating costs | -28,716 | -13,010 | -12,458 | -6,877 | -1,456 | 10,904 | -51,613 |
| Other operating income | 16 | 43 | 154 | 61 | 6 | | 280 |
| Other operating costs | -3 | -4 | -97 | -2 | -1 | | -107 |
| Operating profit | 713 | 368 | 938 | 966 | -275 | -142 | 2,568 |
| Operating margin, % | 2.4 | 2.8 | 7.0 | 12.4 | | | 4.8 |
| Financial income | | | | | | | 130 |
| Financial expenses | | | | | | | -188 |
| Pre-tax profit | | | | | | | 2,510 |
| Tax | | | | | | | -418 |
| Profit for the year | | | | | | | 2,092 |
| Depreciation | -48 | -86 | -919 | -60 | -92 | -3 | -1,208 |
| Write-downs in operating profit | | -15 | -9 | -29 | 1 | | -52 |
| Capital gains/losses | 2 | 41 | 167 | 114 | | -2 | 322 |
| Other significant non-cash items | 8 | -2 | 55 | -287 | 42 | 27 | -157 |
| Capital employed on 31 December | -924 | 311 | 6,897 | 15,964 | | -872 ¹⁾ | 21,376 |

¹⁾ Non-allocated capital employed.

| Group 2018, MSEK | Construction | Civil Engineering | Industry | Project Development | Group functions | Elimination | Group |
|----------------------------------|---------------|----------------------|---------------|------------------------|--------------------|-------------------|---------------|
| External sales | 22,850 | 12,032 | 9,474 | 7,775 | 102 | | 52,233 |
| Internal sales | 5,490 | 1,713 | 3,810 | 69 | 941 | -12,023 | - |
| Total revenue | 28,340 | 13,745 | 13,284 | 7,844 | 1,043 | -12,023 | 52,233 |
| Operating costs | -27,680 | -13,392 | -12,379 | -7,069 | -1,313 | 12,004 | -49,829 |
| Other operating income | 12 | 68 | 81 | 35 | 1 | 19 | 216 |
| Other operating costs | -2 | -6 | -9 | -25 | -5 | | -47 |
| Operating profit | 670 | 415 | 977 | 785 | -274 | 0 | 2,573 |
| Operating margin, % | 2.4 | 3.0 | 7.4 | 10.0 | | | 4.9 |
| Financial income | | | | | | | 100 |
| Financial expenses | | | | | | | -155 |
| Pre-tax profit | | | | | | | 2,518 |
| Tax | | | | | | | -418 |
| Profit for the year | | | | | | | 2,100 |
| Depreciation | -17 | -73 | -819 | -63 | -19 | 1 | -990 |
| Write-downs in operating profit | | | -5 | -29 | | | -34 |
| Capital gains/losses | 1 | 53 | 55 | 131 | | 19 | 259 |
| Other significant non-cash items | 9 | 6 | -91 | 119 | 12 | 19 | 74 |
| Capital employed on 31 December | -1,215 | 192 | 6,432 | 12,984 | | -33 ¹⁾ | 18,360 |

COMMENTS ON THE TABLES

Group net sales for 2019 increased by three percent to SEK 54,008 million (52,233). Even after adjustments for acquired and divested units net sales increased by three percent. Net sales in business area Construction grew by four percent with a stable operating margin of 2.4 percent which was unchanged compared to 2018. Net sales in business area Civil Engineering were slightly lower with lower reported earnings in 2019. The operating margin was 2.8 percent (3.0) due primarily to a lower level of profitability in Operation and maintenance than in previous years. Net sales in business area Industry were on the level of 2018 with an operating margin of 7.0 percent (7.4). The lower operating margin in part stems from higher costs in Rentals as a result of supplementary establishments to increase local presence that do not yet generate their full potential income. In addition, the business area has been charged by acquisition costs of SEK 40 million for YIT's paving and mineral aggregates operations in the third quarter and the acquisition of the remaining 40 percent of shares in AB Smidmek Eslöv

for SEK 47 million in the fourth quarter. In business area Project Development net sales decreased slightly which is attributable to Housing Development while the operating margin improved to 12.4 percent (10.0). There was a slight increase in operating profit in Housing Development during the year where the somewhat lower operating profit in Sweden was countered by several projects that were turned over in Norway and Finland. The operating margin in Housing Development was 9.4 percent (8.7). In Property Development Peab's partially owned company Acturum divested a number of properties in the second quarter. The divestitures had a positive effect of SEK 170 million in profit contributions from partially owned companies. Apart from this no major property transactions have taken place during the year.

GEOGRAPHIC AREAS

Income from external customers is related to the countries customers are located in. The information concerning intangible and tangible assets is divided into the countries the assets are located in.

| Group, MSEK | Sweden | | Norway | | Finland | | Other markets | | Total | |
|--|--------|--------|--------|-------|---------|-------|---------------------|------|--------|--------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| External sales | 44,120 | 41,936 | 5,512 | 5,880 | 4,360 | 4,398 | 16 | 19 | 54,008 | 52,233 |
| Intangible and tangible assets and investment property | 8,104 | 7,046 | 604 | 594 | 995 | 939 | 0 | 1 | 9,703 | 8,580 |
| | | | | | | | | | | |
| Parent company, MSEK | Sweden | | Norway | | Finland | | Total ¹⁾ | | | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Net sales | 308 | 267 | 21 | 17 | 19 | 15 | 348 | 299 | | |

¹⁾ Included in Group functions.

Note 6 Business combinations

2019

In 2019 Peab acquired 100 percent of the shares in Peab Asfaltfräsning AB. The company is active in South and Central Sweden, particularly in Kronoberg County and Västmanland County. During the year Peab also acquired the assets of Aktør som bygger AS that does contracting work in North Norway.

The above acquisitions in 2019 individually had no material acquisition effects from the Group's perspective and information on acquisition effects is given collectively.

In the period after acquisition the above subsidiaries and operations contributed SEK 178 million to Group revenue and SEK 6 million to Group profit in 2019. If the acquisitions had occurred on January 1, 2019, the combined effect of these acquisitions on Group revenue would have been SEK 206 million and SEK 6 million on profit for the year.

The remaining 40 percent of the shares in AB Smidmek Eslöv were also acquired in 2019. The company was already 100 percent consolidated through application of the Anticipated acquisition method, since there was a put/call option for the acquisition of the remaining shares.

EFFECTS OF ACQUISITIONS IN 2019

The acquisitions' preliminary effects on Group assets and liabilities are shown below. The acquisition analyses may be adjusted during a twelve month period.

Goodwill primarily consists of human resources and future synergy effects regarding common systems and shared resources which do not meet the criteria for recognition as intangible assets at the time of acquisition.

Total transferred compensation amounted to SEK 22 million.

During the year assets have also been acquired through share acquisitions (asset acquisitions that are not business combinations) which resulted in a cash flow of SEK -101 million and primarily refer to project and development properties with development rights in Norway and Gothenburg.

ACQUISITIONS AFTER THE BALANCE SHEET DATE

On July 4, 2019 Peab signed a contract to acquire YIT's paving and mineral aggregates operations in the Nordic region. The transaction was conditional on approval from competition authorities as well as the fulfillment of certain contractual conditions. At the end of March 2020 the transaction was approved by the competition authorities. The takeover took place on April 1, 2020.

The transaction is a combination of an asset deal and a share purchase. The purchase price is expected to amount to SEK 2,966 million for a debt-free business and is fully financed.

Due to the take over took place on April 1, 2020 Peab is not able to provide additional financial information when submitting this report.

For further information see Board of Directors' report the section Important events during the year on page 59 under Other information and appropriation of profit.

2018

In 2018 Peab acquired 100 percent of the shares in Asfaltpartner i Väst Produktion AB (name changed to Peab Asfalt Väst AB). The company operates in Western Götaland, particularly in the Gothenburg and Borås regions. During the year Peab also acquired Hoffmans Entreprenad AB (name changed to ATS Entreprenad AB) which does electrical power contract work in Norrbotten. Røstad Maskin 2 AS (name changed to Røstad Maskin AS), which works in civil engineering in Tromsø was also acquired.

The above acquisitions in 2018 individually do not have any material acquisition effect from a Group perspective and the information on acquisition effects is therefore given collectively.

In the period after acquisition the above subsidiaries contributed with SEK 91 million to Group revenue and SEK 2 million to profit in 2018. If the acquisitions had taken place on 1 January 2018, the combined effect of these acquisitions on Group revenue would have been SEK 134 million and on profit for the year by SEK 5 million.

During the year, the acquisition of assets also occurred through the acquisition of shares (asset acquisitions which are not business combinations) which resulted in a cash flow of SEK -45 million and primarily refer to project and development properties with development rights in Stockholm and Örebro.

THE ACQUIRED COMPANIES' NET ASSETS AT THE TIME OF ACQUISITION:

| MSEK | 2019 | 2018 |
|--|-----------|-----------|
| Tangible assets | 23 | 30 |
| Deferred tax recoverables | 3 | - |
| Project and development properties and inventories | 2 | 1 |
| Accounts receivable and other receivables | 0 | 8 |
| Liquid funds | 0 | 9 |
| Interest-bearing liabilities | -12 | -18 |
| Deferred tax liabilities | -5 | -3 |
| Accounts payable and other current liabilities | -4 | -9 |
| Net identifiable assets and liabilities | 7 | 18 |
| Previous value of share in joint venture | 12 | - |
| Group goodwill | 3 | 16 |
| Consideration transferred | 22 | 34 |

CONSIDERATION TRANSFERRED

| MSEK | 2019 | 2018 |
|--|-----------|-----------|
| Liquid funds | 22 | 32 |
| Contingent consideration | - | 2 |
| Total consideration transferred | 22 | 34 |

Note 7 Other operating income

| Group, MSEK | 2019 | 2018 |
|--|------------|------------|
| Capital gains from shares sold in businesses/joint ventures | 67 | 6 |
| Insurance compensation | 20 | 20 |
| Profit from sales of fixed assets | 155 | 141 |
| Exchange gains from receivables/liabilities relating to operations | 6 | 5 |
| Profit from participation in joint ventures | 2 | 12 |
| Other | 30 | 32 |
| Total | 280 | 216 |

Note 8 Other operating costs

| Group, MSEK | 2019 | 2018 |
|---|-------------|------------|
| Loss from sales of fixed assets | -7 | -5 |
| Exchange loss from receivables/liabilities relating to operations | -9 | -9 |
| Costs for acquisitions | -87 | - |
| Other | -4 | -33 |
| Total | -107 | -47 |

Note 9 Government grants

Government grants related to assets amounted in the Group to SEK 1 million (2) in 2019. The grants have reduced the recognized values of the assets on the balance sheet.

Government grants received as compensation for operating costs amounted to SEK 4 million (4) in 2019, and have reduced costs in the income statement.

Note 10 Employees, personnel costs and remuneration to senior officers

COSTS FOR REMUNERATION TO EMPLOYEES

| Group, MSEK | 2019 | 2018 |
|---|---------------|---------------|
| Salaries and remuneration etc. | 7,277 | 7,217 |
| Pension costs, defined contribution plans | 864 | 798 |
| Social security | 2,157 | 2,132 |
| Total | 10,298 | 10,147 |

AVERAGE NUMBER OF EMPLOYEES

| | 2019 | | 2018 | |
|------------------------------|------------------|---------------------------|------------------|---------------------------|
| | No. of employees | Of which were men percent | No. of employees | Of which were men percent |
| Parent company | | | | |
| Sweden | 161 | 44 | 146 | 45 |
| Subsidiaries | | | | |
| Sweden | 11,736 | 88 | 12,219 | 88 |
| Norway | 1,622 | 90 | 1,548 | 90 |
| Finland | 787 | 82 | 744 | 83 |
| Poland | 3 | 67 | 4 | 50 |
| Total in subsidiaries | 14,148 | 88 | 14,515 | 88 |
| Group | 14,309 | 87 | 14,661 | 87 |

GENDER DISTRIBUTION IN BOARDS AND OTHER SENIOR OFFICERS

| | 2019 | | 2018 | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Percentage of women | Percentage of women | Percentage of women | Percentage of women |
| Parent company | | | | |
| The Board of Directors | 27 | 27 | | |
| Other senior officers | 25 | 25 | | |
| Group | | | | |
| Boards ¹⁾ | 26 | 23 | | |
| Other senior officers ²⁾ | 17 | 22 | | |

¹⁾ Refers to the Board of Directors in the parent company and boards in subsidiaries.

²⁾ Other senior officers in the Group refers to the other senior officers in the parent company along with business area management.

SALARIES AND OTHER REMUNERATION AS WELL AS PENSION COSTS FOR LEADING SENIOR OFFICERS

| Group 2019, MSEK | Board of Directors and senior officers (16 persons) ¹⁾ |
|--|---|
| Salaries and other remuneration | 34 |
| – of which variable remuneration etc. | – |
| Pension costs | 30 |
| – of which pension costs for variable remuneration | 17 |

¹⁾ The group leading senior officers refers to executive management. During 2019 the group consisted of eight persons, four of which were in the parent company.

| Group 2018, MSEK | Board of Directors and senior officers (15 persons) ¹⁾ |
|--|---|
| Salaries and other remuneration | 29 |
| – of which variable remuneration etc. | – |
| Pension costs | 23 |
| – of which pension costs for variable remuneration | 12 |

¹⁾ The group leading senior officers refers to executive management. During January-October 2018 the group consisted of six persons, three of which were in the parent company. From November 2018 the group consisted of seven persons, four of which were in the parent company.

SALARIES AND OTHER REMUNERATION DIVIDED AMONG LEADING SENIOR OFFICERS AND OTHER EMPLOYEES AS WELL AS SOCIAL SECURITY COSTS

| Parent company 2019, MSEK | Board of Directors and senior officers (12 persons) ¹⁾ | Other employees | Total |
|--|---|-----------------|-------|
| Salaries and other remuneration | 22 | 108 | 130 |
| – of which variable remuneration etc. | – | 2 | 2 |
| Social security costs | 30 | 68 | 98 |
| – of which pension costs | 8 | 23 | 31 |
| – of which pension costs for variable remuneration | 10 | 4 | 14 |

¹⁾ The group leading senior officers refers to executive management. During 2019 the group consisted of eight persons, four of which were in the parent company.

| Parent company 2018, MSEK | Board of Directors and senior officers (12 persons) ¹⁾ | Other employees | Total |
|--|---|-----------------|-------|
| Salaries and other remuneration | 20 | 102 | 122 |
| – of which variable remuneration etc. | – | 2 | 2 |
| Social security costs | 24 | 69 | 93 |
| – of which pension costs | 7 | 22 | 29 |
| – of which pension costs for variable remuneration | 8 | 4 | 12 |

¹⁾ The group leading senior officers refers to executive management. During January-October 2018 the group consisted of six persons, three of which were in the parent company. From November 2018 the group consisted of seven persons, four of which were in the parent company.

SALARIES AND OTHER REMUNERATION FOR LEADING SENIOR OFFICERS IN 2019

| Thousands, SEK | Basic pay/Board remuneration | Variable remuneration (STI) | LTI-program ¹⁾ | Other benefits/remunerations | Pension costs | Total |
|--|------------------------------|-----------------------------|---------------------------|------------------------------|---------------|---------------|
| Chairman of the Board, Göran Grosskopf | 1,125 | | | | | 1,125 |
| Vice Chairman of the Board, Mats Paulsson | 525 | | | | | 525 |
| Other members of the Board | | | | | | |
| Karl-Axel Granlund | 600 | | | | | 600 |
| Lars Sköld | 600 | | | | | 600 |
| Fredrik Paulsson | 525 | | | | | 525 |
| Kerstin Lindell | 525 | | | | | 525 |
| Liselott Kilaas | 525 | | | | | 525 |
| Malin Persson | 450 | | | | | 450 |
| Board of Directors fees, remuneration from the parent company | 4,875 | | | | | 4,875 |
| CEO, Jesper Göransson | 7,416 | 3,110 | 1,754 | 714 | 3,829 | 16,823 |
| Other senior officers, remuneration from the parent company | 9,264 | 3,433 | 1,976 | 565 | 4,237 | 19,475 |
| Other senior officers, remuneration from subsidiaries | 11,124 | 4,666 | 2,435 | 681 | 4,571 | 23,477 |
| Total | 32,679 | 11,209 | 6,165 | 1,960 | 12,637 | 64,650 |
| Remuneration from the parent company | 21,555 | 6,543 | 3,730 | 1,279 | 8,066 | 41,173 |
| Remuneration from subsidiaries | 11,124 | 4,666 | 2,435 | 681 | 4,571 | 23,477 |

¹⁾ For more information see Long-term incentive program (LTI program).

SALARIES AND OTHER REMUNERATION FOR LEADING SENIOR OFFICERS IN 2018

| Thousands, SEK | Basic pay/Board remuneration | Variable remuneration (STI) | LTI-program ¹⁾ | Other benefits/remunerations | Pension costs | Total |
|--|------------------------------|-----------------------------|---------------------------|------------------------------|---------------|---------------|
| Chairman of the Board, Göran Grosskopf | 980 | | | | | 980 |
| Vice Chairman of the Board, Mats Paulsson | 460 | | | | | 460 |
| Other members of the Board | | | | | | |
| Karl-Axel Granlund | 520 | | | | | 520 |
| Lars Sköld | 520 | | | | | 520 |
| Fredrik Paulsson | 460 | | | | | 460 |
| Kerstin Lindell | 460 | | | | | 460 |
| Liselott Kilaas | 460 | | | | | 460 |
| Malin Persson | 400 | | | | | 400 |
| Board of Directors fees, remuneration from the parent company | 4,260 | | | | | 4,260 |
| CEO, Jesper Göransson | 7,200 | 2,477 | 1,389 | 563 | 3,668 | 15,297 |
| Other senior officers, remuneration from the parent company | 7,500 | 2,519 | 1,389 | 729 | 3,604 | 15,741 |
| Other senior officers, remuneration from subsidiaries | 8,412 | 2,893 | 1,625 | 641 | 3,395 | 16,966 |
| Total | 27,372 | 7,889 | 4,403 | 1,933 | 10,667 | 52,264 |
| Remuneration from the parent company | 18,960 | 4,996 | 2,778 | 1,292 | 7,272 | 35,298 |
| Remuneration from subsidiaries | 8,412 | 2,893 | 1,625 | 641 | 3,395 | 16,966 |

¹⁾ For more information see Long-term incentive program (LTI program).

COMMENTS ON THE TABLES

From time to time the CEO and other senior officers may be offered variable remuneration. Other benefits refer primarily to company cars and vacation pay.

Pension costs refer to costs charged to the year. See note 30 for additional information about pensions. In 2019 the group senior officers consisted of eight persons, of which four officers were in the parent company. During January-October 2018 the group consisted of six persons, three of which were in the parent company. From November 2018 the group consisted of seven persons, four of which were in the parent company.

THE BOARD OF DIRECTORS

The 2019 AGM decided on a total remuneration to members of the Board of SEK 4,875 thousand (4,260), of which SEK 4,050 thousand (3,600) refers to Board work and SEK 825 thousand (660) refers to committee work. Compensation to the Chairman of the Board was SEK 900 thousand (800) and SEK 3,150 thousand (2,800) was divided among the other Board members. Compensation for work on the Remuneration Committee was SEK 225 thousand (180), SEK 225 thousand (180) for work on the Finance Committee and SEK 375 thousand (300) for work on the Audit Committee.

Remuneration is not paid to members of the Board who are permanent employees of the Group. There are no agreements for future pension/leaving remuneration or other benefits either for the Chairman of the Board of Directors or for other members of the Board.

PRINCIPLES FOR REMUNERATION TO SENIOR OFFICERS

The group senior officers is comprised of eight senior officers who are members of executive management. The principles for remuneration to senior officers were adopted by the 2019 AGM.

Remuneration to the CEO and other senior officers consists of basic pay, any short-term incentives, extra health insurance and those benefits otherwise enjoyed by other Peab employees as well as pension. All pension obligations are defined contribution pensions. The total remuneration paid to each senior officer is based on market terms and the responsibilities and qualifications of the senior officer.

From time to time, senior officers may be offered short-term incentives. Short-term incentives may not exceed 60 percent of their basic pay and is primarily based on the Peab Group's profitability and, from time to time, essential Group goals. Short-term incentives are decided upon for each financial year. Short-term incentives for the financial year 2019 were maximized at SEK 4,450 thousand (4,320) for the CEO and a total of SEK 11,586 thousand (9,442) for the other senior officers.

Short-term incentives are settled the year after being earned and may either be paid out as salary or placed as pension in financial instruments connected to the Peab share. If it is paid out as a one-off defined pension contribution adjustments are made so as to neutralize the total cost for Peab.

From time to time, senior officers may be offered to participate in a LTI program. For senior officers and the CEO the upper limit (including social security) is 40 percent of their annual basic pay. The result of the LTI program is placed in a pension savings in a financial instrument connected to the Peab share. Provisions for the LTI program for 2019 were maximized at SEK 2,966 thousand (including social security) for the CEO and a total of SEK 8,155 thousand (including social security) for the other senior officers.

The period of notice from Peab is, at the most, 24 months and the period of notice from Senior officers is, at the most, 6 months. If severance pay is paid the total remuneration for salary during the period of notice and severance pay may not exceed 24 months wages.

THE CEO

The CEO of Peab AB, Jesper Göransson, has in 2019 received a salary and other remuneration, including benefits, totaling SEK 8,130 thousand

(7,763). In addition, he has received short-term incentives for 2019 of SEK 3,110 thousand (2,477) and a provision for the LTI program of SEK 1,754 thousand (1,389) has been made, which was placed in a pension savings in a financial instrument connected to the Peab share. Pension contributions for the year were SEK 3,829 thousand (3,668).

The CEO has the right to retire from the age of 62. Annual pension contributions of 47 percent of basic pay are paid to meet this pledge. These are defined contribution pensions.

Notice on the part of Peab is twelve months with a reduction for any salary from a new employer combined with a severance pay of twelve months salary. Notice on the part of the CEO is six months combined with severance pay consisting of six months salary.

OTHER SENIOR OFFICERS

The term other senior officers refers to the seven other persons in addition to the CEO that make up Peab's executive management. Salary and other remuneration including benefits for other senior officers amounted to SEK 21,634 thousand (17,282). In addition, Short-term incentives for 2019 amounted to SEK 8,099 thousand (5,412) and provisions for the LTI program amounted to SEK 4,411 thousand (3,014), which will be placed in pension savings in a financial instrument connected to the Peab share. Pension contributions paid for other senior officers amounted to SEK 8,808 thousand (6,999) during the year.

The pension policy for senior officers means that pension contributions are based on a contribution ladder within, alternatively, ITP or defined contributions entailing that the total contribution amounts to 35-47 percent of fixed salaries. Certain senior officers have an agreement with Peab that their employment ends the month they turn 62 years old. The other senior officers have an agreement that their employment ends the month they turn 65 years old.

Notice on the part of Peab is twelve months with a reduction for any salary from a new employer combined with severance pay consisting of six-twelve months salary. Notice on the part of the other senior officers is six months combined with severance pay consisting of six months salary.

LONG-TERM INCENTIVE PROGRAM (LTI PROGRAM)

From time to time, senior officers may be offered to participate in a LTI program. A LTI program was launched for 2018-2020 and will be annually reconciled with operating margin goals for the Group. The program is open to approximately 500 of the Group's key employees. In order for an employee to receive their share of the result of the LTI program the employee has to still be working for Peab on December 31, 2020. For senior officers and the CEO the upper limit (including social security) is 40 percent of their annual basic pay. For other positions the upper limit (including social security) is 15-35 percent of their annual basic pay, depending on their position. The result of the LTI program will be placed in a pension savings connected to the Peab share. In 2019 the cost of the LTI program amounted to SEK 63 million (94) including social security.

PROFIT-SHARING FOUNDATION

In 2007, Peab founded a profit-sharing foundation. The object of the profit-sharing foundation is to create greater participation through employee co-ownership and to better employees' financial situation after retirement. Individual annual shares in profits are related to the employee's profit-sharing entitling work hours. Upon retirement employees can withdraw their share in the foundation. Under the foundation's investment policy, its assets must be mainly invested in shares in Peab. In 2019 Peab allocated SEK 60 million. This amount less payroll tax will be paid into the foundation in 2020. In 2018 Peab allocated SEK 80 million including payroll tax.

Senior officers and other employees with other Short-term incentives are not entitled to benefits from the profit-sharing foundation.

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Note 11 Fees and cost remuneration to accountants

| MSEK | Group | | Parent company | |
|-------------------------------------|-----------|-----------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| KPMG AB | | | | |
| Auditing assignments | 16 | 15 | 4 | 4 |
| Other additional audit-related work | 1 | 1 | 1 | 1 |
| Other services | 2 | 3 | 1 | 1 |
| Total | 19 | 19 | 6 | 6 |

Audit assignments refer to the statutory examination of the annual report and accounting, the management by the Board of Directors and the CEO as well as reviews and other examinations executed by agreement or according to contracts. This includes other work normally performed by a company accountant, and advice and other assistance stemming from observations made in connection with the above examinations or the performance of other similar work.

Note 12 Operating costs divided by type

| Group, MSEK | 2019 | 2018 |
|--------------------------------|---------------|---------------|
| Production costs ¹⁾ | 37,798 | 36,471 |
| Personnel expenses | 11,743 | 11,479 |
| Depreciation ²⁾ | 1,208 | 990 |
| Write-downs | 52 | 34 |
| Other operating costs | 812 | 855 |
| Total | 51,613 | 49,829 |

¹⁾ Included in production costs are purchased material, sub-contractors, expenses for property projects and other production costs.

²⁾ Effects of additional IFRS 16, Leasing agreements amounted to SEK 166 million.

Note 13 Net financial income/expenses

| Group, MSEK | 2019 | 2018 |
|---|-------------|-------------|
| Interest income ¹⁾ | 74 | 73 |
| Dividends received related to financial assets valued at fair value via profit/loss | 55 | 3 |
| Change in value of financial assets valued at fair value via profit/loss: | | |
| Unlisted shares | - | 11 |
| Unlisted funds | - | 11 |
| Other items | 1 | 2 |
| Financial income | 130 | 100 |
| Interest expenses ²⁾ | -128 | -88 |
| Net exchange rate fluctuation | -2 | -35 |
| Change in value currency swaps (trading) | -4 | -17 |
| Increase in discounted amounts during the year in provisions for restoration costs | -1 | -1 |
| Change in value of financial assets valued at fair value via profit/loss: | | |
| Unlisted funds | -39 | - |
| Other items | -14 | -14 |
| Financial expenses | -188 | -155 |
| Net financial income/expenses | -58 | -55 |

¹⁾ Refers to items valued at accrued acquisition value.

²⁾ Refers to items valued at accrued acquisition value except current net interest from the interest coupon portion of interest swaps totaling SEK -6 million (-29). Included in 2019 are interest rate expenses for additional IFRS 16 Leases by SEK -27 million.

PROFIT FROM PARTICIPATIONS IN GROUP COMPANIES

| Parent company, MSEK | 2019 | 2018 |
|---------------------------|------------|--------------|
| Dividends | 200 | 1,509 |
| Write-downs ¹⁾ | -71 | -122 |
| Liquidation result | 1 | 1 |
| Total | 130 | 1,388 |

¹⁾ För mer information om nedskrivningar, se not 41.

PROFIT FROM OTHER SECURITIES AND RECEIVABLES HELD AS FIXED ASSETS

| Parent company, MSEK | 2019 | 2018 |
|---------------------------|----------|----------|
| Interest income, external | 0 | 1 |
| Other items | 0 | 2 |
| Total | 0 | 3 |

INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

| Parent company, MSEK | 2019 | 2018 |
|--|------------|------------|
| Interest expenses, Group ¹⁾ | -68 | -92 |
| Total | -68 | -92 |

¹⁾ Interest expenses refer to interest from items valued at accrued acquisition value.

Note 14 Appropriations

| Parent company, MSEK | 2019 | 2018 |
|--|--------------|--------------|
| Change in additional depreciation, intangible assets | -4 | -3 |
| Change in additional depreciation, machinery and equipment | 0 | 0 |
| Transfer to tax allocation reserve | -470 | -612 |
| Received Group contribution | 2,423 | 2,699 |
| Paid Group contribution | -293 | -1 |
| Total | 1,656 | 2,083 |

Note 15 Taxes

RECOGNIZED IN THE INCOME STATEMENT

| Group, MSEK | 2019 | 2018 |
|--|-------------|-------------|
| Current tax expenses/income | | |
| Tax expenses for the year | -392 | -451 |
| Adjustment of tax attributable to previous years | -12 | -2 |
| | -404 | -453 |
| Deferred tax expenses/income | | |
| Temporary differences | -61 | 7 |
| Capitalized tax value of loss carry-forwards during the year | 1 | 4 |
| Utilisation of capitalized tax value of loss carry-forwards | -37 | -75 |
| Changed tax rates | - | -38 |
| Revaluation of recognized deferred tax values | 83 | 137 |
| Total recognized tax expenses in the Group | -418 | -418 |

| Parent company, MSEK | 2019 | 2018 |
|--|-------------|-------------|
| Current tax expenses/income | | |
| Tax expenses for the year | -303 | -404 |
| Adjustment of tax attributable to previous years | - | 1 |
| | -303 | -403 |
| Deferred tax expenses/income | | |
| Temporary differences | 8 | 8 |
| Changed tax rates | - | -7 |
| | 8 | 1 |
| Total recognized tax expenses in the parent company | -295 | -402 |

RECONCILIATION OF EFFECTIVE TAX

| Group, MSEK | 2019 | 2019 (%) | 2018 | 2018 (%) |
|--|--------------|-----------------|--------------|-----------------|
| Pre-tax profit | 2,510 | | 2,518 | |
| Tax in accordance with tax rate for the parent company | -537 | 21.4 | -554 | 22.0 |
| Effect of other tax rates for foreign subsidiaries | 2 | -0.1 | 4 | -0.2 |
| Non-deductible expenses | -79 | 3.2 | -52 | 2.1 |
| Tax exempt income | 45 | -1.8 | 51 | -2.0 |
| Deductible non profit-influencing items | 23 | -0.9 | 6 | -0.2 |
| Revaluation of reported deferred tax values | 83 | -3.3 | 137 | -5.5 |
| Utilized non-capitalized loss carry-forwards | 0 | 0.0 | 8 | -0.3 |
| Tax attributable to previous years | -12 | 0.5 | -2 | 0.1 |
| Changed tax rates | - | - | -38 | 1.5 |
| Increase in loss carry-forwards without corresponding capitalization of deferred tax | -15 | 0.6 | -3 | 0.1 |
| Effect net profit of joint ventures | 72 | -2.9 | 25 | -1.0 |
| Recognized effective tax | -418 | 16.7 | -418 | 16.6 |
| Parent company, MSEK | 2019 | 2019 (%) | 2018 | 2018 (%) |
| Pre-tax profit | 1,558 | | 3,211 | |
| Tax according to tax rate for the parent company | -334 | 21.4 | -706 | 22.0 |
| Non-deductible expenses | -18 | 1.2 | -29 | 0.9 |
| Tax exempt income | 43 | -2.8 | 333 | -10.4 |
| Deductible non profit-influencing items | 14 | -0.9 | 6 | -0.2 |
| Tax attributable to previous years | - | - | 1 | -0.0 |
| Changed tax rates | - | - | -7 | 0.2 |
| Recognized effective tax | -295 | 18.9 | -402 | 12.5 |

TAX ATTRIBUTABLE TO OTHER COMPREHENSIVE INCOME

| Group, MSEK | 2019 | | | 2018 | | |
|--|-----------|----------|-----------|------------|-----------|------------|
| | Pre-tax | Tax | After tax | Pre-tax | Tax | After tax |
| Translation difference for the year foreign operations | 49 | 8 | 57 | 86 | 1 | 87 |
| Cash flow hedges | 9 | -2 | 7 | 20 | -4 | 16 |
| Other comprehensive income | 58 | 6 | 64 | 106 | -3 | 103 |

1 **REPORTED ON THE BALANCE SHEET**2 **DEFERRED TAX RECOVERABLES AND TAX LIABILITIES**

| 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | Group, MSEK | Deferred tax recoverables | | Deferred tax liabilities | | Net | | Changes recognized in profit/loss for the year | |
|---|---|---------------------------|--------------|--------------------------|---------------|-------------|-------------|--|-----------|
| | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| 23 | Intangible assets | | | -57 | -60 | -57 | -60 | 3 | 8 |
| 24 | Tangible assets | | | -543 | -389 | -543 | -389 | -20 | -9 |
| 25 | Investment property | | | -14 | -2 | -14 | -2 | -1 | 0 |
| 26 | Financial fixed assets | 1 | 1 | | | 1 | 1 | 0 | 0 |
| 27 | Project and development properties | | | -278 | -152 | -278 | -152 | -77 | -175 |
| 28 | Inventories | 0 | 0 | | | 0 | 0 | 0 | 0 |
| 29 | Accounts receivable | 14 | 3 | | | 14 | 3 | 11 | -15 |
| 30 | Worked-up not invoiced income | 183 | 72 | | | 183 | 72 | 111 | 154 |
| 31 | Other receivables | 7 | | | 0 | 7 | 0 | 2 | 1 |
| 32 | Interest-bearing liabilities | 270 | 107 | | | 270 | 107 | -19 | 5 |
| 33 | Provisions for pensions | 228 | 125 | | | 228 | 125 | 103 | 17 |
| 34 | Provisions | 98 | 64 | | | 98 | 64 | 33 | -22 |
| 35 | Invoiced income not worked-up | 95 | 223 | | | 95 | 223 | -128 | -43 |
| 36 | Other liabilities | 243 | 263 | | | 243 | 263 | -20 | 44 |
| 37 | Loss carry-forwards | 171 | 200 | | | 171 | 200 | -32 | 51 |
| 38 | Tax allocation reserves | | | -527 | -427 | -527 | -427 | -100 | -138 |
| 39 | Safety reserve | | | -31 | -151 | -31 | -151 | 120 | 157 |
| 40 | Tax recoverables/tax liabilities | 1,310 | 1,058 | -1,450 | -1,181 | -140 | -123 | | |
| 41 | Offset | -1,302 | -1,058 | 1,302 | 1,058 | - | - | | |
| 42 | Net | 8 | - | -148 | -123 | -140 | -123 | -14 | 35 |

| 28 29 30 31 32 | Parent company, MSEK | Deferred tax recoverables | | Changes recognized in profit/loss for the year | | |
|----------------------------|-------------------------|---------------------------|------------|--|----------|----------|
| | | 2019 | 2018 | 2019 | 2018 | |
| 33 | Provisions for pensions | | 117 | 109 | 8 | 2 |
| 34 | Other liabilities | | 2 | 2 | 0 | -1 |
| 35 | Net | | 119 | 111 | 8 | 1 |

33 **UNRECOGNIZED DEFERRED TAX RECOVERABLES REGARDING LOSS CARRY-FORWARDS**

34 Ongoing correspondence with the Swedish Tax Authorities as well as
35 assessments made together with external experts on the deductibility of
36 individual deductions have been taken into consideration when evaluating
37 deferred tax recoverables. The judgement per 2019-12-31 as well as
38 2018-12-31 is that there are no uncertainties regarding the deductibility
39 of loss carry-forwards in Sweden and because of that tax recoverables of
40 loss carry-forwards are recognized as assets without any adjustments.

41 In the Norwegian operations the ability to use loss carry-forwards of
42 SEK 595 million (508) remains uncertain. They have not been capitalized.
43 The fiscal value of the non-capitalized loss carry-forward is SEK 131
44 million (112).
45

33 **CHANGED TAX RATES**

34 As of 2019 the tax rate in Sweden has changed to 21.4 percent from 22
35 percent which was the tax rate during 2018. From 2021 the tax rate in
36 Sweden will change to 20.6 percent.

37 As of 2019 the tax rate in Norway has changed to 22 percent from 23
38 percent which was the tax rate during 2018.

39 The fiscal temporary differences in Sweden and Norway are valued at
40 the tax rate valid at the time the temporary differences are expected to
41 cease to exist.

Note 16 Intangible assets

| Group 2019, MSEK | Intangible assets, external purchase | | | | | Intangible assets, internally developed | |
|--|--------------------------------------|-------------|--------------------|------------------------------------|-------------------------|---|--------------|
| | Goodwill | Brands | Customer relations | Tenancies gravel and rock quarries | Other intangible assets | Balanced development costs | Total |
| Opening acquisition value | 1,867 | 288 | 50 | 202 | 137 | 73 | 2,617 |
| Purchases | | 1 | | | 79 | 44 | 124 |
| Purchases through acquired companies | 2 | | 1 | | | | 3 |
| Exchange rate differences | 6 | 3 | | | | | 9 |
| Closing accumulated acquisition value | 1,875 | 292 | 51 | 202 | 216 | 117 | 2,753 |
| Opening depreciation | - | -173 | -41 | -80 | -23 | -20 | -337 |
| Depreciation ¹⁾ | | -13 | -4 | -8 | -6 | -4 | -35 |
| Exchange rate differences | | -2 | | | | | -2 |
| Closing accumulated depreciation | - | -188 | -45 | -88 | -29 | -24 | -374 |
| Opening write-downs | -24 | - | - | - | - | -6 | -30 |
| Write-downs ²⁾ | -15 | | | | | | -15 |
| Closing accumulated write-downs | -39 | - | - | - | - | -6 | -45 |
| Closing recognized value | 1,836 | 104 | 6 | 114 | 187 | 87 | 2,334 |

| Group 2018, MSEK | Intangible assets, external purchase | | | | | Intangible assets, internally developed | |
|--|--------------------------------------|-------------|--------------------|------------------------------------|-------------------------|---|--------------|
| | Goodwill | Brands | Customer relations | Tenancies gravel and rock quarries | Other intangible assets | Balanced development costs | Total |
| Opening acquisition value | 1,844 | 306 | 51 | 202 | 73 | 39 | 2,515 |
| Purchases | | | | | 66 | 34 | 100 |
| Purchases through acquired companies | 16 | | | | | | 16 |
| Sales and disposals | | -21 | -1 | | -3 | | -25 |
| Exchange rate differences | 7 | 3 | | | 1 | | 11 |
| Closing accumulated acquisition value | 1,867 | 288 | 50 | 202 | 137 | 73 | 2,617 |
| Opening depreciation | - | -163 | -39 | -72 | -17 | -16 | -307 |
| Sales and disposals | | 8 | 1 | | | | 9 |
| Depreciation ¹⁾ | | -17 | -3 | -8 | -6 | -4 | -38 |
| Exchange rate differences | | -1 | | | | | -1 |
| Closing accumulated depreciation | - | -173 | -41 | -80 | -23 | -20 | -337 |
| Opening write-downs | -24 | -11 | - | - | - | -6 | -41 |
| Sales and disposals | | 12 | | | | | 12 |
| Exchange rate differences | | -1 | | | | | -1 |
| Closing accumulated write-downs | -24 | - | - | - | - | -6 | -30 |
| Closing recognized value | 1,843 | 115 | 9 | 122 | 114 | 47 | 2,250 |

¹⁾ Depreciation is recognized in the following lines of the income statement:

| MSEK | 2019 | 2018 |
|-----------------------------------|------------|------------|
| Production costs | -30 | -34 |
| Sales and administrative expenses | -5 | -4 |
| Total | -35 | -38 |

²⁾ Write-downs are recognized in the following line of the income statement:

| MSEK | 2019 | 2018 |
|------------------|------------|----------|
| Production costs | -15 | - |
| Total | -15 | - |

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GOODWILL IMPAIRMENT TESTING IN CASH GENERATING UNITS

The Peab Group balance sheet 2019-12-31 included total goodwill of SEK 1,836 million (1,843). The table below shows goodwill per group of cash generating units for which goodwill is tested for impairment.

| MSEK | 2019 | 2018 |
|--|--------------|--------------|
| Construction | | |
| Construction Sweden | 68 | 68 |
| Construction Finland | 67 | 66 |
| Construction Norway | 159 | 155 |
| Civil Engineering | | |
| Civil Engineering Sweden | 150 | 165 |
| Civil Engineering Norway | 9 | 7 |
| Industry | | |
| Business area level, when repurchased by Peab 2008 | 1,274 | 1,274 |
| Industry Sweden | 66 | 66 |
| Project Development | | |
| Property Development Sweden | 21 | 21 |
| Housing Development Sweden | 14 | 14 |
| Housing Development Norway | 8 | 7 |
| Total | 1,836 | 1,843 |

GOODWILL WRITE-DOWNS

The Group has written down goodwill in 2019 by SEK 15 million (-). Write-downs for the year refer to business area Civil Engineering and are due to low profitability in existing operations. For the cash generating units where a calculation of the recovery value was made and no write-down need was identified, executive management has assessed that no feasible possible changes in important assumptions would result in a recovery value lower than the recognized value.

METHOD FOR CALCULATING RECOVERY VALUE

The recovery value for all goodwill values has been derived by calculating the useful value for the cash generating units. The calculation model is based on a discount of forecasted future cash flows compared to the unit's reported values. These future cash flows are based on 5 year forecasts produced by the management of the respective group of cash generating units. Goodwill impairment tests have an infinite time horizon and extrapolation of cash flow for the years after the forecast was calculated based on a growth rate from year six onwards of approximately two percent.

IMPORTANT VARIABLES WHEN CALCULATING USEFUL VALUE

The following variables are important and common to all cash generating units in calculation of useful value:

Net sales: The business' historical development, expected changes in the construction business cycle, general socioeconomic developments, investment plans of public and municipal customers, interest rate levels and local market conditions.

Operating margin: Historic profitability levels and operative efficiency, access to key personnel and qualified manpower, access to internal resources and hikes in salary, material 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. A reasonable or cautious assumption for future development is that it parallels net sales growth. A high level of internally developed projects may entail a greater need for working capital.

Investment needs: The company's investment needs are assessed on the investments required to achieve the initially forecasted cash flow, i.e. not including expansion investments.

Tax burden: The tax rate in forecasts is based on Peab's expected tax situation in Sweden, Norway and Finland with regards to tax rates, loss carry-forwards etc.

Discount rate: Forecasted cash flows and residual values are discounted to current value applying a weighted average cost of capital (WACC). Interest rates on borrowed capital have been market adjusted to each country. The required return on equity is based on the Capital Asset Pricing Model. A weighted discount rate after tax has been used in calculating useful values. The discount rate after tax used on cash generating units in Sweden is on average 8.2 percent (7.9), in Norway 9.3 percent (9.0) and in Finland 8.7 percent (8.4) The corresponding pre-tax discount in Sweden was on average 8.3 percent (8.0), in Norway 9.5 percent (9.3) and in Finland 8.7 percent (8.5).

| Parent company 2019, MSEK | Intangible assets, external purchase | Intangible assets, internally developed | Total |
|--|---|--|-----------|
| | Other intangible assets | Balanced development costs | |
| Opening acquisition value | 30 | 25 | 55 |
| Purchases | 4 | - | 4 |
| Closing accumulated acquisition value | 34 | 25 | 59 |
| Opening depreciation | - | -4 | -4 |
| Depreciation ¹⁾ | 0 | -4 | -4 |
| Closing accumulated depreciation | 0 | -8 | -8 |
| Closing recognized value | 34 | 17 | 51 |

| Parent company 2018, MSEK | Intangible assets, external purchase | Intangible assets, internally developed | Total |
|--|---|--|-----------|
| | Other intangible assets | Balanced development costs | |
| Opening acquisition value | 22 | 17 | 39 |
| Purchases | 8 | 8 | 16 |
| Closing accumulated acquisition value | 30 | 25 | 55 |
| Opening depreciation | - | -1 | -1 |
| Depreciation ¹⁾ | - | -3 | -3 |
| Closing accumulated depreciation | - | -4 | -4 |
| Closing recognized value | 30 | 21 | 51 |

¹⁾ Depreciation is recognized in the following line of the income statement:

| MSEK | 2019 | 2018 |
|-------------------------|-----------|-----------|
| Administration expenses | -4 | -3 |
| Total | -4 | -3 |

Note 17 Tangible assets

Tangible fixed assets consist of owned and leased assets.

| Group, MSEK | Note | 2019 |
|-------------------------------|------|--------------|
| Tangible fixed assets – owned | | 5,572 |
| Rights of use – leased with | 36 | 1,239 |
| Total | | 6,811 |

IFRS 16, Leases replaced IAS 17 as of January 1, 2019. Assets from financial leases are no longer reported together with owned assets. Financial leases according to IAS 17 are included in the table below for 2018. For more information see note 2 and note 36.

| Group 2019, MSEK | Buildings and land | Machinery and equipment | Construction in progress | Total |
|--|--------------------|-------------------------|--------------------------|---------------|
| Opening acquisition value | 2,496 | 9,600 | 544 | 12,640 |
| Changed accounting principle IFRS 16 ¹⁾ | | -1,645 | | -1,645 |
| Adjusted opening acquisition value | 2,496 | 7,955 | 544 | 10,995 |
| Purchases | 275 | 859 | 196 | 1,330 |
| Purchases through acquired companies | | 22 | | 22 |
| Sales/disposals | -62 | -437 | -1 | -500 |
| Sales via sold company | -24 | -68 | | -92 |
| Reclassifications | 318 | 157 | -422 | 53 |
| Exchange rate differences | 7 | 38 | 2 | 47 |
| Closing accumulated acquisition value | 3,010 | 8,526 | 319 | 11,855 |
| Opening depreciation | -920 | -5,969 | - | -6,889 |
| Changed accounting principle IFRS 16 ¹⁾ | | 1,009 | | 1,009 |
| Adjusted opening depreciation | -920 | -4,960 | - | -5,880 |
| Sales/disposals | 28 | 356 | | 384 |
| Sales via sold company | 8 | 34 | | 42 |
| Depreciation | -94 | -679 | | -773 |
| Reclassifications | -2 | -22 | | -24 |
| Exchange rate differences | -1 | -23 | | -24 |
| Closing accumulated depreciation | -981 | -5,294 | - | -6,275 |
| Opening write-downs | -2 | -8 | - | -10 |
| Sales/disposals | | 2 | | 2 |
| Closing accumulated write-downs | -2 | -6 | - | -8 |
| Closing recognized value | 2,027 | 3,226 | 319 | 5,572 |

¹⁾ Reclassification of financial leasing due to IFRS 16

| Group 2019, MSEK | Buildings and land | Machinery and equipment | Construction in progress | Total |
|---|--------------------|-------------------------|--------------------------|---------------|
| Opening acquisition value | 2,849 | 8,778 | 320 | 11,947 |
| Purchases | 71 | 1,030 | 440 | 1,541 |
| Purchases through acquired companies | | 36 | | 36 |
| Sales/disposals | -440 | -444 | | -884 |
| Sales via sold company | -28 | | | -28 |
| Reclassifications | 26 | 159 | -216 | -31 |
| Exchange rate differences | 18 | 41 | | 59 |
| Closing accumulated acquisition value | 2,496 | 9,600 | 544 | 12,640 |
| Opening depreciation | -910 | -5,509 | - | -6,419 |
| Accumulated depreciation in acquired companies | | -6 | | -6 |
| Sales/disposals | 89 | 384 | | 473 |
| Sales via sold company | 15 | | | 15 |
| Depreciation | -105 | -827 | | -932 |
| Reclassifications | -5 | 12 | | 7 |
| Exchange rate differences | -4 | -23 | | -27 |
| Closing accumulated depreciation | -920 | -5,969 | - | -6,889 |
| Opening write-downs | -4 | -16 | - | -20 |
| Sales/disposals | | 8 | | 8 |
| Reversing previously made write-downs ¹⁾ | 2 | | | 2 |
| Closing accumulated write-downs | -2 | -8 | - | -10 |
| Closing recognized value | 1,574 | 3,623 | 544 | 5,741 |

¹⁾ Reversed write-downs are recognized in the following line of the income statement:

| MSEK | 2019 | 2018 |
|------------------|----------|----------|
| Production costs | - | 2 |
| Total | - | 2 |

Loan interest of SEK 7 million (4) has been activated during the year.

| Parent company, MSEK | Machinery and equipment | |
|--|-------------------------|-----------|
| | 2019 | 2018 |
| Opening acquisition value | 2 | 5 |
| Sales/disposals | - | -3 |
| Closing accumulated acquisition value | 2 | 2 |
| Opening depreciation | -1 | -4 |
| Sales/disposals | - | 3 |
| Closing accumulated depreciation | -1 | -1 |
| Closing recognized value | 1 | 1 |

GROUP FINANCIAL LEASING

At the end of 2018 the recognized value related to Group financial leasing amounted to SEK 636 million. Financial leasing refers to vehicles, construction machinery and other production equipment. The leased assets are owned by the lessors.

Note 18 Investment property

Investment properties consist of owned and leased assets.

| Group, MSEK | Note | 2019 |
|-------------------------------|------|------------|
| Investment properties – owned | | 500 |
| Rights of use – leased with | 36 | 58 |
| Total | | 558 |

| Group 2019, MSEK | Investment property | Construction in progress | Total |
|--|---------------------|--------------------------|------------|
| Opening acquisition value | 380 | 260 | 640 |
| Purchases | 62 | | 62 |
| Sales/disposals | -143 | | -143 |
| Reclassification | 266 | -266 | - |
| Exchange rate differences | -4 | 7 | 3 |
| Closing accumulated acquisition value | 561 | 1 | 562 |
| Opening depreciation | -41 | - | -41 |
| Sales/disposals | 3 | | 3 |
| Depreciation | -14 | | -14 |
| Closing accumulated depreciation | -52 | - | -52 |
| Opening write-downs | -10 | - | -10 |
| Closing accumulated write-downs | -10 | - | -10 |
| Closing recognized value | 499 | 1 | 500 |

In addition to owned investment properties there were rights of use of leaseholds for SEK 58 million at the end of 2019. The recognized value was SEK 53 million when IFRS 16 Leasing was implemented on January 1, 2019. The change during the year is due solely to index and exchange rate changes.

| Group 2019, MSEK | Investment property | Construction in progress | Total |
|--|---------------------|--------------------------|------------|
| Opening acquisition value | 819 | 117 | 936 |
| Purchases | 59 | 190 | 249 |
| Sales/disposals | -588 | -16 | -604 |
| Reclassification | 90 | -31 | 59 |
| Closing accumulated acquisition value | 380 | 260 | 640 |
| Opening depreciation | -55 | - | -55 |
| Sales/disposals | 24 | | 24 |
| Depreciation | -20 | | -20 |
| Reclassification | 10 | | 10 |
| Closing accumulated depreciation | -41 | - | -41 |
| Opening write-downs | -10 | - | -10 |
| Sales/disposals | 10 | | 10 |
| Reclassification | -10 | | -10 |
| Closing accumulated write-downs | -10 | - | -10 |
| Closing recognized value | 329 | 260 | 589 |

Loan interest of SEK 0 million (4) has been activated during the year.

ACCUMULATED FAIR VALUE

At year-end fair value amounted to SEK 603 million compared to the recognized value of SEK 500 million. At year-end 2018 fair value amounted to SEK 707 million compared to the recognized value of SEK 589 million. The fair value of the rights of use (leaseholds), in addition to the recognized value, is immaterial.

VALUING TECHNIQUE, HIERARCHY AND SIGNIFICANT UNOBSERVABLE INPUTS

The valuation of the above fair values are classified on level 3 in the fair value hierarchy. The valuation is built on an internal valuation model. As a complement to this valuation annual external market valuations are obtained for a number of objects. Fair value has been determined through a combination of applying the location/price method, based on recognized comparable purchases and the yield method.

EFFECT ON PROFIT/LOSS FOR THE YEAR

| Group, MSEK | 2019 | 2018 |
|---|------|------|
| Rental revenue | 61 | 53 |
| Direct costs for investment property that generated rent during the year (operational and maintenance costs, property tax and ground rent) | -29 | -21 |
| Direct costs for investment property that did not generate rent during the year (operational and maintenance costs, property tax and ground rent) | -6 | -4 |

Note 19 Participation in joint ventures

INFORMATION REGARDING SIGNIFICANT JOINT VENTURES IN THE GROUP

Fastighets AB Centur, 50 percent ownership. The company owns, manages and develops commercial property and homes.

Fastighets AB ML4, 50 percent ownership. The company will own and manage research facility Max IV in Lund. The facility is rented to Lund University.

Peab owns 33.33 percent of Tornet Bostadsproduktion AB. In December 2018 ownership in Tornet changed after Peab, Folksam and Balder acquired Riksbyggen's 19 percent ownership share. Peab thereby increased its ownership from 31 percent to 33.33 percent. Tornet will build and manage attractive and environmentally friendly rentals in larger cities in Sweden.

Peab owns 50 percent of Point Hyllie Holding AB. The company will develop, own and manage the office property The Point and own and manage the hotel property Vårdshuset 5.

| Group, MSEK | Significant joint ventures 2019-12-31 | | | | Significant joint ventures 2018-12-31 | | | |
|---|---------------------------------------|----------------------|--|----------------------------------|---------------------------------------|----------------------|--|----------------------------------|
| | Fastighets AB Centur | Fastighets AB ML4 | Tornet Bostads- produk- tion AB | Point Hyllie Holding AB | Fastighets AB Centur | Fastighets AB ML4 | Tornet Bostads- produk- tion AB | Point Hyllie Holding AB |
| Net sales | 368 | 97 | 151 | 35 | 286 | 87 | 130 | 30 |
| Operating profit ¹⁾ | 282 | 53 | 89 | 13 | 239 | 44 | 78 | 11 |
| Interest expenses and similar profit/loss items | -87 | -33 | -39 | -7 | -63 | -27 | -80 | -9 |
| Tax | -74 | -5 | -11 | -3 | -30 | -3 | | -1 |
| Profit for the year | 121 | 15 | 39 | 3 | 146 | 14 | -2 | 1 |
| Other comprehensive income and comprehensive income for the year | 121 | 15 | 39 | 3 | 146 | 14 | -2 | 1 |
| Less non-controlling interest | -4 | | | | -3 | | | |
| Total comprehensive income less non-controlling interest | 117 | 15 | 39 | 3 | 143 | 14 | -2 | 1 |
| ¹⁾ Depreciation amounts to | | 43 | 22 | 14 | | 42 | 19 | 14 |
| Fixed assets | | 151 | 5 | | | 121 | 5 | |
| Investment property | 5,866 | 1,870 | 3,648 | 1,247 | 5,378 | 1,849 | 2,921 | 975 |
| Short-term investments and liquid funds | 85 | 34 | 153 | 48 | 725 | 6 | 37 | 18 |
| Other current assets | 97 | 3 | 3 | 14 | 50 | 21 | 19 | 16 |
| Total assets | 6,048 | 2,058 | 3,809 | 1,309 | 6,153 | 1,997 | 2,982 | 1,009 |
| Long-term financial liabilities | 4,728 | 1,813 | 2,665 | 869 | 4,382 | 1,793 | 2,541 | 980 |
| Other long-term liabilities | 221 | 54 | 25 | 3 | 159 | 51 | 26 | |
| Current financial liabilities | | 36 | | | | 31 | | |
| Other current liabilities | 206 | 47 | 112 | 29 | 839 | 28 | 47 | 42 |
| Total liabilities | 5,155 | 1,950 | 2,802 | 901 | 5,380 | 1,903 | 2,614 | 1,022 |
| Net assets | 893 | 108 | 1,007 | 408 | 773 | 94 | 368 | -13 |
| Less non-controlling interest | -14 | | -1 | | -10 | | | |
| Net assets less non-controlling interest | 879 | 108 | 1,006 | 408 | 763 | 94 | 368 | -13 |
| Group share of net assets at the beginning of the year | 381 | 47 | 123 | -7 | 310 | 39 | 74 | -10 |
| Share of total comprehensive income | 59 | 7 | 12 | 2 | 71 | 8 | -1 | |
| Acquisitions | | | | | | | 19 | |
| Contribution / new issues | | | 200 | 209 | | | 31 | 3 |
| Group share of net assets at year-end | 440 | 54 | 335 | 204 | 381 | 47 | 123 | -7 |
| Group share of unrealized internal profit at the beginning of the year | -37 | -55 | -20 | -103 | -30 | -54 | -21 | -99 |
| Elimination of unrealized profit | -2 | | | -5 | -7 | -1 | 1 | -4 |
| Group share of unrealized internal profit at year-end | -39 | -55 | -20 | -108 | -37 | -55 | -20 | -103 |
| Recognized value at year-end | 401 | -1 | 315 | 96 | 344 | -8 | 103 | -110 |
| Profit is reported in the following line in the income statement: | | | | | | | | |
| Production costs | 57 | 7 | 12 | -3 | 64 | 7 | | -4 |
| Total | 57 | 7 | 12 | -3 | 64 | 7 | 0 | -4 |
| Recognized amount is divided among the following items in the balance sheet: | | | | | | | | |
| Shares in joint ventures | 401 | | 315 | 96 | 344 | | 103 | |
| Accrued expenses and deferred income ²⁾ | | -1 | | | | -8 | | -110 |
| Total | 401 | -1 | 315 | 96 | 344 | -8 | 103 | -110 |

²⁾ Refers to joint ventures where the net sum of equity and internal profit elimination is negative.

INFORMATION ON OTHER JOINT VENTURE'S VALUE IN THE GROUP

| Group, MSEK | 2019 | 2018 |
|---|------------|------------|
| Share of comprehensive income in other joint ventures | 253 | 41 |
| Profit is divided among the following items in the income statement: | | |
| Productions costs | 251 | 29 |
| Other operating income | 2 | 12 |
| Total | 253 | 41 |
| Recognized value of other joint ventures | 986 | 559 |
| Recognized amount is divided among the following items in the balance sheet: | | |
| Participation in joint ventures | 1,072 | 629 |
| Other provisions ¹⁾ | -74 | -60 |
| Accrued expenses and deferred income ²⁾ | -12 | -10 |
| Total | 986 | 559 |

¹⁾ Refers to joint ventures where equity is negative.

²⁾ Refers to joint ventures where the net sum of equity and internal profit elimination is negative.

| Company | Company | Registered Office | Share percent 2019 | Share percent 2018 | Company | Company | Registered Office | Share percent 2019 | Share percent 2018 |
|----------------------------------|-------------|-------------------|--------------------|--------------------|---|-------------|-------------------|--------------------|--------------------|
| Acturum Development AB | 556910-5488 | Stockholm | 50.0 | 50.0 | Nye Egne Hjem AS | 913 624 149 | Lysaker | 50.0 | 50.0 |
| Arktek AS | 913 955 889 | Tromsø | - | 33.4 | Nyheim Bolig AS | 822 156 282 | Tromsø | 50.0 | - |
| Blindheim Kran AS | 918 329 293 | Hjørungavåg | 45.0 | 45.0 | Partille kv3 Holding AB | 559211-5058 | Solna | 50.0 | - |
| Bondistranda Utvikling AS | 992 512 741 | Lysaker | 50.0 | 50.0 | PeKum AB | 559041-7464 | Kumla | 50.0 | 50.0 |
| Brekkeveien 5 Bolig AS | 991 935 177 | Lysaker | 50.0 | 50.0 | Point Hyllie Holding AB | 559023-4034 | Solna | 50.0 | 50.0 |
| Byggutveckling Svenska AB | 556627-2117 | Linköping | 50.0 | 50.0 | PPE Holding AB | 559003-7304 | Solna | 50.0 | 50.0 |
| Fastighets AB Centur | 556813-6369 | Stockholm | 50.0 | 50.0 | Runö Fastigheter Handelsbolag | 969723-2107 | Stockholm | 30.0 | 30.0 |
| Fastighets AB ML4 | 556786-2155 | Malmö | 50.0 | 50.0 | Scandinavian Mountains AB | 556973-5631 | Malung-Sälen | 24.3 | 24.3 |
| Fastighets AB Tornet | 559008-2912 | Gothenburg | 50.0 | 50.0 | Sicklaön Bygg Invest AB | 556911-5479 | Solna | 50.0 | 50.0 |
| Fjällvärme i Sälen AB | 556536-1895 | Malung-Sälen | 50.0 | 50.0 | Sjökrona Exploatering AB | 556790-5624 | Helsingborg | 25.0 | 25.0 |
| Fløfjället Eiendom AS | 915 467 407 | Tromsø | 50.0 | 50.0 | Skiab Invest AB | 556848-5220 | Malung-Sälen | 50.0 | 50.0 |
| Fløtningen Park AS | 992 212 330 | Skien | 50.0 | 50.0 | Skiab Invest AS | 915 659 454 | Trysil | 50.0 | 50.0 |
| Frenvikrønnen AS | 986 838 325 | Skien | 50.0 | 50.0 | Solligården Bolig DA | 913 765 516 | Lysaker | 50.0 | 50.0 |
| Fri Sikt Volsdalsberga AS | 990 529 396 | Ulsteinvik | 40.0 | 40.0 | Solligården Naering AS | 913 764 862 | Lysaker | 50.0 | 50.0 |
| Hans Haslums Vei Utvikling AS | 914 498 937 | Lysaker | 50.0 | 50.0 | Stadsliden Utveckling AB | 556874-7413 | Umeå | 50.0 | 50.0 |
| Hälsostaden Ängelholm Holding AB | 556790-5723 | Ängelholm | 33.3 | 33.3 | Steindalen AS | 914 738 091 | Stjørdal | 33.3 | 33.3 |
| ITolv AB | 556513-2478 | Eksjö | 35.0 | 35.0 | Storsvingen Vest AS | 999 210 953 | Hammerfest | 50.0 | 50.0 |
| Kaldsletneset AS | 911 692 058 | Tromsø | 50.0 | 50.0 | Strömbrytaren Holding AB | 559116-6391 | Stockholm | 50.0 | 50.0 |
| KB Älvhögsborg | 916899-2734 | Trollhättan | 50.0 | 50.0 | Svenska Fräs och Asfaltåtervinning SFA AB | 556214-7354 | Markaryd | - | 40.0 |
| Kirkebakken Vest AS | 988 796 174 | Horten | 50.0 | 50.0 | Sydpartner AB | 556712-4952 | Ängelholm | 50.0 | 50.0 |
| Klosterfoss Utvikling AS | 991 043 829 | Skien | 50.0 | 50.0 | TCL S.å.r.l. | 19982401227 | Luxemburg | 50.0 | 50.0 |
| Kungsörs Grusaktiebolag | 556044-4134 | Kungsör | 50.0 | 50.0 | Tomasjord Park AS | 983 723 853 | Tromsø | 50.0 | 50.0 |
| Lillegården Eiendom AS | 886 804 512 | Skien | 50.0 | 50.0 | Tornet Bostadsproduktion AB | 556796-2682 | Stockholm | 33.3 | 33.3 |
| Ljusta Projektutveckling AB | 556668-4899 | Sundsvall | 50.0 | 50.0 | Trysil Hotellutvikling AS | 987 054 409 | Trysil | 50.0 | 50.0 |
| Ljusta Projektutveckling KB | 969700-6188 | Sundsvall | 50.0 | 50.0 | Trysil Suiter AS | 991 276 068 | Trysil | 50.0 | 50.0 |
| Majorbygg AS | 912 077 020 | Skien | 50.0 | 15.0 | Tunveien Eiendom AS | 916 321 007 | Oslo | 50.0 | 50.0 |
| Medkila Nord AS | 998 565 545 | Harstad | 50.0 | 50.0 | Umeå Mark & Exploatering AB | 556660-7064 | Umeå | 50.0 | - |
| Mountain Resort Trysil AS | 996 284 115 | Trysil | 50.0 | 50.0 | Vardenbakken 99 AS | 998 347 211 | Oslo | 50.0 | 50.0 |
| Myren Parkering AS | 912 024 733 | Skien | 26.4 | 26.4 | Visio Råsunda Garage AB | 556952-9992 | Solna | 50.0 | 50.0 |
| Nedre Holte AS | 985 911 495 | Harstad | 50.0 | 50.0 | Överby Holding AB | 559103-6818 | Solna | 50.0 | 50.0 |
| Nya Bara Utvecklings AB | 556858-4311 | Malmö | 50.0 | 50.0 | | | | | |

Note 20 Joint operations

Specification of Group holdings in joint arrangements that are classified as joint operations, which are recognized according to the proportional method.

| Company, Registered Office, Corp. ID no. | Share percent 2019 | Share percent 2018 |
|--|--------------------|--------------------|
| Dockan Exploatering AB, Malmö, 556594-2645 | 33.3 | 33.3 |
| Mälarstrandens Utvecklings AB, Västerås, 556695-5414 | 44.0 | 44.0 |

Note 21 Interest-bearing receivables

INTEREST-BEARING LONG-TERM RECEIVABLES

| Group, MSEK | 2019 | 2018 |
|--|--------------|--------------|
| Receivables in Group joint ventures | 995 | 1,341 |
| Receivables from tenant-owned associations | 12 | 28 |
| Other interest-bearing receivables | 79 | 76 |
| Total | 1,086 | 1,445 |

INTEREST-BEARING CURRENT RECEIVABLES

| Group, MSEK | 2019 | 2018 |
|--|------------|------------|
| Receivables in Group joint ventures | 117 | 129 |
| Receivables from tenant-owned associations | 26 | 501 |
| Other interest-bearing receivables | 1 | 10 |
| Total | 144 | 640 |

Note 22 Securities holdings

SECURITIES HELD AS FIXED ASSETS

| Group, MSEK | 2019 | 2018 |
|---|-----------|------------|
| Financial assets valued at fair value via profit/loss | | |
| Unlisted funds | 58 | 89 |
| Unlisted shares | 19 | 20 |
| Total | 77 | 109 |

SECURITIES HELD AS CURRENT ASSETS

| Group, MSEK | 2019 | 2018 |
|-------------------------------------|------------|----------|
| Shares in tenant-owner associations | 388 | 0 |
| Total | 388 | 0 |

Note 23 Other receivables

OTHER LONG-TERM RECEIVABLES

| MSEK | Group | | Parent company | |
|--|------------|------------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Receivables in Group joint ventures | 37 | 33 | | |
| Other long-term receivables | 94 | 74 | | |
| Derivate instruments held for hedging purposes | 0 | 0 | | |
| Total | 131 | 107 | - | - |

OTHER CURRENT RECEIVABLES

| MSEK | Group | | Parent company | |
|--|------------|------------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Receivables in Group joint ventures | 4 | 15 | - | - |
| Other current receivables | 674 | 716 | 44 | 2 |
| Derivate instruments held for hedging purposes | 0 | 1 | - | - |
| Total | 678 | 732 | 44 | 2 |

Note 24 Project and development properties

Investment property consist of owned and leased assets.

| Group, MSEK | Note | 2019 |
|--|------|---------------|
| Project and development properties – owned | | 11,240 |
| Rights of use – leased with | 36 | 167 |
| Total | | 11,407 |

| Group, MSEK | 2019 | 2018 |
|---|---------------|--------------|
| Housing development rights | 5,674 | 5,394 |
| Commercial development rights | 555 | 656 |
| On going housing projects in Norway and Finland | 3,035 | 2,034 |
| On going rental projects in Sweden | 806 | 925 |
| On going commercial projects | 383 | 302 |
| Completed property | 391 | 14 |
| Other | 396 | 360 |
| Total | 11,240 | 9,685 |

Project and development properties were written down during the year for a total of SEK 33 million (30). Loan interest of SEK 38 million (25) has been activated during the year.

RECOVERY

Of the recognized value of project and development property of SEK 11,240 million (9,685) some SEK 5,500 million (approximately 5,800) is expected to be recovered through the start of production or sales more than 12 months after the balance sheet day. The remaining part is expected to be recovered within 12 months after the balance sheet day.

Note 25 Inventories

| Group, MSEK | 2019 | 2018 |
|--|------------|------------|
| Raw materials and consumables | 163 | 133 |
| Products in progress | 3 | 3 |
| Finished products and goods for resale | 367 | 305 |
| Total | 533 | 441 |

Note 26 Accounts receivable

Total accounts receivables amounted to SEK 9,285 million (10,166). In business area Construction, Industry and Project Development accounts receivables have decreased while business area Civil Engineering has increased accounts receivables compared to 2018. For more information regarding accounts receivable see note 35.

Accounts receivables were written down in the income statement with actual and feared bad debts for a total of SEK 10 million (11). Actual bad debts amounted to SEK 29 million (22) in the Group, of which SEK 25 million were written down in 2018. The losses resulted from some of the company's customers going bankrupt. Most of the losses stemmed from business area Industry. The parent company had no bad debts.

Note 27 Construction contracts

WORKED-UP NOT INVOICED INCOME

| Group, MSEK | 2019 | 2018 |
|--|--------------|--------------|
| Worked-up income on incomplete contracts | 36,464 | 36,259 |
| Invoiced sales on incomplete contracts | -34,077 | -33,947 |
| Total | 2,387 | 2,312 |

INVOICED INCOME NOT WORKED-UP

| Group, MSEK | 2019 | 2018 |
|--|--------------|--------------|
| Invoiced sales on incomplete contracts | 58,836 | 55,619 |
| Worked-up income on incomplete contracts | -53,218 | -48,778 |
| Total | 5,618 | 6,841 |

CHANGE IN CONTRACT BALANCES

| Group, MSEK | 2019 | | 2018 | |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | Worked-up not invoiced income | Invoiced income not worked-up | Worked-up not invoiced income | Invoiced income not worked-up |
| Income recognized in the period included in invoiced income not worked-up at the beginning of the period | | 6,841 | | 6,252 |
| Invoiced during the year, reduced by amounts recognized as income during the year | | -5,618 | | -6,841 |
| Transferred from worked-up not invoiced income at the beginning of the period to receivables | -2,312 | | -2,408 | |
| Worked-up during the year, reduced by amounts invoiced during the year | 2,387 | | 2,312 | |
| Exchange rate differences | 14 | 17 | 29 | 24 |

Income recognized during the report period from performance obligations met during previous periods was SEK -227 million (-330).

Worked-up income from ongoing contracts is recognized over time. The degree of recognition is calculated on the basis of the project costs incurred at the end of the period in relation to the project costs corresponding to the project income for the whole project.

Contract assignments are recognized in gross on the balance sheet project for projects, either as Worked-up income not invoiced in current assets or as Invoiced income not worked-up in current liabilities. Projects that have higher worked-up income than the amounts invoiced are recognized as assets, while projects that have been invoiced for more than the income worked-up are recognized as liabilities.

Note 28 Equity

SHARES AND SHARE CAPITAL

| Group | A shares | B shares | Number of issued fully paid shares | Share capital, SEK |
|---|-------------------|--------------------|------------------------------------|----------------------|
| Issued shares per 1 January 2019 | 34,319,957 | 261,729,773 | 296,049,730 | 1,583,866,056 |
| Issued shares per 31 December 2019 | 34,319,957 | 261,729,773 | 296,049,730 | 1,583,866,056 |

An A share entitles the holder to 10 votes and a B share to 1 vote. The par value of all shares is SEK 5.35. All the rights for the shares held by the company (see below) have been revoked until these shares are reissued.

REPURCHASED OWN SHARES THAT HAVE REDUCED THE EQUITY ITEM PROFIT BROUGHT FORWARD INCLUDING PROFIT FOR THE YEAR

| | Number of shares ¹⁾ | | Amount that affected equity, MSEK ²⁾ | |
|---------------------------------------|--------------------------------|------------------|---|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Opening repurchased own shares | 1,086,984 | 1,086,984 | 929 | 929 |
| Closing repurchased own shares | 1,086,984 | 1,086,984 | 929 | 929 |

¹⁾ A withdrawal of 5,500,000 shares was made in 2007.

²⁾ Amount affecting equity refers to the accumulated net sum of acquired and divested own shares.

OTHER CONTRIBUTED CAPITAL

Refers to equity contributed by the owners. Includes premiums paid in conjunction with new issues.

RESERVES

Translation reserve

The translation reserve comprises all exchange rate differences generated by translating the financial reports from foreign companies presented in another currency than the one used in Group financial statements. The parent company and the Group present their reports in Swedish krona (SEK). The translation reserve also consists of exchange rate differences that occur when revaluing liabilities recognized as hedge instruments of net investments in foreign operations.

Fair value reserve

The fair value reserve includes the accumulated net change of the fair value of financial assets available-for-sale until the asset has been eliminated from the balance sheet.

Hedge reserve

The hedge reserve comprises the effective part of the accumulated net changes in fair value in a cash flow hedge instrument attributable to hedged transactions that have not as yet occurred.

PROFIT BROUGHT FORWARD INCLUDING PROFIT FOR THE YEAR

Profit brought forward including profit for the year consists of profit in the parent company, its subsidiaries and joint arrangements.

PARENT COMPANY

Restricted equity

Restricted equity may not be reduced by the distribution of dividends.

Statutory reserve

The purpose of the reserve fund is to retain a part of the net profit which is not allocated to cover balanced losses. Amounts transferred to the share premium reserve before January 1, 2006 have been transferred to, and are part of, the statutory reserve.

Fund for development costs

The amount activated by internally generated development costs is transferred from non-restricted equity to a fund for development costs in restricted equity. The fund will contract as the activated costs are depreciated or written down.

Non-restricted equity

Together with profit for the year the following funds make up non-restricted equity, i.e. the amount available for dividends to the shareholders.

Share premium reserve

When shares are issued at a premium, i.e. when more must be paid for the shares than their nominal price, an amount equivalent to the amount received in excess of the share's nominal value is transferred to the share premium reserve. The amount transferred to the share premium reserve starting January 1, 2006 is included in unrestricted capital.

Special reserve

Refers to reserves to funds when the share capital contracts, to be used as the AGM decides.

Profit brought forward

Consists of the previous year's profit brought forward and profit less dividends paid out during the year.

Note 29 Interest-bearing liabilities

LONG-TERM LIABILITIES

| Group, MSEK | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Bank loans | 3,086 | 2,657 |
| Bonds | 1,498 | 2,048 |
| Leasing liabilities | 1,033 | - |
| Financial leasing liabilities | - | 431 |
| Other long-term liabilities | - | 58 |
| Total | 5,617 | 5,194 |

CURRENT LIABILITIES

| Group, MSEK | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Bank loans | 1,074 | 726 |
| Commercial paper | 1,359 | 730 |
| Bonds | 750 | 200 |
| Leasing liabilities | 310 | - |
| Financial leasing liabilities | - | 162 |
| Liabilities to joint ventures | 0 | 0 |
| Total | 3,493 | 1,818 |

FINANCIAL LEASING LIABILITIES

Financial leasing liabilities fell due for payment as follows:

| Group, MSEK | Minimum leasing charge 2018 | Interest 2018 | Capital amount 2018 |
|----------------------------|-----------------------------|---------------|---------------------|
| Within one year | 171 | 9 | 162 |
| Between one and five years | 429 | 9 | 420 |
| Later than five years | 11 | 0 | 11 |
| Total | 611 | 18 | 593 |

Variable leasing fees 2018 were SEK 0 million.

CHANGES IN LIABILITIES

| Group, MSEK | 2018-12-31 | Adjustment IFRS 16 | Cash flow | Items that do not effect cash flow | | | | 2019-12-31 |
|-------------------------------|--------------|--------------------|------------|------------------------------------|----------------------------|--------------------|--------------------------|--------------|
| | | | | New leasing contracts | Acquisitions ¹⁾ | Other changes | Exchange rate difference | |
| Bank loans | 3,383 | | 712 | | 25 | | 40 | 4,160 |
| Commercial paper | 730 | | 629 | | | | | 1,359 |
| Bonds | 2,248 | | | | | | | 2,248 |
| Leasing liabilities | - | 1,443 | -408 | 447 | 1 | -156 ²⁾ | 16 | 1,343 |
| Financial leasing liabilities | 593 | -593 | | | | | | - |
| Liabilities to joint ventures | 0 | | -11 | | 11 | | | 0 |
| Other liabilities | 58 | | -146 | | | 88 ³⁾ | | - |
| Total | 7,012 | 850 | 776 | 447 | 37 | -68 | 56 | 9,110 |

¹⁾ Acquired liabilities including liabilities taken over in business and assets combinations.

²⁾ Refers to extensions, index changes and termination of contracts.

³⁾ Revaluation of liabilities from acquisitions.

Items that do not effect cash flow

| Group, MSEK | 2017-12-31 | Cash flow | New leasing contracts | Acquisitions | Exchange rate difference | 2018-12-31 |
|-------------------------------|--------------|--------------|-----------------------|--------------|--------------------------|--------------|
| Bank loans | 2,240 | 1,100 | | 2 | 41 | 3,383 |
| Commercial paper | 200 | 530 | | | | 730 |
| Bonds | 650 | 1,598 | | | | 2,248 |
| Financial leasing liabilities | 566 | -243 | 256 | 9 | 5 | 593 |
| Liabilities to joint ventures | 29 | -29 | | | | 0 |
| Other liabilities | 57 | -6 | | 7 | | 58 |
| Total | 3,742 | 2,950 | 256 | 18 | 46 | 7,012 |

| Parent company, MSEK | 2018-12-31 | Cash flow ¹⁾ | 2019-12-31 |
|--------------------------------|--------------|-------------------------|--------------|
| Liabilities to Group companies | 3,883 | -1,092 | 2,791 |
| Total | 3,883 | -1,092 | 2,791 |

| Parent company, MSEK | 2017-12-31 | Cash flow ¹⁾ | 2018-12-31 |
|--------------------------------|--------------|-------------------------|--------------|
| Liabilities to Group companies | 6,326 | -2,443 | 3,883 |
| Total | 6,326 | -2,443 | 3,883 |

¹⁾ According to the cash flow analysis, changes in loans amounted to SEK -1,104 million (-2,464), which also includes changes in balances in Group accounts by SEK -12 million (-21).

Note 30 Pensions

DEFINED BENEFIT PENSION PLANS

Defined benefit plans consist of the Swedish ITP 2 Plan for white-collar workers which is managed through insurance with Alecta. Since Alecta cannot provide the information required to report the ITP 2 plan as a defined benefit plan it is recognized as a defined contribution plan (see below).

ITP 2 defined benefit plan obligations for old age pension and family pension obligations for white-collar workers in Sweden are managed through insurance from Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10 Reporting pension plan ITP 2 which is financed through insurance from Alecta, this is a defined benefit plan that encompasses several employers. For the financial year of 2019 the company did not have the necessary information required to recognize its proportional share of the plan's obligations, plan assets and expenses which has made it impossible to recognize this plan as a defined benefit plan. Therefore the ITP 2 pension plan which is secured through insurance from Alecta is recognized as a defined contribution plan. Premiums for the defined benefit old age and family plans are calculated individually taking into account salary, previously earned pension and anticipated remaining employment period. Anticipated premiums for the next report period for ITP 2 insurance that are covered by Alecta amount to SEK 167 million (169). The Group's share of total premiums for the plan and the Group's share of the total number of active members of the plan are 0.95 percent (1.01) respective 0.65 percent (0.65).

The collective consolidation level is made up of the market value of Alecta's assets as a percentage of the insurance obligations calculated in accordance with Alecta's insurance methods and adjustment assumptions, which are not in accordance with IAS 19. Normally the collective consolidation level is permitted to vary between 125 and 155 percent. If Alecta's collective consolidation level is less than 125 percent or exceeds 155 measures must be taken aimed at returning the consolidation level to the normal interval. If the consolidation level is low one measure may be raising the agreed price for new subscriptions and expanding existing benefits. If the consolidation level is high one measure may be implementing premium reductions. At the end of 2019, Alecta's surplus in the form of the collective consolidation level amounted to 148 percent (142).

DEFINED CONTRIBUTION PLANS

The Group has defined contribution plans which are entirely paid for by the companies. Payments to these plans are made on a current basis according to the rules of each plan.

| MSEK | Group | | Parent company | |
|--|------------|------------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Expenses for defined contribution plans | 864 | 798 | 45 | 41 |
| <i>Of which ITP 2 plans financed in Alecta</i> | <i>194</i> | <i>191</i> | <i>8</i> | <i>8</i> |

Note 31 Provisions

PROVISIONS WHICH ARE LONG-TERM LIABILITIES

| Group, MSEK | 2019 | 2018 |
|---------------------------------|------------|------------|
| Guarantee risk reserve | 513 | 442 |
| Restoration costs | 131 | 124 |
| Special payroll tax on pensions | 138 | 111 |
| Disputes | 13 | 14 |
| Obligations in joint ventures | 74 | 60 |
| Other | 73 | 65 |
| Total | 942 | 816 |

PROVISIONS WHICH ARE CURRENT LIABILITIES

| Group, MSEK | 2019 | 2018 |
|------------------------------|------------|------------|
| Fearred losses not worked-up | 24 | 25 |
| Guarantee risk reserve | 98 | 180 |
| Restoration costs | - | 3 |
| Disputes | 29 | 25 |
| Other | 63 | 33 |
| Total | 214 | 266 |

PROVISIONS

| Parent company, MSEK | 2019 | 2018 |
|---------------------------------|-----------|-----------|
| Special payroll tax on pensions | 41 | 36 |
| Total | 41 | 36 |

| Group 2019, MSEK | Feared losses not worked-up | Guarantee risk reserve | Restoration costs | Special payroll tax on pensions | Disputes | Obligations in joint ventures | Other | Total |
|--|------------------------------------|-------------------------------|--------------------------|--|-----------------|--------------------------------------|--------------|--------------|
| Opening recognized value | 25 | 622 | 127 | 111 | 39 | 60 | 98 | 1,082 |
| Provisions set aside during the year | 3 | 393 | 13 | 40 | 14 | 17 | 50 | 530 |
| Amounts requisitioned during the year | -4 | -407 | -11 | -13 | -5 | -2 | -9 | -451 |
| Reversed unutilized provisions during the year | | | | | -7 | -2 | -4 | -13 |
| Increase in discounted amounts during the year | | | 1 | | | | | 1 |
| Exchange rate differences | | 3 | 1 | | 1 | 1 | 1 | 7 |
| Closing recognized value | 24 | 611 | 131 | 138 | 42 | 74 | 136 | 1,156 |
| Of which are long-term provisions | | 513 | 131 | 138 | 13 | 74 | 73 | 942 |
| Of which are current provisions | 24 | 98 | | | 29 | | 63 | 214 |

| Group 2018, MSEK | Feared losses not worked-up | Guarantee risk reserve | Restoration costs | Special payroll tax on pensions | Disputes | Obligations in joint ventures | Other | Total |
|--|------------------------------------|-------------------------------|--------------------------|--|-----------------|--------------------------------------|--------------|--------------|
| Opening recognized value | 43 | 526 | 137 | 98 | 56 | 47 | 92 | 999 |
| Provisions set aside during the year | 1 | 416 | 10 | 19 | 37 | 12 | 79 | 574 |
| Amounts requisitioned during the year | -19 | -316 | -21 | -6 | -32 | | -65 | -459 |
| Reversed unutilized provisions during the year | | -9 | 0 | | -23 | | -10 | -42 |
| Increase in discounted amounts during the year | | | 1 | | | | | 1 |
| Exchange rate differences | | 5 | 0 | | 1 | 1 | 2 | 9 |
| Closing recognized value | 25 | 622 | 127 | 111 | 39 | 60 | 98 | 1,082 |
| Of which are long-term provisions | | 442 | 124 | 111 | 14 | 60 | 65 | 816 |
| Of which are current provisions | 25 | 180 | 3 | | 25 | | 33 | 266 |

| Parent company, MSEK | 2019 | 2018 |
|---------------------------------------|-------------|-------------|
| Opening recognized value | 36 | 32 |
| Provisions set aside during the year | 14 | 6 |
| Amounts requisitioned during the year | -9 | -2 |
| Closing recognized value | 41 | 36 |
| Of which are long-term provisions | 41 | 36 |

FEARED LOSSES NOT WORKED-UP

Feared losses in contract work are expensed as soon as they are known. According to IFRS 15 the part of a feared loss that has not been worked-up is recognized as a provision. Provisions for feared losses not worked-up have been made in all business areas.

GUARANTEE RISK RESERVE

Refers to the estimated cost of remedying faults and deficiencies in finished projects that arise while the project is under warranty, rental guarantees as well as repurchasing obligations to tenant-owned associations. Resources are consumed during the guarantee period of the project which is generally two to five years. As the effect of the point in time for payment is not material expected future disbursements are not valued at their current value. Provisions for guarantee risks have been made in all business areas.

RESTORATION COSTS

Refers to restoration costs in Industry operations for gravel pits and rock quarries after termination of operations. The provision grows in relation to the amount quarried and is reversed after restoration is complete. The reserved sum is expected to be used successively after operations are terminated. The estimated restoration time is 1 to 15 years. Our calculation of reserved amounts is based on estimated future payments for restoration and reflects Peab's best assessment taking risks in cash flows into consideration.

SPECIAL PAYROLL TAX ON PENSIONS

There are pension plans where the Group has acquired endowment insurance which is hedged in favor of employees through pledges. Provisions for special payroll tax are reserved calculated on the fair value of the endowment insurance, except in cases where the contract stipulates that the endowment insurance covers special payroll tax.

DISPUTES

Refers to disputes in business areas Construction and Industry.

OBLIGATIONS TO JOINT VENTURES

Refers to participations in joint ventures with a negative consolidated value in the business area Project Development.

OTHERS

Refers to other minor provisions.

Note 32 Other liabilities**OTHER LONG-TERM LIABILITIES**

| MSEK | Group | | Parent company | |
|--|-----------|------------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Contingent consideration | - | 23 | | |
| Derivate instruments held for hedging purposes | 13 | 22 | | |
| Other liabilities | 59 | 116 | | |
| Total | 72 | 161 | - | - |

OTHER CURRENT LIABILITIES

| MSEK | Group | | Parent company | |
|--|--------------|--------------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| Liabilities to joint ventures | 8 | 13 | | |
| Contingent consideration | 1 | 11 | | |
| Withholdings, social security costs | 205 | 204 | 4 | 4 |
| VAT | 684 | 647 | 5 | |
| On account work-in-progress | 548 | 358 | | |
| Derivate instruments held for hedging purposes | 3 | 1 | | |
| Other liabilities | 497 | 223 | 3 | 0 |
| Total | 1,946 | 1,457 | 12 | 4 |

Note 33 Accrued expenses and deferred income

| Parent company, MSEK | 2019 | 2018 |
|----------------------------------|-----------|-----------|
| Accrued payroll expenses | 34 | 38 |
| Accrued social security expenses | 25 | 18 |
| Accrued overhead expenses | 16 | 10 |
| Total | 75 | 66 |

Note 34 Valuation of financial assets and liabilities at fair value

Group financial instruments are valued either at accrued acquisition value or fair value depending on how the instrument is classified according to IFRS 9. Items which have been the object of valuation at fair value are unlisted shareholdings, shares in tenant-owner associations, different types of derivatives, unlisted funds and contingent consideration.

Group unlisted shareholdings are valued at fair value. The purchase price is a reasonable approximation of fair value on the balance sheet date. Shares in tenant-owned housing associations are valued at fair value according to the market prices of similar homes in the same size and the same geographic area. The fair value of the Group's shares in unlisted funds is based on the valuation received from the managing institute. The valuation belongs to level 3 in the fair value hierarchy.

However, the Group does not have access to the information about the input data used by the institute for the valuation and therefore no information about such data is given. The fair value of the Group's contingent considerations has been calculated as the current value of the amount expected to be paid according to each respective contract. At the end of 2019 Group contingent considerations were SEK 1 million (34). The largest single Group contingent consideration at the end of 2018 referred to a certain permit for quarry operations and amounted to SEK 22 million.

When calculating the fair value of interest-bearing receivables and liabilities and interest rate swaps, future cash flows were discounted to the listed market interest rate for the remaining terms of maturity. Spot rates on the balance sheet date were used to calculate the fair value of currency swaps. The recognized value of non-interest-bearing asset and liability items such as accounts receivable and accounts payable with a remaining maturity of less than six months is believed to reflect the fair value. The tables below show the recognized values compared with the estimated fair value per type of financial asset and liability.

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| Group, MSEK | Valued at fair value via the income statement | | Derivatives used in hedge accounting | | Accrued acquisition value | | Other financial liabilities | | Total recognized value | | Fair value | |
|---|---|------------|--------------------------------------|-----------|---------------------------|---------------|-----------------------------|---------------|------------------------|---------------|---------------|---------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Financial assets | | | | | | | | | | | | |
| Other securities held as fixed assets | 77 | 109 | | | | | | | 77 | 109 | 77 | 109 |
| Interest-bearing long-term receivables | | | | | 1,086 | 1,445 | | | 1,086 | 1,445 | 1,089 | 1,449 |
| Other long-term receivables | | | | 0 | 10 | 89 | | | 10 | 89 | 10 | 89 |
| Accounts receivable | | | | | 9,285 | 10,166 | | | 9,285 | 10,166 | 9,285 | 10,166 |
| Interest-bearing current receivables | | | | | 144 | 640 | | | 144 | 640 | 144 | 640 |
| Prepaid expenses and accrued income | | | | | 9 | 33 | | | 9 | 33 | 9 | 33 |
| Other current receivables | 0 | 1 | | | 229 | 513 | | | 229 | 514 | 229 | 514 |
| Other securities held as current assets | 388 | 0 | | | | | | | 388 | 0 | 388 | 0 |
| Liquid funds | | | | | 373 | 1,376 | | | 373 | 1,376 | 373 | 1,376 |
| Total financial assets | 465 | 110 | | 0 | 11,136 | 14,262 | | | 11,601 | 14,372 | 11,604 | 14,376 |
| Financial liabilities | | | | | | | | | | | | |
| Interest-bearing long-term liabilities | | | | | | | 5,617 | 5,194 | 5,617 | 5,194 | 5,617 | 5,187 |
| Other long-term liabilities | 0 | 23 | 13 | 22 | | | 59 | 116 | 72 | 161 | 72 | 161 |
| Interest-bearing current liabilities | | | | | | | 3,493 | 1,818 | 3,493 | 1,818 | 3,493 | 1,818 |
| Accounts payable | | | | | | | 4,295 | 5,177 | 4,295 | 5,177 | 4,295 | 5,177 |
| Accrued expenses and deferred income | | | | | | | 10 | 4 | 10 | 4 | 10 | 4 |
| Other current liabilities | 4 | 12 | | | | | 258 | 91 | 262 | 103 | 262 | 103 |
| Total financial liabilities | 4 | 35 | 13 | 22 | - | - | 13,732 | 12,400 | 13,749 | 12,457 | 13,749 | 12,450 |
| Unrecognized profit/loss ¹⁾ | | | | | | | | | | | 3 | 11 |

¹⁾ In all cases where there is a difference between recognized value and fair value the valuation belongs to level 3 in the fair value hierarchy.

The effect of valuing financial instruments at fair value was included in the Group's income statement for a total of SEK -4 million (-17). The effects of valuing unlisted shares and funds including received dividends amounted to SEK 16 million (25).

| Parent company, MSEK | Valued at fair value via the income statement | | Accrued acquisition value | | Other financial liabilities | | Total recognized value | | Fair value | |
|---------------------------------------|---|----------|---------------------------|--------------|-----------------------------|--------------|------------------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Financial assets | | | | | | | | | | |
| Other securities held as fixed assets | 0 | 0 | | | | | 0 | 0 | 0 | 0 |
| Accounts receivable | | | 1 | 0 | | | 1 | 0 | 1 | 0 |
| Current receivables Group companies | | | 2,479 | 2,736 | | | 2,479 | 2,736 | 2,479 | 2,736 |
| Total financial assets | 0 | 0 | 2,480 | 2,736 | - | - | 2,480 | 2,736 | 2,480 | 2,736 |
| Financial liabilities | | | | | | | | | | |
| Long-term liabilities Group companies | | | | | 2,791 | 3,883 | 2,791 | 3,883 | 2,791 | 3,883 |
| Accounts payable | | | | | 32 | 31 | 32 | 31 | 32 | 31 |
| Current liabilities Group companies | | | | | 404 | 59 | 404 | 59 | 404 | 59 |
| Total financial liabilities | - | - | - | - | 3,227 | 3,973 | 3,227 | 3,973 | 3,227 | 3,973 |

FAIR VALUE

Measurement of fair value is based on a three-level hierarchy.

Level 1: prices that reflect quoted prices on an active market for identical assets

Level 2: based on direct or indirect observable inputs not included in level 1

Level 3: based on inputs unobservable to the market

The table below shows the allocated level of financial assets and financial liabilities recognized at fair value in the Group balance sheet.

| Group, MSEK | Level 2 | | Level 3 | | Total | |
|---|-----------|-----------|------------|------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Financial assets | | | | | | |
| Other securities held as fixed assets | | | 77 | 109 | 77 | 109 |
| Whereof shareholding in unlisted company | | | 19 | 20 | 19 | 20 |
| Whereof investment in unlisted funds | | | 58 | 89 | 58 | 89 |
| Other current receivables | | 1 | | | - | 1 |
| Whereof currency derivatives | | 1 | | | - | 1 |
| Other securities held as current assets | | | 388 | 0 | 388 | 0 |
| Whereof repurchased shares in tenant-owner associations | | | 388 | 0 | 388 | 0 |
| Total financial assets | | 1 | 465 | 109 | 465 | 110 |
| Financial liabilities | | | | | | |
| Other long-term liabilities | 13 | 22 | | 23 | 13 | 45 |
| Whereof interest rate swaps | 13 | 18 | | | 13 | 18 |
| Whereof commodity hedging with futures | | 4 | | | - | 4 |
| Whereof contingent consideration | | | | 23 | - | 23 |
| Other current liabilities | 3 | 1 | 1 | 11 | 4 | 12 |
| Whereof currency derivatives | 2 | 1 | | | 2 | 1 |
| Whereof commodity hedging with futures | 1 | | | | 1 | - |
| Whereof contingent consideration | | | 1 | 11 | 1 | 11 |
| Total financial liabilities | 16 | 23 | 1 | 34 | 17 | 57 |

The tables below shows reconciliation between the opening and closing balance for assets and liabilities included in level 3.

| Group, MSEK | Other securities held as fixed assets | | | | Other securities held as current assets |
|---|---------------------------------------|-------------|-----------------|-------------|---|
| | Unlisted funds | | Unlisted shares | | Repurchased shares in tenant-owner associations |
| | Dec 31 2019 | Dec 31 2018 | Dec 31 2019 | Dec 31 2018 | Dec 31 2019 |
| Opening balance | 89 | 59 | 20 | 21 | 0 |
| Investments | 9 | 19 | | | 1,975 |
| Sales | | | -1 | -12 | -1,142 |
| Dividends received | -55 | -3 | | | |
| Reported in profit/loss for the period | | | | | |
| Production costs ¹⁾ | | | | | -445 |
| Net finance | 15 | 14 | | 11 | |
| Reported in other comprehensive income | | | 0 | | |
| Closing balance | 58 | 89 | 19 | 20 | 388 |

¹⁾ Have corresponded to project provisions of SEK 391 million and therefore the net effect in the income statement is SEK -54 million.

| Group, MSEK | Contingent consideration | |
|--|--------------------------|-----------|
| | 2019 | 2018 |
| Opening balance | 34 | 34 |
| Acquisitions for the year | - | 2 |
| Payments during the year | -31 | -3 |
| Reported in profit/loss for the year: | | |
| Other operating costs (+) / other operating income (-) | -3 | 1 |
| Interest expense (discount) ¹⁾ | 1 | 0 |
| Reported in other comprehensive income | 0 | 0 |
| Closing balance | 1 | 34 |

¹⁾ Recognized in net financial items.

The contingent considerations will be from SEK 0 million to maximum SEK 1 million.

1 **Note 35** Financial risks and Finance policy

2 **FINANCE AND TREASURY**

3 The Group is exposed to various types of financial risks through its operations. The term financial risk refers to fluctuations in the company's profit and cash flow resulting from changes in exchange rates, interest rates, refinancing and credit risks. Group finance and treasury is governed by the Finance Policy established by Peab's Board of Directors. The policy is a framework of guidelines and regulations in the form of a risk mandate and limitations in finance and treasury. The Board has appointed a Finance Committee which is chaired by the Chairman of the Board. It is authorized to make decisions that follow the Finance Policy in between meetings of the Board. The Finance Committee must report any such decisions at the next meeting of the Board. The Group function Finance and Treasury and the Group's internal bank Peab Finans AB manage coordination of Group finance and treasury. The overall responsibility of the finance function is to provide cost-effective funding and to minimize the negative effects on Group profit/loss from financial risks.

4 The liquidity risk refers to the risk of Peab having difficulties in meeting its payment obligations as a result of a lack of liquidity or problems in converting or receiving new external loans. To ensure access to liquid funds binding credit facilities are contracted. The Group has a rolling one-month liquidity plan for all the units in the Group. Plans are updated each week. Group forecasts also comprise liquidity planning in the medium term. Liquidity planning is used to handle the liquidity risk and the cost of Group financing.

5 The objective is for the Group to be able to meet its financial obligations in favorable and unfavorable market conditions without running into significant unforeseen costs. Liquidity risks are managed centrally for the entire Group by the central Finance and Treasury function and the liquidity available at year-end is presented below.

6 **AVAILABLE LIQUID FUNDS**

| 7 Group, MSEK | 8 2019-12-31 | 9 2018-12-31 |
|---|---------------------|---------------------|
| 10 Liquid funds and bank holdings | 11 373 | 12 1,376 |
| 13 Unutilized overdraft facilities | 14 1,000 | 15 1,000 |
| 16 Other unused credit lines | 17 5,000 | 18 4,200 |
| 19 Liquidity commitment for outstanding commercial papers | 20 -1,360 | 21 -730 |
| 22 Total | 23 5,013 | 24 5,846 |

The Finance Policy dictates that Group net debt should mainly be covered by loan commitments that mature between 1 and 5 years. At the end of 2019, the average loan period for utilized credits was 78 months (66), for unutilized credits 27 months (18), and for all granted credits 57 months (45). In 2019 Peab refinanced its credit facility. Basic financing is a credit facility totaling SEK 7,400 million which matures in September 2024, after extension options have been utilized. The new credit facility is based on Peab's financial situation taking into consideration the acquisition of YIT's Nordic paving and mineral aggregates business. The transaction was conditional on approval from competition authorities as well as the fulfillment of certain contractual conditions. The takeover took place April 1, 2020. The part that is related to the acquisition amounts to SEK 3.0 billion and was activated in connection with the takeover. This loan facility is supplemented by capital market financing, other kinds of short-term operations financing, project-related credits, financial leasing and installment financing. The loan facility contains financial covenants in the form of interest coverage ratios and equity/assets ratios that the Group must meet, which is standard for this kind of loan. Peab exceeded the key ratios by a broad margin at the end of 2019.

Peab set up a lending program for commercial papers in 2004. Under the program, Peab can issue commercial papers for a maximum of SEK 3.5 billion. The borrower is Peab Finans AB and the guarantor is Peab AB. At the end of the year, Peab had outstanding commercial papers worth SEK 1,360 million (730).

Peab set up a MTN program in 2012 with a loan limit of SEK 5 billion. In 2019 new bond loans were issued with a nominal value of SEK 200 million (1,700) under the MTN program while bonds nominally worth SEK 200 million (100) matured during the year. At the end of the year 2019 Peab had outstanding bonds with a nominal value of SEK 2,250 million (2,250).

Total credit commitments, excluding the unutilized part of the certificate program and the unutilized part of the MTN program, amounted to SEK 14,346 million (12,212) per 31 December 2019. Of the total credit commitments SEK 8,346 million (7,012) was utilized.

AGE ANALYSIS OF FINANCIAL LIABILITIES, UNDISCOUNTED CASH FLOW INCLUDING INTEREST

| Group 2019, MSEK | Currency | Average interest rate on balance sheet day, % | Nominal value, original currency | Amount SEK | Matures 2020 | Matures 2021 | Matures 2022 | Matures 2023 | Matures 2024 | Matures 2025- |
|---|----------|---|----------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Bank loans | SEK | 1.6 | 1,001 | 1,001 | 312 | 51 | 76 | 380 | 181 | |
| Bank loans | NOK | 3.2 | 826 | 874 | 508 | 307 | 22 | 5 | 14 | 19 |
| Bank loans | EUR | 0.8 | 262 | 2,734 | 604 | 67 | 14 | 14 | 14 | 2,021 |
| Commercial papers | SEK | 0.4 | 1,360 | 1,360 | 1,360 | | | | | |
| Bonds | SEK | 1.1 | 2,294 | 2,294 | 774 | 1,014 | 305 | 201 | | |
| Leasing liabilities, excl leaseholds | SEK | 1.7 | 820 | 820 | 115 | 84 | 226 | 50 | 32 | 313 |
| Leasing liabilities, excl leaseholds | NOK | 3.4 | 220 | 233 | 45 | 50 | 39 | 26 | 49 | 24 |
| Leasing liabilities, excl leaseholds | EUR | 2.9 | 7 | 71 | 19 | 12 | 19 | 7 | 6 | 8 |
| Leasing liabilities, leaseholds ¹⁾ | SEK | 3.3 | 89 | 89 | 3 | 3 | 3 | 3 | 3 | 75 |
| Leasing liabilities, leaseholds ¹⁾ | EUR | 5.0 | 20 | 204 | 10 | 10 | 10 | 10 | 10 | 154 |
| Total interest-bearing financial liabilities | | | | 9,680 | 3,750 | 1,597 | 714 | 696 | 310 | 2,615 |
| Accounts payable | SEK | | 3,536 | 3,536 | 3,536 | | | | | |
| Accounts payable | NOK | | 557 | 589 | 589 | | | | | |
| Accounts payable | EUR | | 16 | 170 | 170 | | | | | |
| Other liabilities | SEK | | 307 | 307 | 248 | 59 | | | | |
| Other liabilities | NOK | | 7 | 7 | 7 | | | | | |
| Other liabilities | EUR | | 0 | 2 | 2 | | | | | |
| Derivatives | SEK | | | 16 | 10 | 6 | 0 | | | |
| Total non-interest bearing financial liabilities | | | | 4,627 | 4,562 | 65 | 0 | | | |
| Total financial liabilities | | | | 14,307 | 8,312 | 1,662 | 714 | 696 | 310 | 2,615 |

¹⁾ Payments for leasehold fees in coming periods are included in the table above for leasing liabilities regarding leaseholds. For periods before 2025 the payments are reported without discounts but for the period 2025 and after, the discounted value of the remaining payments is reported since the leasehold constitutes a never ending obligation to pay leasehold fees. Per December 31, 2019 Group leasing liabilities regarding leaseholds amounted to SEK 293 million, see note 36 Leasing for further details.

| Group 2018, MSEK | Currency | Average interest rate on balance sheet day, % | Nominal value, original currency | Amount SEK | Matures 2019 | Matures 2020 | Matures 2021 | Matures 2022 | Matures 2023 | Matures 2024- |
|---|----------|---|----------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Bank loans | SEK | 1.6 | 1,010 | 1,010 | 179 | 500 | 179 | 91 | 54 | 7 |
| Bank loans | NOK | 3.2 | 735 | 753 | 522 | 220 | 2 | 2 | 5 | 2 |
| Bank loans | EUR | 1.3 | 174 | 1,788 | 65 | 657 | 8 | 8 | 8 | 1,042 |
| Commercial papers | SEK | 0.1 | 730 | 730 | 730 | | | | | |
| Bonds | SEK | 0.8 | 2,288 | 2,288 | 217 | 764 | 1,005 | 302 | | |
| Financial leasing liabilities | SEK | 1.3 | 516 | 516 | 125 | 161 | 197 | 9 | 9 | 15 |
| Financial leasing liabilities | NOK | 3.2 | 102 | 104 | 37 | 32 | 19 | 11 | 5 | |
| Financial leasing liabilities | EUR | 7.8 | 2 | 19 | 11 | 5 | 3 | | | |
| Total interest-bearing financial liabilities | | | | 7,208 | 1,886 | 2,339 | 1,413 | 423 | 81 | 1,066 |
| Accounts payable | SEK | | 4,206 | 4,206 | 4,206 | | | | | |
| Accounts payable | NOK | | 698 | 715 | 715 | | | | | |
| Accounts payable | EUR | | 25 | 256 | 256 | | | | | |
| Other liabilities | SEK | | 146 | 146 | 73 | 73 | | | | |
| Other liabilities | NOK | | 64 | 66 | 55 | 7 | | 4 | | |
| Other liabilities | EUR | | 3 | 33 | 33 | | | | | |
| Derivatives | SEK | | | 23 | 12 | 6 | 5 | 0 | | |
| Total non-interest bearing financial liabilities | | | | 5,445 | 5,350 | 86 | 5 | 4 | | |
| Total financial liabilities | | | | 12,653 | 7,236 | 2,425 | 1,418 | 427 | 81 | 1,066 |

INTEREST RATE RISK

The interest rate risk is the risk that Peab's cash flow or the value of financial instruments may vary with changes in market interest rates. The interest rate risk can result in changes in fair values and cash flows. A crucial factor affecting interest rate risk is the fixed interest period. On 31 December 2019, interest-bearing net debt, excluding additional IFRS 16, amounted to SEK 6,743 million (3,551). Interest-bearing liabilities, excluding additional IFRS 16, amounted to SEK 8,346 million (7,012), of which SEK 3,342 million (1,818) were short-term.

Interest rate derivatives

| MSEK | Currency | Effective rate % | Amount SEK | Matures 2022 |
|--------------------------------|----------|------------------|------------|--------------|
| Interest rate swaps 2019-12-31 | SEK | 2.3 | 250 | 250 |
| Interest rate swaps 2018-12-31 | SEK | 2.4 | 250 | 250 |

As the table below shows, the fixed interest period for SEK 7,614 million (6,337) of the Group's total interest-bearing liabilities, including derivatives, is less than 1 year. Interest-bearing asset items totaling SEK 643 million (1,677) have short fixed interest periods, with the result that the fixed interest period for SEK 6,971 million (4,660) of Group net debt, including derivatives, is less than one year, making these liabilities directly susceptible to changes in market interest rates. Since the majority of the financial liabilities have a short maturity most of the interest rate risk is considered a cash flow risk. For further information regarding Peab's risk sensitivity see the Sensitivity Analysis in the Board of Directors' report.

Fixed interest rate period on utilized credits, excluding derivatives per 31 December 2019

| Fixed interest period | Amount, MSEK | Average effective interest rate, percent | Share, percent |
|-----------------------|--------------|--|----------------|
| 2020 | 7,864 | 1.2 | 94 |
| 2021- | 482 | 2.1 | 6 |
| Total | 8,346 | 1.4 | 100 |

Fixed interest rate period on utilized credits, including derivatives per 31 December 2019

| Fixed interest period | Amount, MSEK | Average effective interest rate, percent | Share, percent |
|-----------------------|--------------|--|----------------|
| 2020 | 7,614 | 1.2 | 91 |
| 2021- | 732 | 2.2 | 9 |
| Total | 8,346 | 1.5 | 100 |

CURRENCY RISKS

The currency risk is the risk that fair values and cash flows of financial instruments may fluctuate with changes in the value of foreign currencies.

Financial exposure

Group borrowing is done in local currencies to reduce currency risks in operations. Assets and liabilities in foreign currency are translated at the rate on the balance sheet date. Borrowing in the interest-bearing liabilities per 31 December 2019, including leasing but excluding currency and interest rate derivatives, was allocated as follows:

| | 2019-12-31 | | 2018-12-31 | |
|--------------|----------------------------|--------------|----------------------------|--------------|
| | Local currency in millions | MSEK | Local currency in millions | MSEK |
| SEK | 5,427 | 5,427 | 4,439 | 4,439 |
| EUR | 253 | 2,641 | 170 | 1,746 |
| NOK | 985 | 1,042 | 807 | 827 |
| Total | | 9,110 | | 7,012 |

The Finance Policy dictates that the average fixed interest period on total borrowing may not exceed 24 months. Peab has chosen short fixed interest periods for outstanding credits. Per 31 December 2019 there was one interest rate swap of SEK 250 million (250) with maturity in 2 years at an effective interest rate of 2.3 percent (2.4) according to the table below. Peab pays a fixed annual interest rate and receives floating rates (Stibor 3 months) for the interest rate swap. The swap agreement is recognized at fair value on the balance sheet day. Per 2019-12-31 this fair value was SEK -13 million (-18).

Internal loans from Peab Finans AB are used to handle temporary liquidity needs in Peab's foreign operations. Currency swaps are used to eliminate exchange risks. Currency swaps usually run less than three months. Currency swaps are recognized at fair value when closing the books and value changes are recognized as unrealized exchange rate differences in the income statement and as current receivables and liabilities on the balance sheet. At the end of the year, there were EUR 0 million (0) in outstanding currency swaps relating to financial exposure. Exchange rate differences in net financials items from financial exposure were SEK -2 million (-35) in 2019. Exchange rate differences in operating profit were SEK -3 million (-4).

Exposure of net assets in foreign currency

The translation exposure arising from investments in foreign net assets is primarily hedged through loans in foreign currency or forward exchange contracts. At the end of 2019 hedges in forward exchange contracts in EUR for foreign net assets in Finland were EUR 6 million (10).

Foreign net assets

| Local currency in millions | 2019 | Of which hedged | 2018 | Of which hedged |
|----------------------------|-------|-----------------|-------|-----------------|
| NOK | 1,844 | - | 1,433 | - |
| EUR | 78 | 6 | 72 | 10 |
| PLN | 1 | - | 2 | - |

A change in the euro rate as of December 31, 2019 by ten percent would involve a translation effect on equity of SEK 75 million (64). A corresponding change of the Norwegian krone would generate a translation effect on equity of SEK 195 million (147). The translation effects are calculated on that part of foreign net assets which are not hedged. The effects of corresponding exchange rate changes on profit/loss for the year are limited.

Annual translation differences in equity (net assets in foreign subsidiaries) amounted to SEK 49 million (86).

Commercial exposure

Although international purchases and sales of goods and services in foreign currency are currently limited, they are expected to increase as the competition grows regarding purchasing goods and services. Contracted or forecasted currency flows can be hedged for 12 months from the date of the contract. At the end of 2019, there were exchange rate hedges related to forecasted currency flows of EUR 9 million (12). Peab did not apply hedge accounting for these hedges.

Effect of hedge accounting

The effect of hedge accounting on Group profit/loss and financial position is shown below.

| Group, MSEK | 2019-12-31 | | | January – December 2019 | | | |
|---|---------------------------|------------------|-------------|--|---|---|---|
| | Nominal amount/ volume | Recognized value | | Item in report on financial position that contains hedge instruments | Change in value of hedge instruments recognized in other comprehensive income | Amount reclassified from hedge reserve to profit/loss | Items in profit/loss affected by reclassification |
| | | Assets | Liabilities | | | | |
| Raw materials risk | | | | | | | |
| Commodity hedging with futures, thousand tons | 6 | - | 1 | Other long-term liabilities | 7 | -4 | Production costs |
| Interest rate risk | | | | | | | |
| Interest rate swaps | 250 | - | 13 | Other long-term liabilities | 12 | -6 | Financial costs |

| Group, MSEK | 2018-12-31 | | | January – December 2018 | | | |
|---|---------------------------|------------------|-------------|--|---|---|---|
| | Nominal amount/ volume | Recognized value | | Item in report on financial position that contains hedge instruments | Change in value of hedge instruments recognized in other comprehensive income | Amount reclassified from hedge reserve to profit/loss | Items in profit/loss affected by reclassification |
| | | Assets | Liabilities | | | | |
| Raw materials risk | | | | | | | |
| Commodity hedging with futures, thousand tons | 6 | - | 1 | Other long-term liabilities | 7 | -4 | Production costs |
| Interest rate risk | | | | | | | |
| Interest rate swaps | 250 | - | 13 | Other long-term liabilities | 12 | -6 | Financial costs |

CREDIT RISK

Credit risk refers to the risk of losing money if a counterparty fails to meet its obligations.

Credit risks in financial instruments

Credit risks in financial instruments are very limited since Peab only deals with counterparties with high credit ratings. Counterparty risks are primarily associated with receivables to banks and other counterparties involved in the purchase of derivatives. The Finance Policy contains special counterparty regulations which specify the maximum credit exposure for various counterparties. The framework agreement of the International Swaps and Derivatives Association (ISDA) is used with all counterparties in derivative transactions. According to the agreement when a counterparty cannot settle its obligations in all transactions the agreement is discontinued and all outstanding dealings are then settled for a net amount. ISDA agreements do not meet the criteria for offsetting on the balance sheet. The information in the table below shows the financial instruments covered by ISDA agreements.

| Group, MSEK | 2019 | | 2018 | |
|--|------------------|-----------------------|------------------|-----------------------|
| | Financial assets | Financial liabilities | Financial assets | Financial liabilities |
| Recognized gross amount | 0 | 16 | 1 | 23 |
| Amount covered by netting agreement | 0 | 0 | 0 | 0 |
| Net sum after netting agreement | 0 | 16 | 1 | 23 |

Peab did not suffer any financial instrument credit losses in 2019. Total counterparty exposure related to derivative trading calculated as a net receivable per counterparty amounted to SEK 0 million (1) at the end of 2019. The estimated gross exposure to counterparty risks related to liquid funds and current investments amounted to SEK 373 million (1,376). Most of the Group's liquid funds are placed in banks with the credit rating AA- from Standard & Poors.

Loss reserves for interest-bearing receivables

| Group, MSEK | 2019 | 2018 |
|---|----------|----------|
| Opening balance per 1 January | 5 | - |
| Adjustments retroactively application of IFRS 9 | - | 5 |
| Adjusted opening balance per 1 January according to IFRS 9 | 5 | 5 |
| Revaluating the loss reserve, net | -2 | 0 |
| Closing balance per 31 December | 3 | 5 |

Credit risk in accounts receivable

The risk that Group customers cannot meet their obligations, i.e. payment is not received from customers, is a customer credit risk. Credit losses are relatively rare in the construction and civil engineering business since there are a great number of projects and customers that are invoiced at regular intervals during production. The Group's customers undergo a credit rating control providing information on customers' financial positions from various credit rating companies before a project is undertaken. The Group has established a credit policy for handling customer credit. For instance, it specifies where decisions regarding credit limits of various sizes are taken and how uncertain receivables should be handled. Bank guarantees or other collateral are required for customers with low credit ratings or insufficient credit history. The maximum exposure to credit risk is the recognized value on the Group balance sheet. Total bad debts in 2019 amounted to SEK 29 million (22). The credit quality in accounts receivable that are not yet due is considered good. Accounts receivable that are more than 90 days overdue, exclusive loss provisions, amounted to SEK 2,539 million (2,538). Overdue accounts receivable are for the most part unclarity regarding contract terms relating to the customer about the final contract amount. Risks in accounts receivable have been taken into account in project forecasts or been handled as provisions.

The table below shows accounts receivable per customer category.

| Group, MSEK | 2019 | 2018 |
|-----------------------------------|--------------|---------------|
| Private customers | 5,701 | 5,143 |
| Public customers | 3,008 | 3,376 |
| Swedish tenant-owned associations | 393 | 1,182 |
| Joint ventures | 214 | 501 |
| Accounts receivable, gross | 9,316 | 10,202 |
| Loss reserves | -31 | -36 |
| Accounts receivable, net | 9,285 | 10,166 |

Accounts receivable written down

| Group, MSEK | 2019 | 2018 |
|---|-----------|-----------|
| Opening balance per 1 January | 36 | 46 |
| Adjustments retroactively application of IFRS 9 | - | 5 |
| Adjusted opening balance per 1 January according to IFRS 9 | 36 | 51 |
| Reversed write-downs | -30 | -21 |
| Write-downs | 5 | 5 |
| Reclassifications | 21 | 1 |
| Exchange rate differences | -1 | 0 |
| Balance carried forward | 31 | 36 |

There are no mature receivables of significant amounts for other receivables.

CAPITAL MANAGEMENT

Peab strives to have a good capital structure and financial stability in order to provide a stable basis for continuing business activities, thereby enabling the company to keep existing owners and attract new ones. A good capital structure also promotes the development of good relations with the Group's creditors in a manner which benefits all parties.

Capital is defined as Equity and refers to equity attributable to shareholders in the parent company.

Equity

| Group, MSEK | 2019 | 2018 |
|--|---------------|---------------|
| Share capital | 1,584 | 1,584 |
| Other contributed capital | 2,576 | 2,576 |
| Reserves | -4 | -68 |
| Retained earnings including profit for the year | 8,108 | 7,255 |
| Equity attributable to shareholders in parent company | 12,264 | 11,347 |

One of Peab's financial targets is an equity/assets ratio (equity divided by the balance sheet total) in excess of 25 percent. The Board of Directors believes that this level is well suited to Peab's construction and civil engineering activities in Sweden, Norway and Finland. The target is a part of the Group's strategic planning. If the equity/assets ratio is expected to exceed this level on a permanent basis, the capital should be transferred to the shareholders in an appropriate form. The equity/assets ratio at the end of 2019 was 31.7 percent (30.4).

It is the ambition of the Board of Directors to preserve a balance between a high return on equity, which can be done through increased lending, and the security and benefits associated with a higher equity ratio. Therefore, one of Peab's financial targets is a return on equity (profit for the period attributable to shareholders in the parent company divided by the average equity attributable to shareholders in the parent company) in excess of 20 percent. The return on equity was 17.9 percent (19.6) for 2019. The Board believes the target figure is a relevant level long-term for Peab. In comparison, the Group's average interest expenses on interest-bearing borrowing, including derivatives, were 1.5 percent (1.4) on 31 December 2019.

Peab's target for dividends is an annual distribution of at least 50 percent of profit for the year to shareholders. Dividends should be reasonably proportionate to Peab's profit and consolidation requirements. Besides the ordinary dividend, extra cash dividends may be proposed if the Board of Directors finds there are sufficient funds which are not considered necessary to Group development. Extra dividends may also be made in other forms besides cash. In February 2020, Peab's Board proposed an ordinary dividend of SEK 4.20 per share as well as extra distribution of all the shares in Annehem Fastigheter holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided to withdraw the proposals to the Annual General Meeting. The Board's ambition is to regularly evaluate dividend capacity and depending on developments be able to make a decision on both the ordinary dividend and the right time to distribute Annehem Fastigheter. For 2018 the dividend amounted to SEK 4.20 per share, which corresponded to 59 percent of profit for the year.

At the start of 2019, Peab's holding of own shares amounted to 1,086,984 B shares, corresponding to 0.4 percent of the total number of shares. On 9 May 2019, Peab's AGM authorized the Board of Directors to acquire shares in Peab AB up to an amount so that after acquisition Peab would hold a maximum of 10 percent of the registered shares in the company. The purpose of the purchase of own shares is to improve the capital structure of the company or to be used in the financing of acquisitions. During 2019 no repurchases or divestitures have taken place.

Note 36 Leasing

| Group 2019, MSEK | Buildings and land | Machinery and equipment | Investment property | Project and development properties | Total |
|---------------------------------|--------------------|-------------------------|---------------------|------------------------------------|--------------|
| Depreciations during the year | -153 | -233 | - | - | -386 |
| Closing recognized value | 537 | 702 | 58 | 167 | 1,464 |

Additional rights of use in 2019 amounted to SEK 447 million. Included in this amount is the purchase price for rights of use newly acquired under 2019 as well as future amounts from revaluations of leasing liabilities due to changed payments because the leasing period has changed.

OTHER LEASING INFORMATION

Peab reports interest rate costs on leasing liabilities of SEK 40 million. Total leasing payments amount to SEK 1,981 million.

Cost of current leasing for the year is SEK 1,528 million. Cost of leasing for smaller values for the year is SEK 26 million. Variable fees not included in leasing liabilities is SEK 5 million.

Interest-bearing liabilities is presented in note 29 and maturity analysis is presented in note 35.

- Buildings and land – mainly refers to rent for offices and other premises. Rent for offices and other premises normally matures between three and ten years. In cases where it is feasible that the extension option will be used it is included in the leasing period. Leaseholds that are non-cancellable are considered to have a never ending leasing period.
- Machinery and equipment – mainly refers to vehicles. Leasing contracts normally mature between four and five years including extension options.
- Investment properties – mainly refers to leaseholds. Leaseholds that are non-cancellable are considered to have a never ending leasing period.
- Project and development properties – mainly refers to leaseholds. Leaseholds that are non-cancellable are considered to have a never ending leasing period.

LEASING CONTRACTS WHERE THE COMPANY IS LESSOR

Leasing payments for the year recognized as income:

| Group, MSEK | 2019 | 2018 |
|-----------------------------|------------|------------|
| Minimum lease payments | 119 | 141 |
| Variable fees | 12 | 19 |
| Total leasing income | 131 | 160 |

Non-cancellable leasing payments amount to:

| Group, MSEK | 2019 | 2018 |
|----------------------------|------------|------------|
| Within a year | 109 | 75 |
| Between one and five years | 212 | 171 |
| Later than five years | 54 | 41 |
| Total | 375 | 287 |

LEASING CONTRACTS WHERE THE COMPANY IS LESSEE

Expensed leasing payments for the year:

| Group, MSEK | 2018 |
|--------------------|------|
| Total leasing cost | 258 |

Non-cancellable leasing payments amount to:

| Group, MSEK | 2018 |
|----------------------------|------------|
| Within a year | 236 |
| Between one and five years | 472 |
| Later than five years | 38 |
| Total | 746 |

Rental of premises, office inventory and some vehicles were classified as operational leasing contracts. Most of the leasing cost referred to rental of premises according to operational leasing contracts. The leasing contracts ran without special restrictions with an option to renew. Other operational leasing contracts were divided among a number of lesser agreements.

Leasing income generated by objects that are rented to a third party was marginal.

Note 37 Investment obligations

In 2019 the Group signed agreements to acquire tangible fixed assets amounting to SEK 185 million (101). In addition, the Group has decided to erect buildings (offices) where the remaining investments amount to SEK 105 million (255).

The Group had no obligations to invest in joint arrangements at the end of 2019 or 2018.

Companies classified as joint arrangements have obligations for investments of SEK 1,434 million (1,571). Most of the investments refer to construction of rental apartment buildings and other commercial property and are expected to be settled in the coming fiscal years.

The parent company has not signed any agreements to acquire tangible fixed assets.

Note 38 Pledged assets, contingent liabilities and contingent assets

PLEGDED ASSETS

| MSEK | Group | | Parent company | |
|---|--------------|--------------|----------------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| For own liabilities and provisions | | | | |
| Real estate mortgages ¹⁾ | 3,109 | 1,730 | | |
| Assets with retention of title | 1,266 | 1,254 | | |
| Other | 52 | 51 | | |
| Total | 4,427 | 3,035 | - | - |

¹⁾ Pledged assets of which SEK 576 million (308) are recognized as fixed assets and SEK 2,533 million (1,422) as current assets.

CONTINGENT LIABILITIES

| MSEK | Group | | Parent company | |
|--|--------------|---------------|----------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| Shared obligations as partial owners in limited partnerships | 96 | 102 | - | - |
| Surety and contract guarantees for Group companies | - | - | 13,809 | 13,059 |
| Surety for the benefit of joint arrangements | 2,914 | 2,722 | 2,914 | 2,722 |
| Surety for construction loans to tenant-owned associations ¹⁾ | 6,207 | 7,580 | 6,207 | 7,580 |
| Other surety | - | - | - | - |
| Total | 9,217 | 10,404 | 22,930 | 23,361 |

¹⁾ For more information concerning guaranties and sureties to tenant-owned associations see note 3.

In most of the tenant-owned associations Peab develops, Peab AB signs guarantees as surety for paid advances and down payments. These guarantees ensure the tenant-owner's right to repayment of a down payment if the tenant-owner makes a cancellation because of a substantial rise in fees during the first year after the annual meeting where the final cost of the project is presented. After that the guarantee is null and void. Those guarantees or equivalent insurance from an external insurer has never been used and Peab considers it highly unlikely that this will occur in the future. The guarantees are therefore not reported as contingent liabilities.

Note 39 Appropriation of profit

PROPOSED DIVIDEND

In February 2020, Peab's Board proposed an ordinary dividend of SEK 4.20 per share as well as extra distribution of all the shares in Annehem Fastigheter holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided to withdraw the proposals to the Annual General Meeting. The Board's ambition is to regularly evaluate dividend capacity and depending on developments be able to make a decision on both the ordinary dividend and the right time to distribute Annehem Fastigheter.

PROPOSED APPROPRIATION OF PROFIT

The following amounts in SEK are at the disposal of the Annual General Meeting;

| | |
|------------------------|----------------------|
| Share premium reserve | 2,308,208,948 |
| Profit brought forward | 3,584,566,148 |
| Profit for the year | 1,262,600,780 |
| Total | 7,155,375,876 |

The Board of Directors propose the following appropriation of disposable profit and non-restricted reserves;

| | |
|-------------------------------|----------------------|
| Carried forward ¹⁾ | 7,155,375,876 |
| Total | 7,155,375,876 |

¹⁾ of which to share premium reserve 2,308,208,948

Note 40 Related parties

The Group is subject to considerable influence by Mats Paulsson, Fredrik Paulsson and Anita Paulsson together with families, children and companies. As part of the generation shift, in the spring of 2017 the Paulsson families merged the majority of their indirect holdings into a holding company, Ekhaga Utveckling AB, which is controlled by Mats Paulsson's son Fredrik Paulsson. Ekhaga Utveckling AB has 48.2 percent of the votes. Peab's Chairman of the Board, Göran Grosskopf, is a member of the board in Ekhaga Utveckling AB. At the end of 2019 the collective ownership connected to the Paulsson families amounted to a total of 25.7 percent of the capital and 57.7 percent of the votes.

SKISTAR

The Skistar Group is subject to considerable influence by Mats Paulsson with families, children and companies through their ownership of the company. Fredrik Paulsson is a member of the board of Skistar from December 2017.

EKHAGA UTVECKLING AB/KRANPUNKTEN

Ekhaga Utveckling is subject to considerable influence by Mats and Fredrik Paulsson with families, children and companies through their ownership of the company. In June 2018 Kranpunkten was sold to Ekhaga Utveckling AB and is thereby included in Ekhaga's group structure. Fredrik Paulsson is CEO of Ekhaga Utveckling and Kranpunkten.

AB AXEL GRANLUND/VOLITO

Karl-Axel Granlund is a member of the Board of Peab and together with his family, children and companies has had decisive influence in AB Axel Granlund/Volito until June 2017. After a generation shift in AB Axel Granlund the shareholding majority was transferred to his three sons. Karl-Axel Granlund continues to be Chairman of Volito AB which is part of the AB Axel Granlund Group.

JOINT ARRANGEMENTS

In addition to the related parties presented above the Group has a related party relation with its joint arrangements, see note 19 and 20.

SUBSIDIARIES

In addition to the related parties relations given above for the Group, the parent company has a related party relation with its subsidiaries, see note 41.

SUMMARY OF TRANSACTIONS WITH RELATED PARTIES

| Group, MSEK | 2019 | 2018 |
|---|-------|-------|
| Transactions with joint arrangements | | |
| Sales to joint arrangements ¹⁾ | 1,566 | 1,631 |
| Purchases from joint arrangements | 13 | 116 |
| Interest revenue from joint arrangements | 48 | 47 |
| Receivables from joint arrangements | 1,375 | 2,022 |
| Liabilities to joint arrangements | 2 | 44 |
| Dividends from joint arrangements | 48 | 94 |
| Capital contributions to joint arrangements | 567 | 81 |
| Guarantee liabilities for the benefit of joint arrangements | 2,914 | 2,722 |
| Transactions with Skistar | | |
| Sales to Skistar | 232 | 57 |
| Purchases from Skistar | 2 | 2 |
| Transaktioner med Ekhaga Utveckling AB/Kranpunkten | | |
| Sales to Ekhaga Utveckling AB/Kranpunkten | 51 | 47 |
| Purchases from Ekhaga Utveckling AB/Kranpunkten | 73 | 67 |
| Receivables from Ekhaga Utveckling AB/Kranpunkten | 5 | 8 |
| Liabilities to Ekhaga Utveckling AB/Kranpunkten | 10 | 15 |
| Dividends to Ekhaga Utveckling AB/Kranpunkten | 259 | 245 |
| Transactions with AB Axel Granlund/Volito | | |
| Sales to AB Axel Granlund/Volito | 8 | 23 |
| Receivables from AB Axel Granlund/Volito | - | 2 |
| Dividends to AB Axel Granlund/Volito | 82 | 78 |

¹⁾ In 2018 the property Ångkraftverket 2 in Västerås, containing a hotel and Kokpunkten Actionbad was divested for a value of around SEK 800 million. The transaction was net recognized in the income statement and had no effect on operating profit.

SUMMARY OF TRANSACTIONS WITH RELATED PARTIES

| Parent company, MSEK | 2019 | 2018 |
|---|-------|-------|
| Transactions with subsidiaries | | |
| Sales to subsidiaries | 338 | 286 |
| Purchases from subsidiaries | 79 | 72 |
| Interest costs to subsidiaries | 69 | 92 |
| Receivables from subsidiaries | 2,479 | 2,736 |
| Liabilities to subsidiaries | 3,195 | 3,943 |
| Capital contributions to subsidiaries | 98 | 51 |
| Transactions with AB Axel Granlund/Volito | | |
| Dividends to AB Axel Granlund/Volito | 82 | 78 |
| Transactions with Ekhaga Utveckling AB/Kranpunkten | | |
| Dividends to Ekhaga Utveckling AB/Kranpunkten | 259 | 245 |

EXECUTIVE MANAGEMENT

For information on salaries and other remuneration to the Board of Directors, the CEO and senior officers along with information on costs relating to pensions and similar benefits and agreements on retirement remuneration, see note 10.

TRANSACTION TERMS

Transactions with related parties were on market terms.

Note 41 Group companies

| | | | | | Recognized value in parent company, MSEK | | | | | | Recognized value in parent company, MSEK | |
|----|---|-------------|-------------------|----------------------------------|--|-------|--------------------------------------|-------------|-------------------|----------------------------------|--|-------|
| | Company | Corp.ID.nr | Registered office | Share of equity ^{1) 2)} | 2019 | 2018 | Company | Corp.ID.nr | Registered office | Share of equity ^{1) 2)} | 2019 | 2018 |
| 1 | Peab Finans AB | 556552-1324 | Båstad | 100.0% | 1,616 | 1,616 | Telemark Vestfold Utvikling AS | 987 208 279 | Skien | 100.0% | - | - |
| 2 | Peab Sverige AB | 556099-9202 | Båstad | 100.0% | 3,622 | 3,622 | Kjølnes Eiendom AS | 991 085 033 | Skien | 75.0% | - | - |
| 3 | Peab Sp.z.o.o | 40624 | Warszawa | 100.0% | - | - | Peab Industri AB | 556594-9558 | Ängelholm | 100.0% | 2,588 | 2,588 |
| 4 | Peab Bemanning AB | 556737-7683 | Solna | 100.0% | - | - | Peab Industri Sverige AB | 556594-9624 | Ängelholm | 100.0% | - | - |
| 5 | Peab Bemanning AS | 991 687 971 | Lysaker | 100.0% | - | - | Grunnarbeid Lysaker AS | 996 217 981 | Lysaker | 100.0% | - | - |
| 6 | KB Muraren 135 | 916837-9841 | Båstad | 100.0% | - | - | Lambertsson Sverige AB | 556190-1637 | Båstad | 100.0% | - | - |
| 7 | KB Möllevarvet | 969639-7877 | Båstad | 100.0% | - | - | Lambertsson Kran AB | 556543-5293 | Båstad | 100.0% | - | - |
| 8 | Torghuset i Värnamo AB | 556607-6807 | Båstad | 100.0% | - | - | KB MURAREN 105 | 916837-9544 | Mölnadal | 100.0% | - | - |
| 9 | Undertak- och Fasadentreprenader Sverige AB | 556058-5837 | Stockholm | 100.0% | - | - | Krantorp KB | 969623-0540 | Mölnadal | 100.0% | - | - |
| 10 | Rörman Installation & Service Sverige AB | 556026-0316 | Sundbyberg | 100.0% | - | - | ATS Kraftservice AB | 556467-5998 | Båstad | 100.0% | - | - |
| 11 | Fastighetsförvaltningsbolaget Gasellen 2 HB | 916563-4271 | Stockholm | 100.0% | - | - | ATS Tjänster AB | 556501-1011 | Helsingborg | 100.0% | - | - |
| 12 | Olsson & Zarins Baltinvest AB | 556439-3592 | Uppsala | 100.0% | - | - | ATS Entreprenad AB | 559156-6061 | Båstad | 100.0% | - | - |
| 13 | Peab Construction Syd AB | 556292-2368 | Båstad | 100.0% | - | - | Hagström i Näs AB | 556377-1376 | Vansbro | 100.0% | - | - |
| 14 | Peab Byggservice AB | 556066-3675 | Båstad | 100.0% | - | - | Swerock AB | 556081-3031 | Helsingborg | 100.0% | - | - |
| 15 | Peab Fastigheter i Växjö AB | 556716-6664 | Båstad | 100.0% | - | - | Rådasand AB | 556042-8699 | Lidköping | 100.0% | - | - |
| 16 | HälsingeBygg i Hudiksvall AB | 556624-4025 | Hudiksvall | 100.0% | - | - | Peab Transport & Maskin AB | 556097-9493 | Örkelljunga | 100.0% | - | - |
| 17 | Värby Fastighets AB | 556703-4771 | Båstad | 100.0% | - | - | AB Roler | 556100-0729 | Örebro | 100.0% | - | - |
| 18 | KB Brämregården 18:4 | 969638-3364 | Kristianstad | 100.0% | - | - | Swerock Norge AS | 987 013 117 | Tromsø | 100.0% | - | - |
| 19 | Peab Bostadsproduktion AB | 556554-6487 | Båstad | 100.0% | - | - | Swecem AB | 556919-5760 | Helsingborg | 100.0% | - | - |
| 20 | Norrberga Exploaterings AB | 556809-1846 | Solna | 100.0% | - | - | Skandinaviska Byggelement AB | 556034-2148 | Helsingborg | 100.0% | - | - |
| 21 | Peab Anläggning AB | 556568-6721 | Båstad | 100.0% | 892 | 842 | Aktiebolaget Smidmek Eslöv | 556232-3963 | Eslöv | 100.0% | - | - |
| 22 | Peab Infra Oy | 2303725-2 | Helsinki | 100.0% | - | - | Lättklinkerbetong AB | 556239-1721 | Alingsås | 100.0% | - | - |
| 23 | Skillingenäs AB | 556587-0192 | Båstad | 100.0% | - | - | Peab PGS AB | 556428-5905 | Båstad | 100.0% | - | - |
| 24 | Olof Mobjer Entreprenad AB | 556445-1275 | Båstad | 100.0% | - | - | Skandinaviska Byggelement Holding AB | 559206-1088 | Ängelholm | 100.0% | - | - |
| 25 | G Nilsson Last & Planering i Ranseröd AB | 556236-0908 | Båstad | 100.0% | - | - | Peab Asfalt AB | 556098-8122 | Båstad | 100.0% | - | - |
| 26 | Peab Industribyggnad i Norr AB | 556851-7121 | Båstad | 100.0% | - | - | Peab Asfalt Väst AB | 559132-6508 | Gothenburg | 100.0% | - | - |
| 27 | Peab Anlegg AS | 913 502 566 | Lysaker | 100.0% | - | - | Bodenhus AB | 556279-8768 | Boden | 100.0% | - | - |
| 28 | Solberg Maskin AS ³⁾ | 999 327 869 | Heimdal | 90.3% | - | - | Peab Asfalt Norge AS | 994 628 577 | Lysaker | 100.0% | - | - |
| 29 | Peab Grundläggning AB | 556154-7364 | Båstad | 100.0% | - | - | Peab Asfaltfräsning AB | 559196-4191 | Båstad | 100.0% | - | - |
| 30 | Berg & Betongtätning i Sverige AB | 559059-6473 | Båstad | 100.0% | - | - | Peab Bildrift Norden AB | 556707-8380 | Helsingborg | 100.0% | - | - |
| 31 | TRANAB Markbyggnad AB | 556687-3963 | Örebro | 100.0% | - | - | Peab Bildrift Sverige AB | 556313-9608 | Helsingborg | 100.0% | - | - |
| 32 | Peab Oy | 1509374-8 | Helsinki | 100.0% | 488 | 488 | Peab Bildrift Norge AS | 892 890 692 | Lysaker | 100.0% | - | - |
| 33 | Kehitysyhtiö Pyytikki Oy | 2214064-5 | Helsinki | 100.0% | - | - | Peab Vagnpark AB | 556234-0371 | Båstad | 100.0% | - | - |
| 34 | Peab Bygg Norge AS | 920 003 672 | Tromsø | 100.0% | 861 | 861 | Peab Industri Norge AS | 990 609 527 | Lysaker | 100.0% | - | - |
| 35 | K.Nordang AS | 936 574 696 | Stranda | 100.0% | - | - | Kranor AS | 976 313 062 | Slommestad | 100.0% | - | - |
| 36 | Björn Bygg AS | 943 672 520 | Tromsø | 100.0% | - | - | Peab Industri Finland AB | 556687-9226 | Helsingborg | 100.0% | - | - |
| 37 | Peab Eiendomsutvikling Nord AS | 982 794 528 | Tromsø | 100.0% | - | - | Swerock Oy | 1509160-3 | Helsinki | 100.0% | - | - |
| 38 | Bogstrand AS | 996 043 428 | Harstad | 100.0% | - | - | Lambertsson Oy | 0937993-4 | Helsinki | 100.0% | - | - |
| 39 | Peab Utbygging AS | 915 464 254 | Tromsø | 100.0% | - | - | Annehem Fastigheter AB | 556683-4452 | Båstad | 100.0% | - | 22 |
| 40 | Strandvegen Utvikling AS | 916 575 939 | Tromsø | 100.0% | - | - | Peab Industri Holding OY | 3102070-9 | Helsinki | 100.0% | - | - |
| 41 | Strandvegen Næring AS | 921 986 017 | Tromsø | 100.0% | - | - | Peab Industri Danmark AS | 40 964 460 | Copenhagen | 100.0% | - | - |
| 42 | 3F Eiendom AS | 998 735 068 | Tromsø | 100.0% | - | - | Fastighets AB Skeppsdockan i Malmö | 556563-0711 | Ängelholm | 100.0% | 0 | 0 |
| 43 | Peab AS | 990 040 729 | Lysaker | 100.0% | - | - | Bröderna Paulsson Peab AB | 556113-4114 | Båstad | 100.0% | 157 | 157 |
| 44 | Peab Eiendomsutvikling AS | 987 099 011 | Lysaker | 100.0% | - | - | Vejby Transport & Miljø AB | 556240-2742 | Ängelholm | 100.0% | 1 | 1 |
| 45 | CBT Næring AS | 921 682 298 | Lysaker | 100.0% | - | - | Peab Support AB | 556061-1500 | Stockholm | 100.0% | 85 | 57 |
| | CBT Næring 2 AS | 921 682 301 | Lysaker | 100.0% | - | - | Peab Support AS | 998 622 670 | Lysaker | 100.0% | - | - |
| | Trondheimsveien 113 AS | 994 535 250 | Lysaker | 100.0% | - | - | Peab Support Oy | 2586326-7 | Helsinki | 100.0% | - | - |
| | ANS Solligården | 957 524 346 | Lysaker | 100.0% | - | - | Peab Försäkrings AB | 556511-5408 | Båstad | 100.0% | 1,370 | 1,370 |
| | Peab Bolig Prosjekt AS | 990 892 385 | Lysaker | 100.0% | - | - | Birsta Fastigheter AB | 556190-3765 | Helsingborg | 100.0% | 60 | 60 |
| | Nesveien 15 AS | 919 202 173 | Lysaker | 100.0% | - | - | Peabskolan AB | 556442-7432 | Båstad | 100.0% | 0 | 1 |
| | | | | | | | Kompetens och Kultur Norden AB | 559141-0625 | Båstad | 100.0% | - | - |

| Company | Corp.ID.nr | Registered office | Share of equity ¹⁾²⁾ | Recognized value in parent company, MSEK | | Company | Corp.ID.nr | Registered office | Share of equity ¹⁾²⁾ | Recognized value in parent company, MSEK | | |
|--|-------------|-------------------|---------------------------------|--|------|--|-------------|-------------------|---------------------------------|--|------|----|
| | | | | 2019 | 2018 | | | | | 2019 | 2018 | |
| Peab Norden AB | 556134-4333 | Båstad | 100.0% | 1 | 1 | Kompligens Fastigheter AB | 556691-2555 | Båstad | 100.0% | - | - | 1 |
| Peab Skandinavien AB | 556568-8784 | Båstad | 100.0% | 0 | 0 | KB Klagshamn Exploatering | 916563-4412 | Båstad | 100.0% | - | - | 2 |
| Flygstaden Intressenter i Söderhamn AB | 556438-9665 | Båstad | 100.0% | 241 | 241 | Peab Trading Nord AB | 556715-4827 | Solna | 100.0% | - | - | 3 |
| Skånska Stenhus AB | 556233-8680 | Stockholm | 100.0% | - | - | Fastighetsaktiebolaget Ekudden | 556628-0326 | Alingsås | 100.0% | - | - | 4 |
| Flygstaden Intressenter i Greve AB | 556541-5360 | Båstad | 100.0% | - | - | Västgöta mark och entreprenad AB | 556644-1308 | Alingsås | 100.0% | - | - | 5 |
| Peab Projektutveckling AB | 556715-0254 | Båstad | 100.0% | 41 | 21 | Husgruppen i Alingsås KB | 969728-7887 | Gothenburg | 100.0% | - | - | 6 |
| Peab Bostad AB | 556237-5161 | Stockholm | 100.0% | - | - | Peab i Kungsbacka 8 AB | 556789-7466 | Gothenburg | 100.0% | - | - | 7 |
| Peab BU Holding 5 AB | 559091-5160 | Solna | 100.0% | - | - | Peab i Kungsbacka 9 AB | 556791-4493 | Gothenburg | 100.0% | - | - | 8 |
| Peab Jockeyn AB | 559175-8635 | Solna | 100.0% | - | - | Kista Gärd 3 Parkering AB | 556938-3648 | Solna | 100.0% | - | - | 9 |
| Peab Sopsug AB | 559170-7715 | Solna | 100.0% | - | - | Fastighetsbolaget Måsbodarna Tre AB | 556691-9907 | Solna | 100.0% | - | - | 10 |
| Peab Johanneslust AB | 559175-9773 | Solna | 100.0% | - | - | Telge Peab AB | 556790-5889 | Södertälje | 100.0% | - | - | 11 |
| Peab Teleterassen AB | 559181-9478 | Solna | 100.0% | - | - | Peab Trading Öst AB | 556778-8749 | Stockholm | 100.0% | - | - | 12 |
| Peab Messingen Kv4 AB | 559181-9494 | Solna | 100.0% | - | - | Fastighets AB Isolatorn | 556913-9644 | Solna | 100.0% | - | - | 13 |
| Peab Ängsviol AB | 559181-9403 | Solna | 100.0% | - | - | Perioden Fastighets AB | 556832-7919 | Solna | 100.0% | - | - | 14 |
| Peab Täljö Strandängar AB | 559181-9379 | Solna | 100.0% | - | - | Peab Trading Solna AB | 556793-1554 | Solna | 100.0% | - | - | 15 |
| Peab BU Holding 4 AB | 559118-0871 | Solna | 100.0% | - | - | KB Messingen | 916837-9817 | Stockholm | 100.0% | - | - | 16 |
| Rankhus Tomtutveckling AB | 559175-9187 | Solna | 100.0% | - | - | Fastighets AB Spelhagen | 556795-0992 | Solna | 100.0% | - | - | 17 |
| Tullholmsvikens Parkerings AB | 559181-8769 | Solna | 75.0% | - | - | DGV i Enskede AB | 556750-3791 | Stockholm | 100.0% | - | - | 18 |
| Peab BU Holding 3 AB | 559076-5466 | Solna | 100.0% | - | - | Peab Förskolan AB | 556707-9719 | Sigtuna | 100.0% | - | - | 19 |
| Peab Rankhus AB | 559040-9974 | Solna | 100.0% | - | - | Hanbjelken AB | 556699-4306 | Solna | 100.0% | - | - | 20 |
| Verkstaden 17 i Västerås AB | 559114-5916 | Solna | 100.0% | - | - | Furuspecialen i Nyköping Fastighets AB | 556695-9986 | Solna | 100.0% | - | - | 21 |
| Peab BU Drift AB | 559076-5516 | Solna | 100.0% | - | - | Eldslundfastigheter Sverige AB | 556750-2165 | Linköping | 100.0% | - | - | 22 |
| Peab BU Holding 6 AB | 559076-5524 | Solna | 100.0% | - | - | Råsta Arenabostäder AB | 556789-3002 | Solna | 100.0% | - | - | 23 |
| Peab Ädellövsbogen AB | 559194-3179 | Solna | 100.0% | - | - | Peab Hermelin AB | 556872-5633 | Stockholm | 100.0% | - | - | 24 |
| Gamelstadens Torg AB | 559205-3531 | Solna | 100.0% | - | - | Peab Racketen AB | 556721-1635 | Stockholm | 100.0% | - | - | 25 |
| Peab Gamlestads Plaza AB | 559221-0057 | Solna | 100.0% | - | - | Peab Söderbymalm 3:405 AB | 556722-0735 | Stockholm | 100.0% | - | - | 26 |
| Peab Österplan 3 i Örebro AB | 559081-4603 | Solna | 100.0% | - | - | Norrvikens Fastigheter AB | 556703-1470 | Stockholm | 100.0% | - | - | 27 |
| Fastighets AB Partille 11 | 556518-4354 | Gothenburg | 100.0% | - | - | Peab Markutveckling AB | 556949-4437 | Solna | 100.0% | - | - | 28 |
| Partille 11 Bostad Holding AB | 556958-4146 | Gothenburg | 100.0% | - | - | Peab BU Holding 1 AB | 559019-1846 | Solna | 100.0% | - | - | 29 |
| Partille 11 Bostad BR 1 AB | 556960-0330 | Gothenburg | 100.0% | - | - | Peab Åkermyntan 10 AB | 556910-9290 | Solna | 100.0% | - | - | 30 |
| Partille 11 Bostad BR 2 AB | 556960-0348 | Gothenburg | 100.0% | - | - | Peab BU Holding 7 AB | 559065-1427 | Solna | 100.0% | - | - | 31 |
| Partille 11 Bostad 4A AB | 556960-0389 | Gothenburg | 100.0% | - | - | Ale Exploatering AB | 556426-2730 | Gothenburg | 100.0% | - | - | 32 |
| Partille Port Holding AB | 556960-0264 | Gothenburg | 100.0% | - | - | Peab Drotten 10 AB | 559032-4686 | Solna | 100.0% | - | - | 33 |
| Fastighets AB Partille Port 4 | 556960-0280 | Gothenburg | 100.0% | - | - | Peab Högsbo 34:6 AB | 556898-8553 | Stockholm | 100.0% | - | - | 34 |
| Peab BU Holding 2 AB | 559036-7396 | Solna | 100.0% | - | - | Peab Sannegården AB | 559065-9792 | Solna | 100.0% | - | - | 35 |
| Peab Riksten 1 AB | 559036-7354 | Solna | 100.0% | - | - | Peab i Valla AB | 559019-1853 | Solna | 100.0% | - | - | 36 |
| Peab Riksten 2 AB | 559036-7461 | Solna | 100.0% | - | - | Peab Alp Lodge AB | 559019-1903 | Solna | 100.0% | - | - | 37 |
| Peab Riksten 3 AB | 559036-7453 | Solna | 100.0% | - | - | Peab Innovation H AB | 559019-2497 | Solna | 100.0% | - | - | 38 |
| Peab Riksten 4 AB | 559036-7446 | Solna | 100.0% | - | - | Åkanten Smedstabäcken AB | 559019-1929 | Solna | 100.0% | - | - | 39 |
| Peab Riksten 5 AB | 559194-3963 | Solna | 100.0% | - | - | Peab Etage AB | 559019-1895 | Solna | 100.0% | - | - | 40 |
| Peab Sturefors AB | 559065-7499 | Solna | 100.0% | - | - | Paletten i Valla AB | 559019-1887 | Solna | 100.0% | - | - | 41 |
| Stockholms Kommersiella Fastighets AB | 556105-6499 | Stockholm | 100.0% | - | - | White Campus Corner AB | 559019-1861 | Solna | 100.0% | - | - | 42 |
| Stora Hammar Exploatering AB | 556763-4216 | Vellinge | 100.0% | - | - | Peab Råsunda Holding AB | 559030-7723 | Solna | 100.0% | - | - | 43 |
| Strömstad Exploatering AB | 559002-4518 | Solna | 100.0% | - | - | Visio Exploatering AB | 556570-7030 | Solna | 100.0% | - | - | 44 |
| Hatteskär AB | 556874-6936 | Båstad | 100.0% | - | - | Peab Landskampen AB | 559164-5907 | Solna | 100.0% | - | - | 45 |
| Peab Projektutveckling Väst AB | 556092-9852 | Gothenburg | 100.0% | - | - | Peab Fastighetsutveckling AB | 556824-8453 | Båstad | 100.0% | - | - | |
| Peab Trading Väst AB | 556594-9590 | Gothenburg | 100.0% | - | - | Peab FU Holding 8 AB | 559230-5469 | Solna | 100.0% | - | - | |
| Smögen Exploatering AB | 556090-5472 | Båstad | 100.0% | - | - | Peab Fastighet AB | 559091-3538 | Solna | 100.0% | - | - | |
| Peab Borås Exploatering AB | 556651-7727 | Båstad | 100.0% | - | - | Peab FU Holding 6 AB | 556649-9116 | Båstad | 100.0% | - | - | |
| Kreaton AB | 556644-5010 | Gothenburg | 100.0% | - | - | Båramo i Värnamo AB | 556713-7871 | Båstad | 100.0% | - | - | |
| Peab Holding Väst AB | 556900-2586 | Gothenburg | 100.0% | - | - | Peab Invest Oy | 1773022-9 | Helsinki | 100.0% | - | - | |

| | | | | | Recognized value in parent company, MSEK | | | | | | Recognized value in parent company, MSEK | |
|----|--|-------------|-------------------|---------------------------------|--|------|-------------------------------|-------------|-------------------|---------------------------------|--|------|
| | Company | Corp.ID.nr | Registered office | Share of equity ¹⁾²⁾ | 2019 | 2018 | Company | Corp.ID.nr | Registered office | Share of equity ¹⁾²⁾ | 2019 | 2018 |
| 1 | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | |
| 4 | Kiinteistö Oy Helsingin Karvaamokuja 1 | 2405933-0 | Helsinki | 100.0% | - | - | Peab FU Gennakern AB | 556949-4312 | Solna | 100.0% | - | - |
| 5 | Property Gardener Oy | 2558819-7 | Helsinki | 100.0% | - | - | Peab FU Holding 5 AB | 556979-7698 | Solna | 100.0% | - | - |
| 6 | Kiinteistö Oy Eventes II | 1582860-1 | Esbo | 100.0% | - | - | Peab FU Holding 7 AB | 559030-7301 | Solna | 100.0% | - | - |
| 7 | Kiinteistö Oy Mallanpuisto | 1580499-2 | Esbo | 100.0% | - | - | PEKO Fastighet AB | 559220-8911 | Solna | 100.0% | - | - |
| 8 | Kiinteistö Oy City Garden | 2625235-3 | Tammerfors | 100.0% | - | - | Peab FU Lager 2 AB | 559076-5508 | Solna | 100.0% | - | - |
| 9 | Ultimes Ky | 2568845-4 | Helsinki | 100.0% | - | - | Peab FU Ledvolten AB | 559194-5570 | Solna | 100.0% | - | - |
| 10 | Ultimes Parking Ky | 2568844-6 | Helsinki | 100.0% | - | - | Peab Grevie AB | 556715-0213 | Båstad | 100.0% | 0 | 0 |
| 11 | Ultimes II Ky | 2850052-5 | Helsinki | 100.0% | - | - | Peab Invest Yek AB | 556753-4226 | Båstad | 100.0% | - | - |
| 12 | Peab Fastighetsutveckling Sverige AB | 556825-9856 | Båstad | 100.0% | - | - | Peab Vejby AB | 556663-2682 | Båstad | 100.0% | 0 | 0 |
| 13 | Peab Utveckling Nord AB | 556341-7228 | Båstad | 100.0% | - | - | Sieglo AB | 556556-0595 | Båstad | 100.0% | 27 | 97 |
| 14 | Peab Ågaarena 1 AB | 556741-8552 | Solna | 100.0% | - | - | Skåne Projektfastigheter AB | 556471-9143 | Båstad | 100.0% | 0 | 0 |
| 15 | Peab Ågaarena 2 AB | 556741-8560 | Solna | 100.0% | - | - | Lappmarken i Malmö AB | 556796-2849 | Båstad | 100.0% | - | - |
| 16 | Peab Drivaarena AB | 556741-8578 | Solna | 100.0% | - | - | Mauritz Larsson Byggnads AB | 556036-8242 | Båstad | 100.0% | - | - |
| 17 | Peab Hem AB | 556077-8499 | Båstad | 100.0% | - | - | Projektfastigheter Väst AB | 556044-1866 | Båstad | 100.0% | - | - |
| 18 | Peab Fabriksgatan AB | 556963-9825 | Solna | 100.0% | - | - | Peab Lokal AB | 559025-6607 | Solna | 100.0% | 0 | 0 |
| 19 | Peab Kastanjeparken AB | 556059-0910 | Båstad | 100.0% | - | - | Plex Fastighets AB | 559220-9083 | Båstad | 100.0% | 0 | - |
| 20 | Annehem Hylliecentrum AB | 556683-4478 | Båstad | 100.0% | - | - | Plex Holding 2 AB | 559230-7028 | Båstad | 100.0% | - | - |
| 21 | Peab Fastighetsutveckling Syd AB | 556699-8430 | Båstad | 100.0% | - | - | Plex Förslov Fastighets AB | 559230-6897 | Båstad | 100.0% | - | - |
| 22 | PeBri Glumslöv AB | 556758-6853 | Helsingborg | 100.0% | - | - | Plex Eskilshem Fastighets AB | 559220-9752 | Båstad | 100.0% | - | - |
| 23 | Åke & Clas Skoogh Holding AB | 556722-9066 | Kristianstad | 100.0% | - | - | Plex Eskilstuna Fastighets AB | 559230-6889 | Båstad | 100.0% | - | - |
| 24 | Peab FU Holding 1 AB | 556855-6954 | Solna | 100.0% | - | - | | | | | | |
| 25 | INSPI Sweden AB | 556796-7970 | Stockholm | 100.0% | - | - | | | | | | |
| 26 | Peab FU Sporthall AB | 556901-4557 | Solna | 100.0% | - | - | | | | | | |
| 27 | Peab FU Holding 3 AB | 556866-8635 | Solna | 100.0% | - | - | | | | | | |
| 28 | Peab FU Almnäs AB | 556594-9160 | Solna | 100.0% | - | - | | | | | | |
| 29 | Peab FU Visby AB | 556679-4862 | Solna | 100.0% | - | - | | | | | | |
| 30 | Peab FU Visby Exploatering AB | 556800-9335 | Solna | 100.0% | - | - | | | | | | |
| 31 | Peab FU Jupiter 11 AB | 556892-3428 | Solna | 100.0% | - | - | | | | | | |
| 32 | Peab FU Jupiter 4 AB | 556126-0745 | Solna | 100.0% | - | - | | | | | | |
| 33 | Peab FU ÖFU AB | 556916-2596 | Solna | 100.0% | - | - | | | | | | |
| 34 | Annehem MAH AB | 556919-5752 | Solna | 100.0% | - | - | | | | | | |
| 35 | Peab FU Bommen AB | 556928-0752 | Solna | 100.0% | - | - | | | | | | |
| 36 | Peab FU Holding 2 AB | 556864-4156 | Solna | 100.0% | - | - | | | | | | |
| 37 | Peab Projektfastigheter AB | 556202-6962 | Stockholm | 100.0% | - | - | | | | | | |
| 38 | Peab Park AB | 556107-0003 | Båstad | 100.0% | - | - | | | | | | |
| 39 | Kokpunkten Fastighets AB | 556759-5094 | Stockholm | 100.0% | - | - | | | | | | |
| 40 | Ängelholms Flygplats AB | 556814-2896 | Båstad | 100.0% | - | - | | | | | | |
| 41 | Ljungbyhed Park AB | 556545-4294 | Båstad | 100.0% | - | - | | | | | | |
| 42 | Projektfastigheter Götaland AB | 556259-3540 | Båstad | 100.0% | - | - | | | | | | |
| 43 | Skånehus AB | 556547-6958 | Båstad | 100.0% | - | - | | | | | | |
| 44 | Peab FU Silhouette 1 AB | 556895-0116 | Solna | 100.0% | - | - | | | | | | |
| 45 | Ulriksdal Utveckling AB | 556509-6392 | Solna | 100.0% | - | - | | | | | | |
| | Riksten Friluftstad AB | 556547-8764 | Stockholm | 100.0% | - | - | | | | | | |
| | Peab Holding AB | 556594-9533 | Båstad | 100.0% | - | - | | | | | | |
| | Fältjägaren 7 AB | 556855-7176 | Östersund | 100.0% | - | - | | | | | | |
| | Visborg Infanteristen 1 AB | 556970-5717 | Solna | 100.0% | - | - | | | | | | |
| | Peab FU Rebbelberga 147 AB | 556470-0176 | Solna | 100.0% | - | - | | | | | | |
| | Peab FU Holding 4 AB | 556946-9058 | Solna | 100.0% | - | - | | | | | | |
| | Peab FU Vintrie 1 AB | 559034-8925 | Solna | 100.0% | - | - | | | | | | |
| | Peab FU Vintrie 2 AB | 559034-8917 | Solna | 100.0% | - | - | | | | | | |
| | Peab FU Husbacka AB | 556946-9108 | Solna | 100.0% | - | - | | | | | | |

¹⁾ The share of capital corresponds to the share of votes.

²⁾ Except for the Group companies acquired in 2019 (see note 6), the share of capital in 2019 corresponds to the share of capital in 2018.

³⁾ The company was 100 % consolidated through the anticipated acquisition method, since Peab has a put/call option for the acquisition of the rest of the shares.

| Parent company, MSEK | 2019 | 2018 |
|---|---------------|---------------|
| Opening acquisition value | 13,930 | 13,881 |
| Purchases | 0 | - |
| Reduction of share capital | 98 | 51 |
| Sales/liquidation | -277 | -2 |
| Closing accumulated acquisition values | 13,751 | 13,930 |
| Opening revaluations | 100 | 100 |
| Closing accumulated revaluations | 100 | 100 |
| Opening write-downs | -1,985 | -1,865 |
| Sales/liquidation | 255 | 2 |
| Write-downs | -71 | -122 |
| Closing accumulated write-downs | -1,801 | -1,985 |
| Closing balance | 12,050 | 12,045 |

During the year, shares in Group companies were written down in the parent company by SEK -71 million (-122) and refer to shares in dormant companies or companies with little activity where the value of the write-downs is equivalent to equity. Annual write-downs are reported in the income statement on the "Profit/loss from shares in Group companies" line.

Note 42 Untaxed reserves

| Parent company, MSEK | 2019 | 2018 |
|--|--------------|--------------|
| Tax allocation reserve | 2,392 | 1,922 |
| Accumulated additional depreciation, intangible assets | 11 | 8 |
| Accumulated additional depreciation, machinery and equipment | 0 | 0 |
| Total | 2,403 | 1,930 |

Note 43 Cash flow statement

PAID INTEREST AND DIVIDENDS RECEIVED

| MSEK | Group | | Parent company | |
|--------------------|-------|------|----------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| Dividends received | 103 | 99 | 200 | 1,509 |
| Interest received | 65 | 68 | 1 | 1 |
| Interest paid | -167 | -132 | -68 | -92 |

ADJUSTMENTS FOR ITEMS NOT INCLUDED IN CASH FLOW

| MSEK | Group | | Parent company | |
|---|------------|------------|----------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Profit from participation in joint ventures | -327 | -108 | | |
| Dividends received from joint ventures | 47 | 94 | | |
| Depreciation and write-downs | 1,258 | 1,024 | 75 | 125 |
| Unrealised exchange rate differences | -7 | 19 | | |
| Profit/loss on sales of fixed assets | -142 | -86 | | -1 |
| Profit/loss on sales of subsidiaries/businesses | -67 | -6 | | |
| Provisions | 89 | 81 | 5 | 4 |
| Change in fair value of financial instruments | 40 | -11 | | |
| Other | 89 | -46 | | |
| Total | 980 | 961 | 80 | 128 |

TRANSACTIONS WITHOUT PAYMENTS

| Group, MSEK | 2019 | 2018 |
|---|------|------|
| Contingent consideration | - | 2 |
| Aquisition of assets by leasing | 447 | - |
| Aquisition of assets by financial leasing | - | 256 |

ACQUISITION OF SUBSIDIARIES/BUSINESSES

| Group, MSEK | 2019 | 2018 |
|--|-----------|-----------|
| <i>Acquired assets and liabilities</i> | | |
| Intangible assets | 3 | 16 |
| Tangible assets | 23 | 30 |
| Deferred tax recoverables | 3 | - |
| Project and development properties and inventories | 2 | 1 |
| Accounts receivable and other receivables | - | 8 |
| Liquid funds | 0 | 9 |
| Interest-bearing liabilities | -12 | -18 |
| Deferred tax liabilities | -5 | -3 |
| Accounts payable and other current liabilities | -4 | -9 |
| | 10 | 34 |
| Less: Previous shares in joint ventures | 12 | - |
| Acquired net assets | 22 | 34 |
| Purchase prices | 22 | 34 |
| Promissory note and option liability | - | -2 |
| Paid purchase sum | 22 | 32 |
| Less: Liquid funds in acquired companies | 0 | -9 |
| Effect on liquid funds | 22 | 23 |

DISPOSAL OF SUBSIDIARIES/BUSINESSES

| Group, MSEK | 2019 | 2018 |
|--|------------|-----------|
| <i>Disposed assets and liabilities</i> | | |
| Tangible assets | 50 | 13 |
| Deferred tax recoverables | - | 1 |
| Project and development properties and inventories | 116 | 1 |
| Accounts receivable and other receivables | 2 | 3 |
| Accounts payable and other current liabilities | -66 | -9 |
| | 102 | 9 |
| Less: Previous value in joint venture | -6 | - |
| Disposed net assets | 96 | 9 |
| Sales price | 163 | 15 |
| Purchase price | 163 | 15 |
| Effect on liquid funds | 163 | 15 |

LIQUID FUNDS

The following components are included in liquid funds:

| Group, MSEK | 2019 | 2018 |
|---------------|------------|--------------|
| Cash and bank | 373 | 1,376 |
| Total | 373 | 1,376 |

Note 44 Information on parent company

Peab AB is a Swedish registered limited company domiciled in Båstad. Peab AB's shares are listed on Nasdaq Stockholm. The address of the head office is Margretetorpsvägen 84, SE-269 73 Förslöv. The consolidated accounts for 2019 consist of the parent company and its subsidiaries, together referred to as the Group. The Group also includes shares of holdings in joint arrangements.

1 **Note 45** Important events after the 2 balance sheet date

3 **EXTRA DISTRIBUTION OF REAL ESTATE COMPANY**

4 In addition to the ordinary dividend, in February 2020 Peab's Board pro-
5 posed an extra distribution of all the shares in a newly formed company,
6 Annehem Fastigheter, holding Peab's wholly owned, fully developed
7 commercial properties. As a result of the spread of the Coronavirus and
8 its effects on external circumstances and financial markets Peab's Board
9 decided on March 24, 2020 to withdraw the proposal to the Annual
10 General Meeting concerning an extra distribution of all the shares in
11 Annehem Fastigheter. With the uncertain situation in the world this is
12 not the right time to list the company. Peab continues to believe that a
13 distribution of the properties is the solution that will over time provide
14 shareholders with the greatest value. Therefore the operative work of
15 building and structuring the real estate company is continuing as planned.
16 The Board intends to summon an extraordinary General Meeting to
17 decide on distribution of the real estate company when the situation
18 has stabilized and conditions are more favorable.

19 Annehem Fastigheter manages and develops centrally located, high
20 quality commercial, community and residential property with a clear
21 environmental profile in the Nordic growth areas Stockholm, Skåne/
22 Göteborg as well as Helsinki and Oslo. Annehem Fastigheter builds last-
23 ing relationships and value through management close to customers.
24 Initially Annehem Fastigheter owns fully developed properties with a
25 total market value of around SEK 3,000 million. In addition, 50 percent
26 ownership in two joint venture companies – Nya Bara Utvecklings AB
27 and Point Hyllie Holding AB – is included. Annehem Fastigheter has
28 also signed a contract with Peab to acquire three properties located in
29 Solna, Oslo and Helsingborg respectively, which will be taken over after
30 they are completed.

31 When the conditions are right the Board intends to summon an
32 extraordinary General Meeting to propose an extra distribution of all
33 the shares in Annehem Fastigheter to existing shareholders according
34 to Lex Asea. Peab's shareholders will then receive shares in Annehem
35 Fastigheter in addition to their existing stake in Peab.

36 The distribution is conditional on the consent of Peab's lenders and
37 that Annehem Fastigheter receives financing on market terms. The level
38 of equity and pledges in Annehem Fastigheter will be decided in consul-
39 tation with the financing banks.

40 When Annehem Fastigheter is distributed the difference between market
41 values and book values as well as eliminated construction contract profit
42 will be taken up as income in Peab's consolidated accounts. In February
43 2020 this amounted preliminarily to around SEK 1,200 million, which pri-
44 marily corresponds to the reduction in equity in the Group caused by the
45 extra distribution. The effect on profit will be updated in connection with
the future distribution decision based on circumstances at the time.

Further information see Board of Directors' report, section Other
information and appropriation of profits, chapter Important events
after the end of the year.

CORONAVIRUS

In the beginning of 2020 the coronavirus spread to a large part of the
world. At the time of writing this, countries are putting different mea-
sures into effect on short notice to limit the spread of the infection, for
example entry and quarantine regulations. Stock markets all over the
world have plunged during March. Governments and central banks are
introducing different forms of crisis packages to mitigate the economic
effects. This will affect the global economy but how profound and how
lasting the effects will be is difficult to say.

Peab is a major employer with many employees and many people at
our workplaces. Our first and foremost mission is to keep our business
running but we are monitoring developments and follow recommenda-
tions by the authorities in respective countries concerning the spread of
the coronavirus and we adopt accordingly. The short-term effects of
the Coronavirus on Peab's business are limited but how we will be
affected in the long run as well as the economic consequences of the
Coronavirus pandemic cannot be foreseen at the time of publishing this
year's Annual Report.

ACQUISITION OF YIT'S PAVING AND MINERAL AGGREGATES OPERATIONS

On July 4, 2019 Peab signed a contract to acquire YIT's paving and min-
eral aggregates operations in the Nordic region. The transaction was
conditional on approval from competition authorities as well as the ful-
fillment of certain contractual conditions. At the end of March 2020 the
transaction was approved by the competition authorities. The take
over took place on April 1, 2020.

For further information see Board of Directors' report the section
Important events during the year on page 59 under Other information
and appropriation of profit.

The Board and CEO assure that the Annual Report has been prepared in accordance with good accounting practices in Sweden and the consolidated accounts have been prepared in accordance with International Accounting Standards, stated in the regulation of the European Parliament and the Council of Ministers (EG) no 1606/2002 of July 19, 2002, concerning the application of international accounting standards. The Annual Report and the consolidated accounts give a true and fair view of the parent company as well as of the Group's position and result. The Board of Directors' report for the parent company and the Group gives a true and fair view of the parent company's and Group's business development, position and result. It also describes the major risks and uncertainty factors facing the parent company and Group companies.

Förslöv, April 7, 2020

Göran Grosskopf
Chairman of the Board

Mats Paulsson
Vice Chairman of the Board

Karl-Axel Granlund
Member of the Board

Kerstin Lindell
Member of the Board

Fredrik Paulsson
Member of the Board

Malin Persson
Member of the Board

Lars Sköld
Member of the Board

Liselott Kålaas
Member of the Board

Patrik Svensson
Member of the Board

Kim Thomsen
Member of the Board

Egon Waldemarsson
Member of the Board

Jesper Göransson
Chief Executive Officer

The Annual Report and the consolidated accounts have been approved for publication by the Board of Directors and the Chief Executive Officer on April 7, 2020. The consolidated income statement and balance sheet and the parent company's income statement and balance sheet will be presented for adoption by the AGM on May 6, 2020.

Our Auditor's report was submitted on April 7, 2020
KPMG AB

Dan Kjellqvist
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Peab AB (publ.), corp. id 556061-4330

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Peab AB (publ.) for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 36-127 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The Board of Directors' report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the AGM adopts the income statement and balance sheet for the parent company and the Group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the period in question. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition for construction projects

See notes 3 and 27 and accounting principles in note 1 in the annual account and consolidated accounts for detailed information and a description of the matter.

Description of key audit matter

The Group recognizes ongoing construction projects according to the percentage of completion method, which means that revenue and expenses are recognized gradually in line with the contract's progress. Revenue and profits are recognized in relation to the progress of the project, based on expenses incurred as of the balance sheet date compared with estimated total expenses on completion of the project. Feared losses are recognized as expenses as soon as they become known.

Revenue and profit recognition is based on estimates of the total project cost and project revenue. An effective control environment, with ongoing forecast monitoring of the project's final financial outcome, is therefore of great importance to the Group. Changes in assumptions during the implementation of a project may have a material impact on the Group's profit and financial position. Project forecasts are evaluated regularly by the Group during the course of the project and are adjusted as necessary. Modifications and additional work and demands are considered when the Group considers it probable that the amount will be received from the client and when the amount can be measured reliably.

Response in the audit

We have obtained information about and evaluated management's process for reviewing projects, including their procedures for identifying loss-making projects and/or high risk projects as well as the process for forecasting revenue and expenses (including the assessment of modifications and additional work).

We selected a sample of construction projects for which we have evaluated and assessed the most significant areas. Among other things, we have:

- Tested to ensure that controls are effective throughout the year for expenses attributable to construction projects such as payroll expenses, expenses for subcontractors and purchasing costs,
- evaluated the financial result against the project estimate and forecasts to assess the Group's ability to deliver the forecast margin in projects,
- visited selected large sites that are deemed high risk to assess the actual degree of completion and the effectiveness of the Group's internal controls and
- assessed whether risks and opportunities in projects were accurately reflected in project forecasts.

Projects where particularly complex areas have been identified were discussed with executive management based on forecasted revenue and predicted final expenses.

We have assessed loss-making contracts and evaluated whether the reserves reflect the risks in projects, and challenged management's assessments of these risks.

We have also evaluated reports from the Group's own and externally engaged legal experts concerning disputes and assessed whether and how these were taken into consideration in project forecasts.

Valuation of project and development properties

See notes 3 and 24 and accounting principles in note 1 in the annual accounts and consolidated accounts for detailed information and a description of the matter.

Description of key audit matter

Project and development properties amount to SEK 11,407 million (9,685). The properties are recognized as inventories among current assets. They are valued at the lower of cost and net realisable value, based on the prevailing price in the local area. Changes in supply and demand may change the assessments of carrying amounts and impairment may be necessary.

Given that development properties account for a material proportion of the Group's total assets and that the valuation process is based on subjective judgement this is a key area in our audit.

For valuation of development properties under construction, it is also necessary to assess the Group's process for project management, particularly how it is accounting for construction expenses and any commitments linked to these projects.

There may be a risk that the carrying amount for project and development properties is overestimated and that this would have a material impact on the Group's profit and financial position.

Response in the audit

The Group assesses the net realisable value of the project and development properties based on an internal valuation model. As a supplement to this valuation, it also obtain external market valuations for a number of the properties. Among other things, we have:

- Evaluated the Group's internal valuation process. We have examined the assumptions made and their application in the internal valuation model,
- assessed the internal valuations and carrying amounts, also taking into account the external market valuations and
- tested a sample of the property valuations in further detail. For the selected sample we have examined inputs and calculations in the internal valuation model.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-35 respectively 132-144.

The Board of Directors and the CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the CEO are responsible for the assessment of the company's and the Group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the CEO intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the CEO.
- Conclude on the appropriateness of the Board of Directors' and the CEO's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the CEO of Peab AB (publ.) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the AGM that the profit be appropriated in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the parent company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

AUDITOR'S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT

The Board of Directors is responsible for the sustainability report on pages 14-35, 54-57 and 132-135 in this document, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB was appointed auditor of Peab AB (publ.) by the AGM on the 9 May 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1992.

Förslöv, April 7, 2020

KPMG AB

Dan Kjellqvist

Authorized Public Accountant

Corporate governance report 2019



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

Göran Grosskopf, Chairman

CORPORATE GOVERNANCE AND THE CORPORATE GOVERNANCE REPORT

Corporate governance refers to the decision-making systems that owners use to directly or indirectly govern the company. These systems consist in part of external regulations such as the Company Act and other relevant laws, regulations for issuers, Nasdaq Stockholm and the Swedish Code of Corporate Governance, and in part Peab’s articles of association, Peab’s Code of Conduct as well as other internal policies, guidelines and regulations that the Board of Directors and executive management decide on.

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

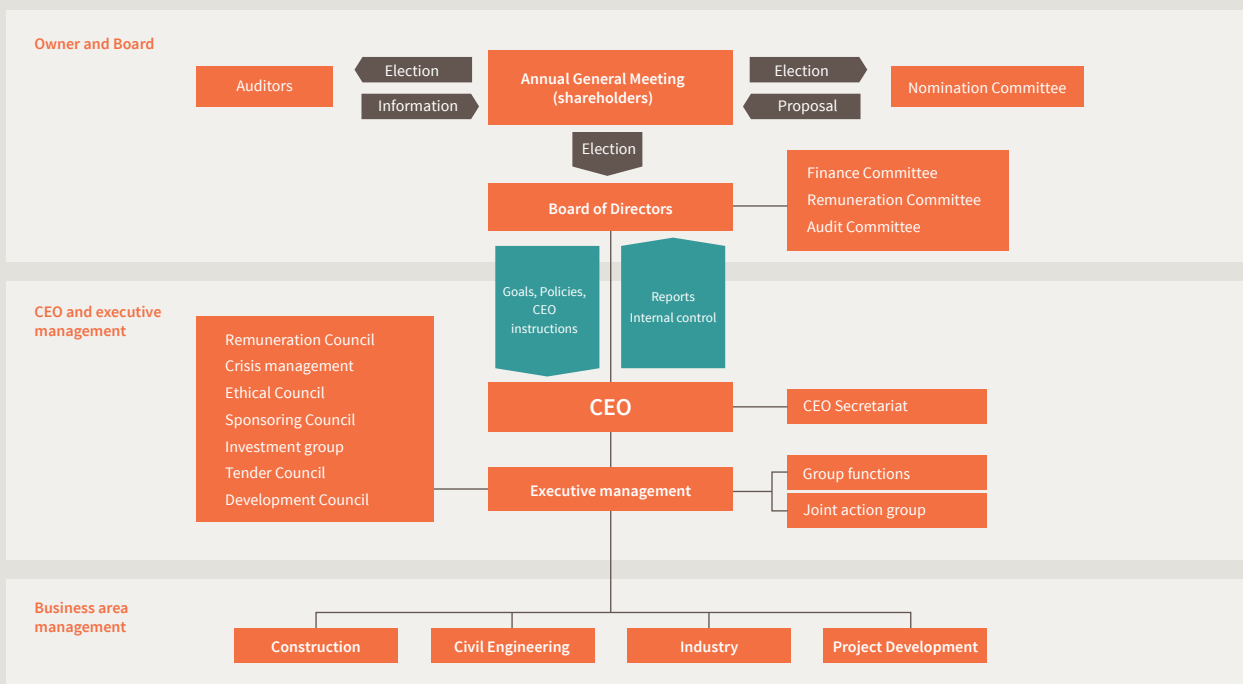
SHAREHOLDERS, ANNUAL GENERAL MEETING, THE NOMINATION PROCEDURE AND DIVERSITY POLICY

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

Chairman of the Board and the CEO questions and have opinions about Peab’s business at the AGM.

The process of nominating members of the Board of Directors and the auditor to the AGM follows the nomination procedure established at the previous AGM. In order to create diversity and breadth in the Board regarding experience, expertise and background, the Nomination Committee applied the following diversity policy when nominating Board members to the 2019 AGM (consistent with wording in the Swedish Code of Corporate Governance, p 4.1): The Board should have a composition appropriate for the company’s operations, phase of development and other relevant circumstances. Board members elected by the shareholders’ meeting should collectively exhibit diversity and breadth of qualifications, experience and background. The company should strive for gender balance on the Board. Female members elected by the AGM made up 37.5 percent of the Board.

The AGM was held on May 9, 2019 at Grevieparken, Grevie. It was attended by 397 shareholders, representing over 73 percent of the votes, either personally or through representatives. The



AGM elected Göran Grosskopf, Ulf Liljedahl, Mats Rasmussen and Malte Åkerström (all reelected) to act as Peab's Nomination Committee with Ulf Liljedahl as Chairman.

THE BOARD OF DIRECTORS AND ITS WORK

Peab's Board of Directors is ultimately responsible for the business. According to Peab's articles of association the Board of Directors must be made up of no fewer than five and no more than nine members in addition to the statutory employee representatives. The members of the Board of Directors are elected annually by the AGM. It was decided at the 2019 AGM that the Board of Directors would consist of eight members chosen by the AGM and the following persons were elected as members of the Board of Directors, all of them reelected:

- Karl-Axel Granlund
- Göran Grosskopf
- Liselott Kilaas
- Kerstin Lindell
- Fredrik Paulsson
- Mats Paulsson
- Malin Persson
- Lars Sköld

Göran Grosskopf was appointed Chairman of the Board by the AGM and Mats Paulsson was appointed vice Chairman. The members of the Board of Directors elected by the shareholders are compensated as members of the Board and, where applicable, as members of committees in accordance with the decisions taken by the AGM. Board member compensation is reported in note 10 in the Annual Report.

The following employee representatives were appointed by the employee unions at the 2019 AGM; Patrik Svensson, Kim Thomsen and Egon Waldemarsson (members), Torsten Centerdal and Annelie Söderlind (deputies). During the year Cecilia Krusing took the place of Annelie Söderlind who left the Board, as a deputy.

The Board of Directors held thirteen meetings in 2019, of which five were ordinary Board meetings (including the constitutional meeting) and eight additional Board meetings, of which four were held over the telephone and four were per capsulam.

Members of executive management have given reports at the Board meetings. The principle company accountant was present at two ordinary Board meetings. The Board's work follows the work program adopted by the Board of Directors. The Board evaluates its work on an annual basis and to evaluate the nominations to the 2019 AGM the Chairman of the Board produced and compiled an inquiry which all the Board members and deputies answered. Regarding the evaluation of the Chairman of the Board, the Chairman of the Nomination Committee has approved the inquiry's contents and compiled it. The result of the evaluation was reported at a Board meeting and a Nomination Committee meeting in preparation for nomination.

THE AUDIT COMMITTEE

Members during 2019:

- Lars Sköld, Chairman
- Göran Grosskopf
- Kerstin Lindell
- Liselott Kilaas

The Audit Committee prepares the work of the Board of Directors by ensuring the quality of company financial reports and maintains regular contact with the company accountant regarding the scope and focus of their work as well as their view of company risks.

In addition, the Audit Committee monitors what other services besides auditing are performed by the company accountants, it evaluates the auditing work and informs the Nomination Committee about the evaluation. It also assists the Nomination Committee in proposals of auditors and remuneration for auditing work.

Board meetings, attendance 2019

| AGM elected members | Independent in relation to the company and executive management | Independent in relation to the major shareholders | Attendance Board meetings | Audit Committee | Presence Audit Committee | Remuneration Committee | Presence Remuneration Committee | Finance Committee | Presence Finance Committee |
|--|---|---|---------------------------|-----------------|--------------------------|------------------------|---------------------------------|-------------------|----------------------------|
| Göran Grosskopf | Yes | No | 13/13 | M | 4/4 | C | 2/2 | C | 8/8 |
| Mats Paulsson | No | No | 13/13 | | | M | 2/2 | | |
| Karl-Axel Granlund | Yes | Yes | 13/13 | | | M | 2/2 | M | 8/8 |
| Kerstin Lindell | Yes | Yes | 13/13 | M | 4/4 | | | | |
| Fredrik Paulsson | No | No | 12/13 | | | | | M | 8/8 |
| Malin Persson | Yes | Yes | 13/13 | | | | | | |
| Lars Sköld | Yes | Yes | 13/13 | C | 4/4 | | | | |
| Liselott Kilaas | Yes | Yes | 12/13 | M | 4/4 | | | | |
| Employee representatives | | | | | | | | | |
| Patrik Svensson, ordinary | | 13/13 | | | | | | | |
| Kim Thomsen, ordinary | | 13/13 | | | | | | | |
| Egon Waldemarsson, ordinary | | 13/13 | | | | | | | |
| Torsten Centerdal, deputy | | 12/13 | | | | | | | |
| Annelie Söderlind, deputy until 190628 | | 5/5 | | | | | | | |
| Cecilia Krusing, deputy from 190905 | | 5/5 | | | | | | | |

C - Chairman M - Member

Representatives of executive management give reports on relevant issues at Audit Committee meetings. The Audit Committee met four times in 2019. The principle company accountant participated in the relevant sections of three of these meetings. The Audit Committee regularly reports to the Board of Directors.

THE FINANCE COMMITTEE

Members in 2019:

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

The Finance Committee has the mandate to make decisions in between Board meetings on financial matters such as currency, interest and investment positions in accordance with the Finance Policy established by the Board of Directors. Representatives of executive management give reports on relevant issues at Finance Committee meetings. The Finance Committee met eight times during 2019. The Finance Committee regularly reports to the Board of Directors.

THE REMUNERATION COMMITTEE

Members in 2019:

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

The Remuneration Committee prepares guidelines and the framework for Group executives regarding salaries and other terms of employment and makes proposals to the Board of Directors regarding the CEO's salary and other terms, according to the Remuneration Policy established each year by the AGM. The Remuneration Committee also decides the salaries and other terms for other members of executive management based on proposals from the CEO. Representatives of executive management give reports on relevant issues at Remuneration Committee meetings. The Remuneration Committee met twice in 2019. The Remuneration Committee regularly reports to the Board of Directors.

REMUNERATION TO EXECUTIVE MANAGEMENT

The 2019 AGM approved the Remuneration Policy for executive management. The Remuneration Policy is available on Peab's website, www.peab.com. Information about salaries and other remuneration to the CEO and members of executive management can be found in note 10 in the Annual Report, and on our website.

INCENTIVE PROGRAM

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

AUDITORS

Under Peab's articles of association one or two auditors are elected by the AGM. At the AGM in 2019 KPMG was elected the company auditor with the authorized public accountant Dan Kjellqvist as principle company accountant until the AGM 2020.

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

EXECUTIVE MANAGEMENT

The President and CEO leads the company according to the framework established by the Board of Directors and is respon-

sible for the administration and control of the Group. In 2019 executive management consisted of the President and CEO, the CFO, the COO, the Business Area Managers of the business areas Construction, Civil Engineering, Industry and Project Development as well as the Chief Communications Officer (CCO), in total eight persons.

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

BUSINESS AREAS

Group operations are run in four business areas: Construction, Civil Engineering, Industry and Project Development. Each business area has a management team led by the Business Area Manager and consisting otherwise of operational managers in the business area and staff members. The Business Area Managers are responsible for managing each operation and for running the line organization by delegating responsibility and authorizations. Business Area Managers are responsible for ensuring their business units in the Group maintain good internal control and follow relevant policies as well as other adopted documents, processes and tools.

GROUP FUNCTIONS

The Group functions, which support both executive management and operations in the business areas, strategically and in day-to-day operations, were divided into the following teams in 2019;

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

BUSINESS MANAGEMENT

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

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

INTERNAL CONTROL AND GOVERNING

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

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

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

CONTROL ENVIRONMENT

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

INFORMATION AND COMMUNICATION

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

RISK ANALYSIS

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

CONTROL ACTIVITIES

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

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

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

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

MONITORING

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

The Board of Directors has for the financial year 2019 assessed the need for an internal auditing department and concluded the established control structure in Peab ensures sufficient management and control of the Group. At this time there is therefore no need for an internal auditing function in the company.

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

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

DEVIATIONS FROM THE CODE

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

Code rule 9:2

The Chairman of the Board may chair the Remuneration Committee.

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

Deviation

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

Explanation of the deviation

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

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

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors who is responsible for the Corporate governance report for the year 2019 on pages 132-135 in this document and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

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

OPINIONS

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

Förslöv, April 7, 2020

KPMG AB

Dan Kjellqvist

Authorized Public Accountant



THE EDGE reflects the water tower in Hyllie
Hyllie, Malmö

Board of Directors



Göran Grosskopf

Born 1945. Appointed 2004.
Professor, LLd and Dr Econ
Chairman of the board of Peab AB, Brain-Heart Energy AB, Stefan Paulsson's Cancer Fund Foundation, Forget Foundation, Stefan Paulsson Invest AB and Mats Paulsson's Foundation for research, innovation and community building.
Member of the board of Maven Wireless AB, ColoPlus AB, Permak AB, Ekhaga Utveckling AB, Stichting Polar Light, Medicon Village Fastighets AB and Mats Paulsson's Foundation.
Former professor of tax law and working chairman of the board of Tetra Laval Group and Chairman of the board of Ingka Holding BV.
Holding: 823,500 A shares, 460,000 B shares



Mats Paulsson

Born 1944. Appointed 1992.
Vice chairman of the board of Peab AB. Chairman of the board of Mats Paulsson's Foundation.
Member of the board of Ekhaga Utveckling AB, Medicon Village Fastighets AB, Hälso-staden Ängelholm AB, Mats Paulsson's Foundation for research, innovation and community building, Stefan Paulsson's Cancer Fund Foundation and Forget Foundation.
Formerly various management positions in Peab since 1959.
Holding: 3,861,354 A shares, 7,679,175 B shares



Karl-Axel Granlund

Born 1955. Appointed 2000.
MSc (economics), MSc (engineering).
Chariman of the board of Volito AB.
Holding: 13,000 B shares



Kerstin Lindell

Born 1967. Appointed 2014.
MSc (engineering), Ph D Polymer Chemistry, Msc (economics).
CEO Bona AB. Vice chairman of the board of the Chamber of Commerce and Industry of Southern Sweden.
Member of the board of Hexpol AB and Inwido AB.
Holding: 5,000 B shares



Fredrik Paulsson

Born 1972. Appointed 2009.
Member of the board and CEO of Kran-punkten i Skandinavien AB and Ekhaga Utveckling AB.
Member of the board of Skistar AB, Mats Paulsson's Foundation and Stefan Paulsson's Cancer Fund Foundation.
Holding: 445,956 A shares, 782,750 B shares and via ownership of Ekhaga Utveckling AB 25,563,264 A shares, 36,057,059 B shares



Malin Persson

Born 1968. Appointed 2016.
MSc (engineering).
CEO and owner of Accuracy AB.
Member of the board of Getinge AB, Hexpol AB, and Ricardo Plc.
Holding: 2,000 B shares



Lars Sköld

Born 1950. Appointed 2007.
Chairman of the board of Dufweholms Herrgård AB and O. Timblads Målerifirma AB.
Formerly position as CEO and President of STC Interfinans AB, CEO of Sveaskog AB and CEO of Klöver Fastigheter AB.
Holding: 20,000 B shares



Liselott Kilaas

Born 1959. Appointed 2018.
MMS, MBA IMD Business School.
Member of the board of DNV-GL, Orkla AB, Norwegian Pension Fund Nordic, Nobina AB, Memira AB, Norsk Hydro and Ambea AB.
Former positions: CEO of Aleris AB, member of the board of Polaris Media ASA, Telenor, I M Skaugen and Norwegian Central Bank.
Holding: None



Patrik Svensson

Born 1969. Appointed 2007.
Foreman Construction Sweden.
Employee representative Byggnads.
Holding: None



Kim Thomsen

Born 1965. Appointed 2008.
Carpenter Construction maintenance Sweden.
Employee representative Byggnads.
Holding: None



Egon Waldemarsson

Born 1954. Appointed 2016.
Planner Construction Sweden.
Employee representative Ledarna.
Holding: 6,000 B shares



Torsten Centerdal

Born 1958. Appointed 2013.
Asphalt layer Industry Sweden.
Employee representative (deputy) SEKO.
Holding: 10,000 B shares



Cecilia Krusing

Born 1971. Appointed 2019.
Project manager Construction Sweden.
Employee representative (deputy) Unionen.
Holding: None

The holdings reported were those on December 31, 2019. Holdings include those of spouses, children who are minors and private company holdings.

Executive management



Roger Linnér

COO
Born 1970
Empolyed since 1996
MSc (engineering)
Holding: 5,000 B shares and 178,100 B shares via endowment insurance ¹⁾

Stefan Danielsson

Business Area Construction
Born 1969
Empolyed since 2015
BSc (engineering)
Holding: 6,000 B shares and 57,300 B shares via endowment insurance ¹⁾

Jesper Göransson

CEO and President
Born 1971
Empolyed since 1996
MSc (Business and Economics)
Holding: 432,000 B shares and 579,300 B shares via endowment insurance ¹⁾

Camila Buzaglo

CCO
Born 1971
Empolyed since 2018
B.P.S.
Holding: 500 B shares via endowment insurance ¹⁾

Karl-Gunnar Karlsson

Business Area Industry
Born 1956
Empolyed since 2003
Technical College Graduate
Holding: 15,400 B shares and 113,440 B shares via endowment insurance ¹⁾

Göran Linder

Business Area Project Development
Born 1968
Empolyed since 2011
MSc
Holding: 52,400 B shares via endowment insurance ¹⁾

Lotta Brändström

Business Area Civil Engineering
Born 1966
Empolyed since 2017
MSc (engineering)
Holding: 11,900 B shares via endowment insurance ¹⁾

Niclas Winkvist

CFO
Born 1966
Empolyed since 1995
MSc (economics)
Holding: 108,000 B shares and 236,500 B shares via endowment insurance ¹⁾



Revisor

KPMG AB
Dan Kjellqvist
Authorized public accountant

The holdings reported were those on December 31, 2019. Holdings include those of spouses, children who are minors and private company holdings.

¹⁾ According to employment contracts for senior officers, part of or the entire outcome from variable remuneration can, while the outcome of the LTI program must, be placed in an endowment insurance which primarily invests in Peab shares. Information regarding variable remuneration and the LTI program, see note 10.

The Peab share

Peab's B share is listed on the Nasdaq Stockholm, Large Cap. As of December 31, 2019 the total market capital of Peab was SEK 27.8 billion (21.4).

TRADING IN THE PEAB SHARE

As of December 31, 2019 the last day of the year the closing price of the Peab B share was SEK 93.75 (72.40), which was a 29 percent increase during the year. The Swedish Stock Exchange, measured by the Affärsvärlden Index, increased in 2019 by 30 percent. In 2019, the Peab B share was quoted at a maximum of SEK 94.85 (85.85) and a minimum of SEK 71.00 (62.60). About 115 million B shares (147) were traded, which was equivalent to 460,000 B shares per trading day (589,000) and a turnover rate of 44 percent.

TOTAL RETURN

The total return on the Peab share in 2019 amounted to 36.2 percent, to be compared to the SIX Return index of 34.97 percent. In the five-year period January 1, 2015 to December 31, 2019 the annual total return on Peab's B share amounted to 111 percent, to be compared to the SIX Return Index of 70.97 percent during the same period.

SHARES AND SHARE CAPITAL

The total number of shares at the beginning of 2019 was 296,049,730 divided into 34,319,957 A shares with 10 voting rights per share and 261,729,773 B shares with one voting right per share.

At the end of 2019 the number of A shares was 34,319,957 representing 11.6 percent (11.6) of the capital and 56.7 percent (56.7) of the votes and the number of B shares was 261,729,773 representing 88.4 percent (88.4) of the capital and 43.3 percent (43.3) of the votes. The share capital amounted to SEK 1,583.9 million (1,583.9). Information on share capital development over time is available at www.peab.com.

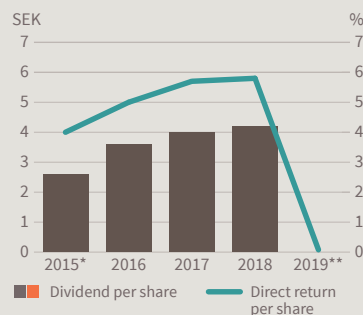
HOLDINGS OF OWN SHARES

At the beginning of 2019 Peab's own B shareholding was 1,086,984 which corresponds to 0.4 percent of the total number of shares. No own shares were repurchased or divested in 2019.

DIVIDEND

In February 2020, Peab's Board proposed an ordinary dividend of SEK 4.20 per share as well as extra distribution of all the shares in Annehem Fastigheter holding Peab's wholly owned, fully developed commercial properties. As a result of the spread of the coronavirus and its effects on external circumstances and financial markets Peab's Board decided to withdraw the proposals to the Annual General Meeting. The Board's ambition is to regularly evaluate dividend capacity and depending on developments be able to make a decision on both the ordinary dividend and the right time to distribute Annehem Fastigheter. For 2018 the dividend amounted to SEK 4.20 per share, which corresponded to 59 percent of profit for the year. Total dividend distributed for 2018 amounted to SEK 1,239 million.

Dividend and direct return

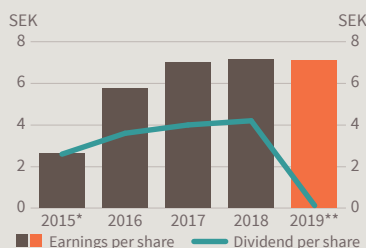


* Not recalculated taking IFRS 15 into account

** The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.

Key ratios

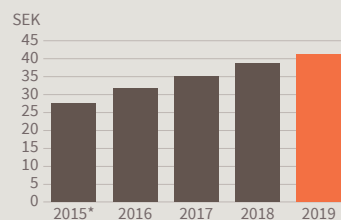
Earnings and dividend per share



* Not recalculated taking IFRS 15 into account

** The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.

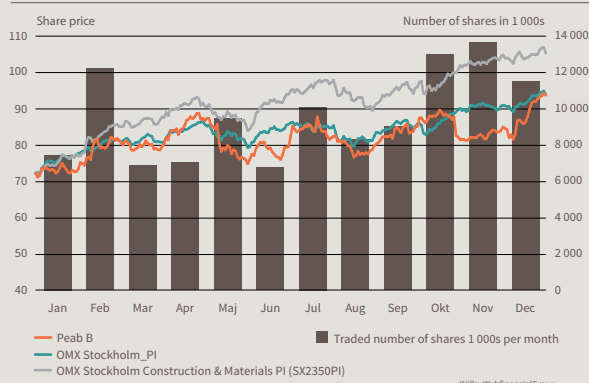
Equity per share



* Not recalculated taking IFRS 15 into account

Price trend of the Peab share

1 January – 31 December 2019



Total return

31 December 2014 – 31 December 2019



List of shareholders on 31 December 2019

| | A shares | B shares | Total number of shares | Proportion of capital, % | Proportion of votes, % |
|---|-------------------|--------------------|------------------------|--------------------------|------------------------|
| Ekhaga Utveckling AB | 25,563,264 | 36,057,059 | 61,620,323 | 20.8 | 48.2 |
| AB Axel Granlund | 1,500,000 | 18,000,000 | 19,500,000 | 6.6 | 5.5 |
| Mats Paulsson | 3,861,354 | 7,679,175 | 11,540,529 | 3.9 | 7.7 |
| Peab's profit share foundation | | 11,374,000 | 11,374,000 | 3.8 | 1.9 |
| STATE STREET BANK AND TRUST CO, W9 | | 10,178,443 | 10,178,443 | 3.4 | 1.7 |
| Kamprad family foundation | | 8,600,000 | 8,600,000 | 2.9 | 1.4 |
| Handelsbanken Funds | | 8,038,331 | 8,038,331 | 2.7 | 1.3 |
| CBNY-Norges Bank | | 5,572,073 | 5,572,073 | 1.9 | 0.9 |
| Länsförsäkringar Funds | | 5,440,181 | 5,440,181 | 1.8 | 0.9 |
| SIX SIS AG, W8IMY | | 4,352,566 | 4,352,566 | 1.5 | 0.7 |
| CBNY-DFA-INT SML CAP V | | 3,646,975 | 3,646,975 | 1.2 | 0.6 |
| BNP PARIBAS SEC SERV LUXEMBOURG, W8IMY | | 3,646,267 | 3,646,267 | 1.2 | 0.6 |
| PENSIONFUND INSURANCE COMPANY | | 3,607,000 | 3,607,000 | 1.2 | 0.6 |
| Danica Pension | | 3,455,410 | 3,455,410 | 1.2 | 0.6 |
| JPM CHASE NA | | 3,406,228 | 3,406,228 | 1.2 | 0.6 |
| DEUTSCHE BANK AG, W8IMY | | 3,101,181 | 3,101,181 | 1.0 | 0.5 |
| BNY MELLON NA | | 3,008,444 | 3,008,444 | 1.0 | 0.5 |
| AMF Insurance and Funds | | 2,829,022 | 2,829,022 | 1.0 | 0.5 |
| Other shareholders related to the Paulsson family | 891,912 | 1,952,250 | 2,844,162 | 1.0 | 1.8 |
| Other shareholders | 2,503,427 | 116,698,184 | 119,201,611 | 40.3 | 23.3 |
| Number of outstanding shares | 34,319,957 | 260,642,789 | 294,962,746 | | |
| Peab AB | | 1,086,984 | 1,086,984 | 0.4 | 0.2 |
| Number of registered shares | 34,319,957 | 261,729,773 | 296,049,730 | 100.0 | 100.0 |

Allocation of shareholdings per 2019-12-31

| Number of shares | Number of shareholders | Proportion of capital, % | Proportion of votes, % |
|------------------|------------------------|--------------------------|------------------------|
| 1- 500 | 30,968 | 1.5 | 0.7 |
| 501- 1,000 | 5,766 | 1.6 | 0.8 |
| 1,001- 5,000 | 7,129 | 5.8 | 2.8 |
| 5,001- 10,000 | 1,245 | 3.1 | 1.5 |
| 10,001- 15,000 | 435 | 1.8 | 0.9 |
| 15,001- 20,000 | 232 | 1.4 | 0.7 |
| 20,001- | 599 | 84.8 | 92.6 |
| | 46,374 | 100.0 | 100.0 |

Data per share

| | 2019 | 2018 |
|---------------------------------|-------|-------|
| Earnings, SEK | 7.09 | 7.12 |
| Equity, SEK | 41.58 | 38.47 |
| Cash flow before financing, SEK | -1.87 | -3.46 |
| Share price at year-end, SEK | 93.75 | 72.40 |
| Share price/equity, % | 225 | 188 |
| Dividend, SEK ¹⁾ | - | 4.20 |
| Direct return, % ²⁾ | - | 5.8 |
| P/E-ratio ²⁾ | 13 | 10 |

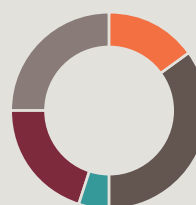
¹⁾ The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.

²⁾ Based on closing price at year-end.

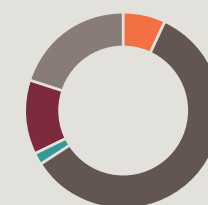
Shares and votes per share class 2019-12-31

| Share class | Number | Number of votes | Proportion of capital, % | Proportion of votes, % |
|--------------|--------------------|-----------------|--------------------------|------------------------|
| A | 34,319,957 | 10 | 11.6 | 56.7 |
| B | 261,729,773 | 1 | 88.4 | 43.3 |
| Total | 296,049,730 | | 100.0 | 100.0 |

Shareholder categories, proportion of capital per 2019-12-31



Shareholder categories, proportion of votes per 2019-12-31



■ Financial companies and trust funds, 15%
 ■ Financial companies and trust funds, 7%

■ Other Swedish legal entities, 35%
 ■ Other Swedish legal entities, 59%

■ Interest organizations, 5%
 ■ Interest organizations, 2%

■ Foreign shareholders, 20%
 ■ Foreign shareholders, 12%

■ Swedish private persons, 25%
 ■ Swedish private persons, 20%

Five-year overview

| Group, MSEK | 2019 | 2018 | 2017 | 2016 | 2015 ¹⁾ |
|--|---------------|---------------|---------------|---------------|--------------------|
| Income statement items | | | | | |
| Net sales | 54,008 | 52,233 | 49,981 | 46,054 | 44,376 |
| Operating profit | 2,568 | 2,573 | 2,418 | 2,044 | 1,009 |
| Pre-tax profit | 2,510 | 2,518 | 2,458 | 1,996 | 906 |
| Profit for the year | 2,092 | 2,100 | 2,067 | 1,685 | 798 |
| Balance sheet items | | | | | |
| Fixed assets | 12,889 | 11,317 | 11,226 | 9,901 | 9,323 |
| Current assets | 25,840 | 25,999 | 20,899 | 21,448 | 18,718 |
| Total assets | 38,729 | 37,316 | 32,125 | 31,349 | 28,041 |
| Equity | 12,266 | 11,348 | 10,332 | 9,340 | 8,076 |
| Long-term liabilities | 6,779 | 6,294 | 3,614 | 3,864 | 4,505 |
| Current liabilities | 19,684 | 19,674 | 18,179 | 18,145 | 15,460 |
| Total equity and liabilities | 38,729 | 37,316 | 32,125 | 31,349 | 28,041 |
| Key ratios | | | | | |
| Operating margin, percent | 4.8 | 4.9 | 4.8 | 4.4 | 2.3 |
| Equity, average during the year | 11,703 | 10,731 | 9,705 | 8,579 | 8,088 |
| Equity attributable to shareholders in parent company, average during the year | 11,701 | 10,730 | 9,704 | 8,579 | 8,088 |
| Return on equity, percent | 17.9 | 19.6 | 21.3 | 19.6 | 9.9 |
| Capital employed, at year-end ²⁾ | 21,376 | 18,360 | 14,074 | 14,362 | 14,476 |
| Capital employed, average during the year ²⁾ | 20,633 | 16,761 | 13,972 | 14,122 | 14,224 |
| Return on capital employed, percent | 13.1 | 15.9 | 18.7 | 15.9 | 8.2 |
| Equity/assets ratio, percent ³⁾ | 31.7 | 30.4 | 32.2 | 29.8 | 28.8 |
| Net debt ⁴⁾ | 7,507 | 3,551 | 1,216 | 1,862 | 3,118 |
| Debt/equity ratio, multiple | 0.6 | 0.3 | 0.1 | 0.2 | 0.4 |
| Interest coverage ratio, multiple | 15.5 | 21.6 | 21.8 | 12.9 | 5.5 |
| Capital expenditures | | | | | |
| Goodwill | 8 | 23 | 61 | 40 | -17 |
| Other intangible assets | 127 | 98 | 113 | 34 | 5 |
| Investment property | -70 | -262 | 265 | - | - |
| Buildings and land | 439 | -31 | 181 | 200 | -94 |
| Machinery and equipment | 1,172 | 1,193 | 1,292 | 1,175 | 627 |
| Shares and participations | 1,164 | 169 | -563 | 303 | -210 |
| Project and development properties | 1,549 | 2,103 | 702 | 324 | 291 |
| Orders ⁵⁾ | | | | | |
| Orders received | 44,130 | 51,087 | 48,999 | 41,445 | 37,812 |
| Order backlog | 42,494 | 45,819 | 40,205 | 33,572 | 26,991 |
| Personnel | | | | | |
| Number of employees, at year-end | 14,258 | 14,614 | 14,344 | 13,869 | 13,300 |
| Average number of employees | 14,309 | 14,661 | 14,578 | 13,712 | 13,036 |
| Data per share | | | | | |
| Earnings before and after dilution, SEK | 7.09 | 7.12 | 7.01 | 5.71 | 2.71 |
| Cash flow, SEK | -1.87 | -3.46 | 7.78 | 8.99 | 6.06 |
| Equity, SEK | 41.58 | 38.47 | 35.02 | 31.67 | 27.38 |
| Share price at year-end, SEK | 93.75 | 72.40 | 70.60 | 72.30 | 64.85 |
| Dividend, SEK ⁶⁾ | - | 4.20 | 4.00 | 3.60 | 2.60 |
| Number of shares at year-end, millions | 295.0 | 295.0 | 295.0 | 295.0 | 295.0 |
| Average number of outstanding shares, millions | 295.0 | 295.0 | 295.0 | 295.0 | 295.0 |

¹⁾ Not recalculated according to IFRS 15.

²⁾ Excluding additional IFRS 16, Leases capital employed was SEK 20,615 million per December 31, 2019 and average capital employed was SEK 19,840 million per December 31, 20019.

³⁾ Excluding additional IFRS 16, Leases the equity/asset ratio was 32.3 percent per December 31, 2019.

⁴⁾ Excluding additional IFRS 16, Leases net debt was SEK 6,743 million per December 31, 2019.

⁵⁾ As of 2017 certain sections of Industry's orders received and order backlog are presented.

⁶⁾ The Board of Directors' proposes to the AGM that no dividend be distributed for 2019.

Alternative performance measures and definitions

Alternative performance measures are used to describe the development of operations and to enhance comparability between periods. These are not defined under IFRS but correspond to the methods applied by executive management and the Board of Directors to measure the company's financial performance. Alternative performance measures should not be viewed as a substitute for financial information presented in accordance with IFRS but rather as a complement. For more information and calculations, see www.peab.com/alternative-performance-measures.

Financial

AVAILABLE LIQUIDITY

Liquid funds and short-term investments along with unutilized credit facilities. Shows the Group's available liquidity.

CAPITAL EMPLOYED FOR THE BUSINESS AREAS

Total assets in the business area at the end of the year reduced by deferred tax recoverables and internal receivables from the internal bank Peab Finans with deductions for non-interest-bearing liabilities and deferred tax liabilities. The measurement is used to measure capital utilization and its effectiveness for the business areas, and is only presented as a net amount per business area.

CAPITAL EMPLOYED FOR THE GROUP

Total assets at the end of the year less non-interest-bearing operating liabilities and provisions. The measurement is used to measure capital utilization and its effectiveness.

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.

DIRECT RETURN, SHARES

Dividend as a percentage of the share price at year-end. Measures the direct return of the proposed dividend in relation to the price at year-end.

EARNINGS PER SHARE

Profit for the period attributable to shareholders in parent company divided by the average number of outstanding shares during the period.

EQUITY/ASSETS RATIO

Equity as a percentage of total assets at the end of the year. Shows financial position.

EQUITY PER SHARE

Equity attributable to shareholders in parent company divided by the number of outstanding shares at the end of the period.

INTEREST COVERAGE RATIO

Pre-tax profit items plus interest expenses in relation to interest expenses. The measurement shows how the interest costs can be covered.

NET DEBT

Interest-bearing liabilities including provisions for pensions less liquid funds and interest-bearing assets.

NET DEBT/EQUITY RATIO

Interest-bearing net debt in relation to equity. Shows financial position.

NET INVESTMENTS

The change in the period of the recognized value of current assets (CB-OB) plus depreciation and write-downs.

OPERATING MARGIN

Operating profit as a percentage of net sales.

ORDER BACKLOG

The value at the end of the period of the remaining income in ongoing production plus orders received yet to be produced.

ORDERS RECEIVED

The sum of orders received during the period. Measures how new orders replace produced work.

P/E RATIO

Share price at year-end divided by earnings per share.

RETURN ON CAPITAL EMPLOYED

The pre-tax profit of the rolling 12 months period with the addition of financial expenses in percent of the average (last four quarters) capital employed. The measurement is used to measure capital efficiency and to allocate capital for new investments and show the Group's earning capacity independent of financing.

RETURN ON EQUITY

The profit of the rolling 12 months period attributable to shareholders in parent company divided by the average (last four quarters) equity attributable to shareholders of shares in the parent company. The measurement is used to create efficient business and a rational capital structure and show how the Group has increased shareholders' equity.

Construction-related

CONTRACT AMOUNT

The amount stated in the contract for contract work excluding VAT.

DEVELOPMENT RIGHTS

Estimated amount of construction possible on a piece of land. A development right is the maximum level of construction allowed on a property according to a zoning plan. The scope of the future zoning plan is estimated for up and coming zoning plans. In order to have the right of disposition over a development right ownership of, or the option to own, the land is required. Development rights for commercial property are measured in square meters.

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.

PARTNERING/COLLABORATION

A type of structured collaboration in the construction industry in which the developer, consultants, contractors and other key actors work together to achieve a construction goal. The collaboration is founded on trust where each person's professional skills supplement the others' throughout the construction process. The basic idea is that the developer gathers together all the expertise needed to realize the project early on. This is a way to avoid having actors involved in the process for only a limited period of time. In partnering/collaboration everyone's know-how comes to pass and everyone works together in a project from start to finish.

PROJECT AND DEVELOPMENT PROPERTY

Holdings of undeveloped land and decontamination property for future development, real estate with buildings for project development or improvement and thereafter sales within Peab's normal business cycle.

PROJECT DEVELOPMENT

Finding project or development properties and developing these into complete projects.

TURNKEY CONTRACT

Contract work where the contractor, in addition to building, is also responsible for planning the project.

Welcome to Peab's Annual General Meeting



Time and location

The Annual General Meeting of Peab AB will be held at 3 p.m. on Wednesday May 6, 2020, Grevieparken in Grevie, Sweden.

Notification

Notification of participation in the Annual General Meeting must be submitted at the latest at 2 p.m. on Wednesday April 29, 2020. Notification may be submitted by telephone to +46 431 893 50, by mail to Peab AB (publ), Annual General Meeting, c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, or via the company's website at www.peab.com. To participate in the Annual General Meeting shareholders must be registered in the share register kept by Euroclear Sweden AB by Wednesday April 29, 2020 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 that no dividend be distributed for 2019.

Financial information

At www.peab.com we continually provide current information on the company, financial results and how our share is developing. Financial reports and publications can be downloaded there as well. They can also be ordered by contacting: Peab AB, Margretetorpsvägen 84, SE-269 73 Förslöv or Tel +46 431-890 00.

FOLLOW PEAB QUARTER BY QUARTER

When Peab publishes our quarterly reports we also present the financial results for the previous quarter and a description of the current situation. The link to the presentations can be found at www.peab.com/reports.

SHAREHOLDER CONTACT

| | |
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Annual calendar 2020

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|---|-----------------|
| First Quarter Report | 6 May |
| Annual General Meeting | 6 May |
| Second Quarter Report | 17 July |
| Third Quarter Report | 22 October |
| Year-end Report | 4 February 2021 |
| Annual and Sustainability Report | April 2021 |

Analysts who follow Peab

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|---------------------------|------------------|--|
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Peab is the Nordic Community Builder with approximately 14,000 employees and net sales of approximately SEK 54 billion. The Group has strategically located offices in Sweden, Norway and Finland. Group headquarters are in Förslöv on the Bjäre Peninsula in Skåne. The share is listed on Nasdaq Stockholm.

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