

CEO's speech at Skanska's Annual General Meeting on April 3, 2014

Dear shareholders,

Let me begin by saying that for 2013 the Group as a whole is once again able to report a strong result.

With only a few exceptions, our Construction units reported strong earnings and, as a whole, also had stable order bookings. At the same time, our Commercial Property Development operations continued to generate good capital gains. In our Nordic Residential Development operations we turned the previous year's loss into positive operating income for 2013.

I also want to start by saying that Skanska shareholders may be interested to know that – based on the 2013 results, the Group's financial position and prospects to the extent we can judge them at this time – the Board is proposing an increase in the regular dividend of SEK 0.25 to SEK 6.25 per share.

If this dividend proposal is approved by the Meeting, this will be the tenth consecutive year that Skanska's regular dividend is either left unchanged or increased. In this context, it is important to note that the Group's commercial position has been strong and stable for this entire period.

We are talking about a period that has seen the deepest recession since the 1930s and I believe this is a good indication that our business model works, even in times when market conditions are not optimal.

Development in 2013

Before I talk in more detail about our 2013 results, I would like to summarize the economic and construction trends in our home markets.

Macro perspective in brief

It is fair to say that the relatively weak global economy impacted most of our geographical markets in 2013. This diagram illustrates the general economic trends from Skanska's perspective and shows weighted real GDP growth in Skanska's home markets, where weighting is based on our sales in each market. This provides a good illustration of the economic slowdown after 2008, as well as the stabilization of average real economic growth of around 2 percent, which we are now witnessing in our markets and which is expected to be maintained over the next few years.

If we look at construction investments, which have been weighted in the same way here, we can see that they lost momentum at the beginning of last year, but started to improve slightly towards the end of the year. This year we can expect an increase in construction investments, especially in the U.S., Sweden and the UK. Still, overall we should not count on more than 1–2 percent real market growth in 2014.

Although we have no operations in Russia or Ukraine, the recent developments in Ukraine and the Crimean Peninsula may directly or indirectly impact trends in our home markets, especially in Central Europe. This, however, remains to be seen and is something we may need to revisit in the future.

Now I would like to talk about our 2013 results in more detail.

Construction

If we look at Skanska's Construction business streams, we can see a revenue increase of around 6 percent in local currency for 2013, while the operating margin improved to 3 percent. This is still slightly below the level of 3.5–4 percent, which is our goal for this business stream, but we were still close to this goal last year.

Earnings and markets remained very strong in Sweden, Poland and the UK, as well as in our two Construction operations in the U.S. The Norwegian and Finnish Construction operations, where we had serious profitability problems a couple of years ago, continued to report earnings improvement in 2013 and we are now well on our way to reaching the sustainable profitability level we expect to have in these operations.

The results for Construction as a whole were unfortunately negatively affected by profitability problems in our Czech/Slovakian and Latin American construction operations in 2013. Apart from continued weakening in these markets, which required restructuring to be done and certain assets to be written down, earnings were negatively affected by losses on some individual projects. In both of these units we are now focusing our operations in the markets and types of projects where we believe we have the best chance of achieving satisfactory profitability. At the same time, we are constantly adjusting our organization in line with market trends.

We usually take this opportunity to highlight a few of the many interesting projects that have generated value for Skanska and I am not going to break that tradition. To start with, here are a few examples of projects in Construction.

In Malmö work is under way on the new city district, Malmö Live, a meetingplace for culture, conferences and congresses, which also includes hotels, office space and homes and has a total construction area of around 80,000 sq m. The concert hall holds an audience of 1,600, the congress section holds 1,500 and there is also a conference facility for up to 700 people. In addition to being responsible for construction contracts totaling an estimated SEK 2 billion, Skanska is investing around SEK 1.6 billion in the project which is part of the Group's project development operations. Malmö Live is being constructed in a number of phases and will be completed in 2015/16.

In Washington D.C. Skanska USA Civil successfully completed the 11th Street Bridges last year. This was a challenging project from a technical and logistics perspective, involving constructing new bridges and on-ramps on both sides of the Anacostia River while keeping the old bridges open for traffic. The project has received both external and internal recognition, not least for the way in which environmental aspects were integrated in the production processes. We also have a very satisfied client and have now received an additional order for completion in 2015, which will bring the total contract value for the project up to almost SEK 1.7 billion.

The Borough Viaduct project in London ran from 2008 to 2013 and included extensive construction on a new railway viaduct and remodeling of adjacent listed buildings. As the photos show, the work was carried out in a dense urban environment, right next to busy streets and retail outlets.

This increased the complexity and required extensive collaboration with local stakeholders. In addition to being highly profitable, the project was also a big success in terms of occupational health and safety, and received a number of external awards. The contract was worth a total of close to SEK 900 million.

Construction order bookings last year amounted to SEK 120 billion, which is on a par with the previous year, while order bookings in relation to revenue – “book-to-build” – was 94 percent. Because our production exceeded the value of the new orders we received, our order backlog was reduced by just under 5 percent to SEK 140 billion. This is still more than one year’s production, which puts us in a relatively strong starting position for the next few years.

Despite this, it is, of course, as important as ever to constantly add new, profitable contracts to our order backlog. At the same time, we must never lower our standards with respect to risk analysis and managing the risks we identify in the projects we bid on. So far this year we have had relatively strong order bookings compared with the same period last year, but, as always, we need to be careful about drawing sweeping conclusions from this, because a couple of months is a relatively short period of time for comparisons in our line of business.

If we look at the market outlook for Construction as a whole, we can conclude that the situation is relatively stable compared with the most recent quarters, perhaps with a slightly more optimistic forecast for some of our markets.

In the U.S., our single largest market in terms of revenue, we are expecting a positive trend in terms of new projects being put out for tender, although the competition is still tougher than it was a few years ago.

The Swedish market, which is our second largest individual market, is expected to have relatively stable growth overall in 2014. While the Norwegian civil construction market is still strong, there is uncertainty in residential construction which has declined significantly over the past nine months. In Finland the market as a whole is expected to be relatively weak in 2014.

In the UK there are now indications that the market – particularly for civil construction – may be improving, albeit at a slow pace. The Polish market is relatively stable and, supported by EU funding, a number of large infrastructure projects are expected to be put out for tender over the next few years.

As I mentioned earlier, the markets in the Czech Republic and Slovakia, as well as the sectors we are focusing on in Latin America, are expected to remain relatively weak in 2014.

Residential Development

In Residential Development in 2013 we were able to turn the earnings trend around and this business stream is now once again reporting positive operating income.

The earnings improvement is mainly related to operations in the Nordic markets where the restructuring measures implemented in 2012 started to have an impact last year when we achieved positive operating income in all markets. Strong growth in the Swedish housing market, particularly in Stockholm, made a strong contribution to the income improvement and compensated for a weaker-than-expected market trend in Norway, and for a still relatively weak market in Finland.

In Poland, as late as 2012, we launched the first housing projects of our own and last year these operations were already reporting positive operating income. The Polish operations are benefitting from a relatively high demand for homes in Warsaw, which is the only local market we are fully focusing on at present. We expect to expand these operations over the next few years.

Our Residential Development operations in the Czech Republic are entirely focused on the market in Prague which stabilized and strengthened to some extent last year, even though it is still at a relatively low level. Given the current market conditions, these operations reported satisfactory results.

Let me now highlight a few good examples of Skanska's Residential Development operations.

The Vänortsgatan project in Mölndal just outside Gothenburg consists of a total of 174 homes that are being completed in three stages. All of the units have been sold and move-in started recently in the final stage apartments and townhouses. The customers appreciate the modern architecture, the efficient layout and the proximity to all communications which the project offers. The total project investment is around SEK 380 million.

The Botanika project in Prague consists of more than 1,000 homes and is a mix of apartments, semidetached houses and townhouses. The project is being implemented in six stages. The first stage started in 2003 and all units in the first four stages have sold out. We just completed the fifth stage where only a few units remain to be sold, and we are now planning for the sixth and final stage of the project. Our total investment in the project will amount to around SEK 900 million.

BoKlok is a joint concept of Skanska and IKEA which offers attractive, modern homes for first-time buyers at reasonable prices. In 2013 around 700 new BoKlok homes were sold in the Nordic countries. Now we are introducing BoKlok Flex – apartment buildings up to five stories – where the more efficient use of space means that projects can be developed at fairly centrally located sites. This image shows an ongoing BoKlok Flex project called Strandallén in Södertälje, consisting of 25 units, 24 of which are sold. They will be finished later this year. The total project investment is around SEK 38 million.

The underlying demand for homes is strong in most of the markets where we have Residential Development operations. This is particularly true in the Swedish market which is expected to remain strong in 2014. As I mentioned earlier, the Norwegian housing market slowed down significantly in the latter part of 2013 and the prospects for this year are uncertain. The Finnish housing market is expected to be relative weak this year as well, and no major changes in demand are predicted for housing in Warsaw and Prague either. Both of these have been relatively stable markets over the past few years.

Our goal for the Residential Development business stream is to achieve an operating margin of 10 percent in three years for the business stream as a whole and a return on capital employed of 10 percent. Although this plan involves significant challenges, I believe we have a good chance of reaching our goal.

Commercial Property Development

2013 was another very successful year for Commercial Property Development in terms of starting new projects, as well as leasing and sales in both finished and ongoing projects. The somewhat lower operating income compared with the previous year is mainly the result of the variation in sales volumes between the years.

The improved stability in the international finance market increased the level of interest in the investor market for the modern and energy-efficient commercial properties that we develop. This allowed us to sell a number of property projects very profitably during the year, which meant that Commercial Property Development continued to be a stable profit generator as it has been for many consecutive years.

At the beginning of 2014 we had a total of 30 ongoing projects in the portfolio for an estimated total investment upon completion of around SEK 11.5 billion.

Leasing is, of course, crucial to the value of a property project and, with no less than 330,000 sq m in new leased space in 2014 – which in itself is an all-time-high for Skanska – we continued to generate value in our portfolio.

Our goal is an occupancy rate in ongoing projects that is always higher than the degree of completion. At present the occupancy rate is around 60 percent, compared with a degree of completion of around 48 percent. This indicates that the risk in the portfolio is very much under control.

Let me give a few examples of interesting projects in Commercial Property Development.

At the beginning of 2014 we moved into our new head office, Entré Lindhagen, at the western end of the Kungsholmen district in Stockholm. The project actually consists of two parts with a combined office space of a full 73,000 sq m. The second, larger, part will be new offices for Nordea bank. This is one of our largest property investments ever and also a showcase for the state-of-the art technology we use in our continuous efforts to make our office spaces greener. Energy consumption is a full 50 percent below the maximum legal limit in Sweden.

Another good example of one of our many successful Commercial Property Development projects is Atrium 1 in central Warsaw. Similar to what we have done at Lindhagensgatan on Kungsholmen in Stockholm, we have along the Jana Pawla Avenue in Warsaw developed and sold numerous projects. The most recent one – Atrium 1 – offers 18,000 sq m of modern office space and was completed recently. It is essentially fully occupied and last year we also signed an agreement on the sale of this property. The project was completed this year and we are now planning for new projects close by.

One interesting example from our Commercial Property Development in the U.S. is Seaport Square in Boston, where last year we acquired land and building permits for three separate projects in three adjacent and attractively located sites. Construction began last year on two of the projects, a large office building project where the tenant is PWC and one project for rental apartments in which we have a small percentage of ownership. Construction start is planned for the third one, also an office building, later this year. The total construction area for the three projects is around 116,000 sq m and the total investment for the three projects will probably be more than SEK 4 billion.

From a geographical perspective, we now have a relatively well-balanced portfolio in Commercial Property Development, divided between the Nordic countries, Central Europe and the U.S. The prospects are quite favorable in all markets in terms of both the leasing and investor markets, while the estimated surplus value in the portfolio – including completed and ongoing projects, and development properties – amounted to SEK 4.3 billion at the end of the year.

In light of this, it is my belief that there is good potential in this part of our operations for continued growth and value creation, as well as for continuous realization of development gains for several years to come.

Infrastructure Development

We had eleven Infrastructure Development projects in the portfolio at the end of the year, six of which were completed and in operation, and the others under construction. Our total investment undertaking for these projects amounts to SEK 3.4 billion, of which just over SEK 2 billion had been invested by year end 2013.

In 2013 we sold five small projects, making a capital gain of SEK 118 million. Meanwhile, value is constantly being created in the portfolio as ongoing projects gradually approach the point of completion. At the end of the year, the net market value of the portfolio was estimated at SEK 4.9 billion and the estimated, unrealized developing gains in the portfolio increased to SEK 1.8 billion during the year.

It may be interesting to look a little closer at some of the biggest ongoing projects in the portfolio.

Let me start with New Karolinska Hospital in Solna just outside Stockholm. Anyone who regularly passes by this project must have noticed how it has been growing steadily and taking shape over the past year. Work is progressing according to plan and the project was 50 percent complete at the end of the year. Needless to say, there is still a lot to do before it is finished. As a part-owner, Skanska will be investing around SEK 600 million in the project which will be put into operation in stages starting in 2016, for full completion in 2017. I believe the conditions are right for this to be a successful project. I am not only thinking about Skanska here, but just as much about our client – Stockholm County Council – and importantly, all of the people the hospital will serve for many years to come.

In the Elizabeth River Tunnels project in Virginia in the U.S., production started in earnest last year, although we are still only at the beginning of this project which is due for completion in 2017. A while ago I had the opportunity to visit the production facility we have established to manufacture tunnel sections that will be lowered to the river bed, and connected, forming the new tunnel. As a part-owner, Skanska will invest around SEK 800 million in the project. Although there are, without doubt, numerous technical and logistics challenges to manage, I am fully confident that together with our partners we will be able to complete the project according to plan and with good results.

The portfolio also has a few large, now completed projects, including widening the M25 – the large motorway encircling London – and the A1 motorway in Poland. Our total investment in these two projects is close to SEK 1 billion and, in line with our business model, the aim is to sell our share in these concessions as soon as possible after they are put into operation. We believe there is good potential for this to happen in the next few years.

If we look at the market outlook for this type of project, i.e. projects that are built, run and financed under Public Private Partnerships, the greatest potential is currently in the U.S. where a tender has been submitted for a major freeway project in Florida and a major reconstruction and expansion of La Guardia Airport in New York as early as the first half of 2014.

There are also opportunities in the UK, Central Europe and the Nordic countries as well, and here we hope to secure the final financing for at least one new project this year.

Zero visions

From an earnings perspective, 2013 was a relatively good year for the Group as a whole, although we need to be even better at reaching all of our goals. Still, it is not enough to only focus on profitability and financial targets when we measure our company's success.

Today, a company like Skanska needs to take greater responsibility in order to live up to the expectations that society, shareholders, clients, subcontractors and, not least, our employees have of us.

Much of this is incorporated into our Five Zeros, which is essentially a vision for our company of zero worksite accidents, zero ethical breaches, zero environmental incidents, zero project defects and zero loss-making projects.

I believe we made progress in 2013 towards realizing our Five Zeros vision. Recently we received additional proof of external recognition for our efforts in this area when Skanska was awarded the Financial Times ArcelorMittal Boldness in Business Award for responsible enterprise in the Corporate Responsibility/Environment category.

At the same time, I and all my colleagues at Skanska realize that this work needs to continue at all levels in the Company so that we can be even better. With this type of long-term vision, we can never rest on our laurels, and we will definitely not be doing that.

It is worth emphasizing that we do not believe that profitability requirements conflict with the other requirements placed on a company like Skanska. Quite the reverse; we find that our work with occupational health and safety, business ethics and environmental responsibility is an increasingly important factor – alongside price, expertise and quality – when clients choose a supplier.

Our Five Zeros vision is, in other words, good for business. By clearly communicating our values and working in a target-oriented way to achieve our Five Zeros goals, we will quite simply be able to reach out to even more clients, which in turn will put us in an even better position to continue to achieve profitable growth for our company.

Corporate Community Involvement

Our type of business gives us the added bonus of opportunities for a broader community involvement.

One example of this is the Vivalda project in Örebro where our assignment was to upgrade a “Million Program” residential area and where we were able to offer unemployed individuals a chance to get training and work experience with a view to entering the workforce and launching a career.

We have similar examples in other countries too. In the UK we are offering certain offenders who are reaching the end of their prison sentences training and employment in a number of projects where our client is a public sector player at the national or municipal level. This initiative has also been very successful so far.

I am proud of being able to help with programs that go beyond our regular construction assignments, and I know my colleagues at Skanska feel the same way.

Employees

Committed and knowledgeable employees are of course the key to success, not the least in a company like Skanska, where almost all projects are unique and are run with a large measure of local and decentralized responsibility.

The significance of everyone feeling that they are participating is underscored in the slogan “It starts with Me,” which we use in various contexts. It is about taking personal responsibility for developing our company and ourselves, showing respect for colleagues, clients, suppliers and other stakeholders, and always being vigilant to ensure our own health and safety, and that of others, at our work sites.

In this context I would like to thank all of my colleagues at Skanska for their efforts in 2013 and also take this opportunity to thank the members of Skanska’s Board of Directors for their work and valuable support during the year.

Summary

In conclusion I would like to comment briefly on our prospects for 2014.

First of all, we can say that we entered 2014 with a strong starting position in terms of both our order backlog and our project portfolio.

I believe the market prospects are relatively strong for several of our business units. I am thinking in particular of our Construction units in the U.S., Sweden and Poland, our Commercial Property Development in general, Residential Development in Sweden, and Infrastructure Development, mainly in the U.S. I also believe that we have the potential to continue to improve our earnings in Construction in Norway and Finland.

Finally, it is important to note that the Group’s financial position is strong, both in terms of our equity/assets ratio and our liquidity. Financial strength is a precondition for our ability to run a business like Skanska’s on a long-term basis. Strong liquidity also enables us to take advantage of interesting commercial opportunities which often arise at short notice and require fast decisions and a high level of financial preparedness.

All in all, I continue to be optimistic about the Group’s future – both for 2014 and in a longer perspective. I am disregarding any possible negative effects of developments on the Crimean Peninsula and in Ukraine, which are currently hard to assess.

Lastly, I would like to thank you for the trust you, as Skanska shareholders, have shown us, and at the same time say that all of us at Skanska hope you will continue to have faith in us also going forward.

Thank you!