

# Corporate governance report

This corporate governance report was prepared by the company's Board of Directors and covers the corporate governance of ÅF during the 2016 financial year. The corporate governance report is submitted in accordance with the Swedish Annual Accounts Act and the Swedish Corporate Governance Code. The corporate governance report has been reviewed by Ernst & Young AB, whose opinion follows immediately after the report.

## Corporate governance within ÅF

ÅF AB is a Swedish public limited company domiciled in Stockholm. The company's class B shares are listed on Nasdaq Stockholm. Governance, management and control are divided between the shareholders, the Board of Directors, the CEO and the company's Group management in accordance with applicable laws, rules and recommendations and with ÅF's Articles of Association and internal regulations. The shareholders' meeting is the company's highest decision-making body and is the forum in which the shareholders exercise their voting rights. The Board of Directors and the Chairman of the Board are elected at the general meeting of shareholders. The Board of Directors appoints the CEO. The administration of the company by the Board of Directors and the CEO, as well as the company's

financial reporting are reviewed by the external auditor appointed by the AGM. To streamline and strengthen its work in certain areas, the Board of Directors has appointed an Audit Committee and a Remuneration Committee. One important support function for the Audit Committee is ÅF's Internal Audit Function. ÅF applies the Swedish Corporate Governance Code (available at [www.corporate-governanceboard.se](http://www.corporate-governanceboard.se)) and did not deviate from it in 2016. ÅF complies with Nasdaq Stockholm's Rules for Issuers (available at [business.nasdaq.com/list/Rules-and-Regulations](http://business.nasdaq.com/list/Rules-and-Regulations)) and generally accepted stock exchange practice. The most important internal instrument of governance is the Articles of Association adopted by the shareholders' meeting. In addition, there are the Board of Director's Rules of Procedure and the Board of Director's instructions for the CEO. Internal policies and instructions constitute essential management documents for the whole company, clarifying responsibility and authority within specific areas, such as information security, regulatory compliance and risk management.

## Ownership structure

ÅF has issued two classes of share: A shares and B shares. Each A share is entitled to 10 votes, and each B share to 1 vote.

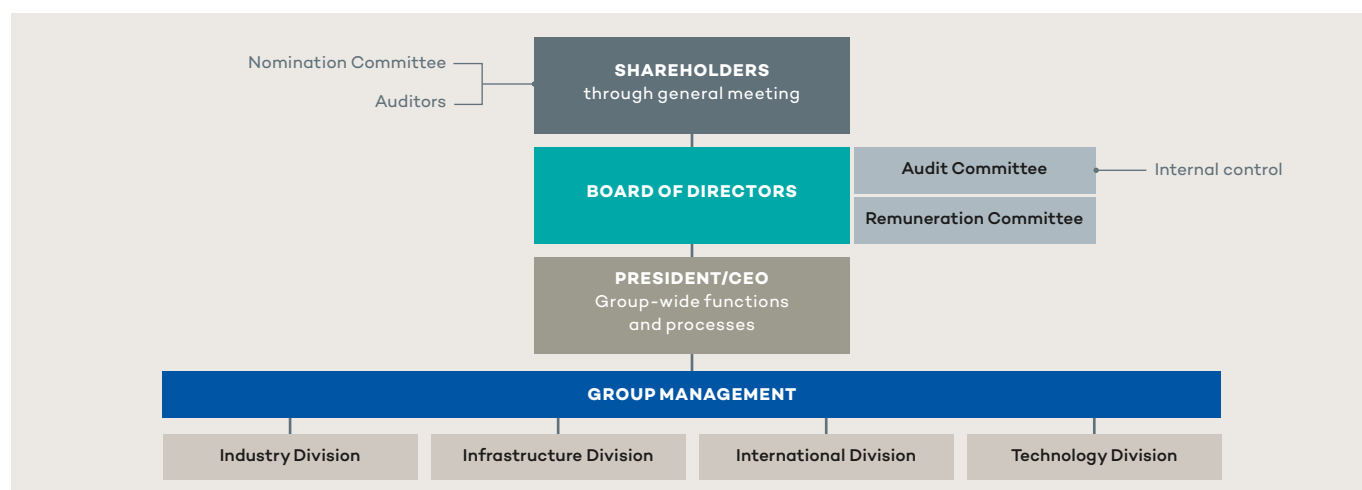
## Share distribution at 31 December 2016:

Number of shareholders:	10,030
A shares:	3,217,752
B shares:	75,696,001
Total number of shares:	78,913,753
of which own B shares:	1,202,750
Votes:	107,873,521

The largest shareholder at the end of the year was the ÅForsk Foundation, with 37.0 percent of the votes. Handelsbanken Funds had 6.5 percent and SEB Investment Management had 6.2 percent of the votes.

## ÅF's Annual General Meeting

The shareholders' meeting held within six months of the end of the financial year, and which approves the income statement and balance sheet, is called the Annual General Meeting. Shareholders who are registered in the share register on the record day, and who have given sufficient notice of participation, have the right to participate in the shareholders' meeting. The notice convening the AGM is published on the company's website and advertised in the Swedish Official Gazette. The fact that the notice convening the AGM has been published is advertised in Dagens Industri. The 2016 AGM was held at ÅF's head office in Solna, Sweden,



on 27 April 2016. In total, 179 shareholders participated, representing 67.3 percent of the share capital and 76.1 percent of the votes. In addition to the election of the Board of Directors, the AGM resolved to introduce the staff convertible 2016, and authorised the Board of Directors to acquire and transfer own shares and to issue new class B shares. The minutes of the meeting together with all the documentation issued prior to the AGM are available on the ÅF website, under the section for Corporate Governance.

### **Nomination Committee**

In accordance with a resolution passed at the 2016 AGM, the members of the Nomination Committee for the 2017 AGM shall be appointed by at least three and at most five of the shareholders with the largest number of votes. In addition, the Chairman of the Board shall be a member of the Nomination Committee. The names of the committee members were announced six months before the AGM. The Nomination Committee for the 2017 AGM comprises: Jonas Abrahamsson (Chair), appointed by the ÅForsk Foundation; Annika Andersson appointed by Swedbank Robur Funds; Jonathan Schönback, appointed by Handelsbanken Asset Management; Anders Narvinger, ÅF's Chairman of the Board; Johan Strandberg, appointed by SEB Investment Management; and Karl Åberg, appointed by Zeres Capital.

### **Duties of the Nomination Committee**

The Nomination Committee submits proposals, prior to the AGM, on the number of Board members, the composition and remuneration of the Board of Directors, and any fees payable for committee work. The committee shall also submit proposals on who is to chair the Board of Directors and the AGM, as well as on auditors and their remuneration. In accordance with its remit, the committee shall also carry out any other duties assigned to it under the Swedish Corporate Governance Code.

### **The work of the Nomination Committee**

In the period up to and including 3 February 2017, the committee held six minuted meetings and maintained contact between meetings. To assess how well the present Board of Directors meets the demands that will be placed on the Board in consequence of the company position and future focus, the committee has discussed the size and composition of the Board in relation to, for example, experience in the industry, specialist expertise and diversity. Rule 4.1 of the Swedish Corporate Governance Code is applied as a diversity policy for the Board of Directors. The aim is for the Board of Directors to have combined skills and experience that are appropriate for their work, as well as an equal gender balance. The Nomination Committee has adhered to this aim and justified its proposals for the composition of the Board in that the gender distribution, background and combined expertise of the proposed members fulfil these aims. The AGM has re-elected the Board of Directors as proposed by the Nomination Committee. As a basis for the committee's work, the Chairman of the Board has informed the committee about the work of the Board of Directors during the year and of the work undertaken by the Audit Committee and the Remuneration Committee. The Nomination Committee has commissioned recruitment firm Novare to carry out an evaluation, and has considered the results of the evaluation of the Board of Directors and its work in 2016, and interviewed individual members of the Board. No remuneration has been paid for work on the committee. All shareholders are entitled to approach the committee with suggestions for members to serve on the Board of Directors. The committee's proposals, the report on the committee's work prior to the 2017 AGM, and supplementary information on proposed members of the Board of Directors will be published in connection with the meeting notice and will be presented at the 2017 AGM.

### **Board of Directors**

The Board of Directors of ÅF shall consist of a minimum of six and a maximum of ten members, with a maximum of five deputies, appointed by the AGM. Eight Board members were elected by the 2016 AGM. In addition, the employees have two ordinary representatives on the Board of Directors, with two deputies. The CEO is not a member of the Board of Directors. The following members were re-elected to the Board of Directors for 2016: Marika Fredriksson, Staffan Jufors, Anders Narvinger, Björn O. Nilsson, Maud Olofsson, Joakim Rubin, Kristina Schauman and Anders Snell. Anders Narvinger was elected by the AGM to serve as Chairman of the Board up until the close of the next AGM. The CEO, Jonas Wiström, participates in meetings of the Board of Directors to present reports. The Group's CFO, Stefan Johansson, also participates to present reports, and Jacob Landén, ÅF's senior legal adviser, acts as Secretary to the Board of Directors. For further information on the Board of Directors, please refer to pages 86–87 of the annual report. The fees paid to the Board of Directors are determined by the AGM based on proposals from the Nomination Committee.

### **Independence of the Board of Directors**

The composition of the Board of Directors of ÅF meets the requirements for independent directors laid down by the Swedish Corporate Governance Code. Members of the Board of Directors Björn O. Nilsson and Anders Snell are dependent in relation to the largest shareholder by voting rights in ÅF, but are not dependent of the company or Group management. The other members of the Board of Directors are independent of the company's major shareholders, the company and Group management.

### **The work of the Board of Directors**

Each year the Board of Directors produces a written formal work plan which sets out the responsibilities of the Board and governs the allocation of duties among Board members, the rules for decision-making,

dates and times of Board meetings, notification, agenda and minutes for Board meetings, and the Board's work with accounting and auditing matters. The ÅF Board of Directors holds an inaugural meeting in connection with the AGM. In addition, the Board of Directors is required to meet at least four times per calendar year. Every ordinary Board meeting follows the agenda set out in the Board of Directors' formal work plan, which includes a report from the CEO, a financial report and various strategic matters. The Board of Directors has elected to appoint a Remuneration Committee and an Audit Committee. During the year, the Board of Directors held 12 meetings including an inaugural meeting, of which one was a telephone meeting for which the relevant documentation was sent out in advance, and one was by correspondence. Four of the meetings were held in connection with the publication of the company's interim reports. The work of the Board of Directors revolves mostly around strategic issues, business plans, budgeting, accounts and acquisitions, in addition to other decisions which, under the company's decision-process rules, are dealt with by the Board. Reports on the progress of the company's operational activities and finances are a standing item on the agenda. A strategy seminar was held at the meeting in September, and included a thorough review of each division. On one occasion each year, the Board of Directors discusses issues related to succession planning for senior executives in the company. On one occasion in 2016, the Board of Directors met with the company's auditors without the presence of management.

#### Remuneration Committee

The task of the Remuneration Committee is to prepare the guidelines for the remuneration of senior executives which is then decided by the AGM, and to submit proposals to the Board of Directors for the salary and terms and conditions of the CEO. The committee also deals with matters relating to the salary and terms and conditions of employment for senior executives who report directly to the CEO, and

	Board of Directors	Audit Committee	Remuneration Committee
<b>Total number of meetings (excl. 1 by correspondence)</b>	<b>11</b>	<b>5</b>	<b>2</b>
Anders Narvinger	11	1	2
Marika Fredriksson	7		2
Staffan Jufors	11		
Björn O. Nilsson	11	4	
Maud Olofsson	11		
Joakim Rubin	10	5	
Kristina Schauman	11	5	
Anders Snell	11		2
Anders Forslund, employee representative	6		
Anders Toll, employee representative	11		
Fredrik Sundin, deputy employee representative	5		

overall terms of employment and remuneration packages for all the company's employees. The Remuneration Committee reports to the Board of Directors. Since the inaugural meeting of 2016, the Remuneration Committee has consisted of Anders Narvinger (Chair), Anders Snell and Marika Fredriksson. The CEO and the HR Manager participate as co-opted members. The committee held two minuted meetings.

#### Audit Committee

The Audit Committee is a vital communication link between the Board of Directors and the company's auditors. The Board's Audit Committee is responsible for the auditor selection procedure, which is detailed in the Auditors Ordinance, and for submitting its recommendation from among the auditors that have participated in such procedure to the Nomination Committee at the general meeting of shareholders. The Audit Committee supports the work of the Board of Directors by safeguarding the quality of financial reports and following up the results of the reviews and audits carried out by the external auditors. The company's internal audit staff support the committee in its work. Since the inaugural meeting of the Board of Directors in 2016, the Remuneration Committee has consisted of Kristina Schauman (Chair), Björn O. Nilsson and Joakim Rubin. Ernst & Young AB, the company's auditors, were represented by Hamish Mabon as auditor in charge. The CFO and the manager responsible for the Group Accounting and Reporting depart-

ment attend as co-opted members. The company's internal auditors attended as rapporteur when needed. The committee held six minuted meetings, including one by correspondence.

#### Attendance at Board and Committee meetings, 2016

Attendance at Board meetings during the year was very good with a 95 percent attendance rate. The Audit Committee and the Remuneration Committee meetings recorded full attendance at every meeting.

#### Evaluation of the Board of Directors and the CEO

The Nomination Committee conducted an evaluation of the work of the Board of Directors in 2016, and for such purpose appointed recruitment company Novare, which has communicated the results of its work. Furthermore, the members of the Nomination Committee held meetings with individual Board members. The evaluation covers areas such as the climate of cooperation, the breadth of expertise available and the way the work of the Board of Directors has been carried out. The object of the evaluation is to obtain an understanding of the directors' opinions on how the work of the Board of Directors has been carried out. The Board of Directors evaluates the work of the CEO on an ongoing basis, by monitoring the progress of the business against the targets that have been set. A formal evaluation is carried out once a year, and the results are discussed with the CEO.

## Auditors

The auditors work for and on behalf of the shareholders to audit the company's accounting records, the annual accounts and the administration of the Board of Directors and the CEO. A full audit of the annual report and the consolidated financial statements is carried out. The auditors also carry out a review of the nine-month interim report for the period up to September each year, and attend the meetings of the Audit Committee. A review is also carried out of the Group's corporate governance report and of compliance with the guidelines approved by the AGM relating to remuneration of senior executives. The 2016 AGM reappointed the accounting firm Ernst & Young AB, represented by Hamish Mabon as the auditor in charge, to serve to the end of the 2017 AGM. In 2016, a procurement procedure was carried out for the auditing of ÅF via a bidding process, in accordance with the Auditors Ordinance. As a result of the process, KPMG and EY were deemed to be the best alternatives. The Audit Committee concluded that it will recommend to the Nomination Committee to propose to the 2017 AGM that KPMG be appointed the auditor for the period extending up until the 2018 AGM.

## CEO and Group management

The Board of Directors has delegated operational responsibility for the administration of the company and the Group to the company's CEO. The CEO leads operations within the framework laid down by the Board of Directors. The Board has adopted instructions for the division of responsibility between the Board of Directors and the CEO. These are updated and approved each year. The CEO has appointed a Group management team with day-to-day responsibility for various aspects of the Group's operation. ÅF's Group management normally meets once a month to discuss matters such as the Group's financial performance, acquisitions, Group-wide development projects, succession planning and competence development, together with various other strategic issues. In 2016, ten minuted meetings were held, including a two-day meeting with additional Group managers

invited. Once a month the CEO and the CFO discuss each of the divisions' income statements, balance sheets, key figures and major projects with the relevant president and controller. Every four months a whole-day review is held with each division to examine more long-term issues, including HR, strategy and budget. At the end of 2016, Group management consisted of the President and CEO, divisional presidents, CFO, the VPs of Human Resources, Sales and Sustainability, CIO, as well as the PA to the CEO, who serves as secretary to Group management. For further information about the members of the Group management team, please see pages 88–89 of the annual report.

## The Board of Directors' description of internal controls

The Board of Directors' responsibility for internal controls is regulated in the Swedish Companies Act and the Swedish Corporate Governance Code, which set out requirements for annual external disclosures on how internal controls over financial reporting are organised. Board members must keep themselves informed about the state of affairs in the company and evaluate the internal control system on a regular basis. Internal controls at ÅF are designed to ensure that the company's operations are efficient and fit for purpose, that financial reporting is reliable, and that applicable laws and regulations are complied with. ÅF divides its internal controls over financial reporting into the following components: Control environment, Risk assessment, Control activities, Information & Communication, and Follow-up.

## Control environment

The control environment constitutes the basis for internal controls over financial reporting. One important aspect of the control environment is that decision paths, authority and responsibility are clearly defined and communicated between different levels of the organisation, and that guidance documents are available in the form of policies, guidelines and manuals. A description of ÅF's internal control system is included in the company's process-orientated business

management system used for managing and supporting day-to-day business operations. This sets out the organisational structure, together with the authority and responsibility vested in the various roles in the business. The process orientation of the management system guides users to the relevant routines and appropriate tools for the task in question, thus providing a sound basis for compliance with requirements and expectations for an appropriate control environment. The management system is available to all employees via the ÅF intranet.

## Risk assessment

ÅF's risk assessment in respect of financial reporting aims to identify and evaluate the key risks affecting financial reporting in the Group's companies, business areas, divisions, processes and operations, all of which can affect financial reporting. Risk assessment forms the basis for risk management and control, as well as control targets that help to ensure that the fundamental requirements of external financial reporting are met. The risks are assessed, reported and managed by ÅF centrally together with the divisions. Risks are also assessed and managed in other contexts; for example, risks associated with fixed-price projects and acquisitions.

## Control activities

To ensure that the business is run efficiently and that the scheduled financial reports consistently provide a fair presentation of the situation, each process has a number of built-in control activities. These involve all levels of the organisation. Responsibility for implementing control activities at ÅF is allocated appropriately within the organisation, with clear roles ensuring effectiveness and reliability. Specific internal control activities are in place, with the aim of identifying or preventing the risk of reporting errors. For all ÅF units, including those outside Sweden, result analysis takes place continuously. Other control activities are carried out through the finance functions of the various divisions and ÅF AB's Group Accounting and Reporting department. All accounting and reporting activities for ÅF's Swedish operations are centralised



under ÅF Business Services (ÅBS) at the Group's head office, using standardised control processes. Control activities at ÅBS include profit analyses and other controls in respect of revenue and receivables, payments, non-current assets, work in progress, wages and salaries, VAT/tax, book-keeping, consolidation and reporting as well as the maintenance of databases.

### Information and communication

Information about and the communication of policies, process descriptions, routines and tools applicable to financial reports are contained in the management system that is available to the relevant personnel via the ÅF intranet. Updates are carried out in the event of any changes in internal or external requirements or expectations with regard to financial reports. Communication with internal and external parties is governed by a communication and IR policy, which sets out guidelines for the form this should take. The policy aims to ensure that all disclosure obligations are met properly and in full. Internal communication aims to ensure that every employee understands ÅF's values and business activities. Information is actively communicated on an ongoing basis through the Group's

intranet and other channels to keep employees informed.

### Follow-up

Compliance and the efficacy of internal controls are followed up on an ongoing basis by both the Board of Directors and management to guarantee the quality of the processes. The company's financial situation and strategy in respect of its financial position are considered at every Board meeting. The Board of Directors also receives detailed monthly reports on the company's financial position and the development of the business. The Audit Committee fulfils an important function by guaranteeing control activities for key risk areas in the financial reporting process. The Audit Committee, management and the internal audit function regularly follow up any reported non-conformances. ÅF's system for financial management and control allows considerable opportunities for effective financial follow-ups throughout ÅF. Monthly reports are submitted for each profit centre, and the reports on the financial performance of assignments reflect the highest standards of reliability and detail. Any errors that are identified and any measures that are taken are reported to the next level up in the line organisation. ÅF's internal

audit function carries out independent audits to monitor whether the internal control and management systems live up to ÅF's internal ambitions and external requirements and expectations. Priority areas for ÅF's internal audits are the ÅF brand, ÅF's values and ethics, processes and systems, as well as the assignments that ÅF has undertaken to perform. Reports are submitted to the CEO and the Board of Directors' Audit Committee.

### Corporate social responsibility

ÅF focuses on long-term strategic work aimed at ensuring the company becomes a more sustainable business. The ten principles of the UN Global Compact and the OECD's guidelines are fundamental to this work. The company's sustainability objectives govern the priorities set in this area. This sustainability work is intended to contribute to the company's growth and is, therefore, followed up by both the Board of Directors and by Group management. For further details about the sustainability work that ÅF is engaged in, please see ÅF's Sustainability Report, which is available on ÅF's website.

Stockholm, 3 February, 2017  
The Board of Directors of ÅF AB

## AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders of ÅF AB, corporate identity number 556120-5474

### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the financial year 2016 on pages 81–85 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 statement. This means that our examination of the corporate governance statement 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 statement 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.

Stockholm, 31 March 2017  
Ernst & Young AB

### Hamish Mabon

Authorised Public Accountant