

## **CEO's speech at Skanska's Annual General Meeting 2016**

### **Johan Karlström, President and CEO**

Dear shareholders,

In terms of earnings, 2015 was a very good year for Skanska with higher revenue, improved profitability and a very strong financial position.

#### **Revenue and profit**

For 2015, the Skanska Group presented a profit after tax of SEK 4.9 billion, an increase of SEK 0.8 billion over the preceding year.

I think that the earnings as a whole were strong based on the four long-term financial targets that we have in our business plan for the 2011-2015 period, namely return on equity, financial position, operating margin in construction operations and return on capital employed in project development operations.

#### **Financial targets 2011-2015**

For 2015, we can note that we achieved three out of four financial targets. It is also pleasing to note that we presented higher operating profit in all three business streams in project development compared with the previous year.

#### **2015 in brief**

- However, Construction did not achieve the operating margin target at the same time as order bookings decreased somewhat. I will get back to the reasons for this.
- Residential Development improved its operating margin to 9.5 percent and we exceed the target for return on capital employed, reaching 14.4 percent.
- Commercial Property Development continued to generate favorable divestment gains. We noted a new record in divestment gains, at the same time as investments in new projects also achieved a new record level.
- The favorable value development trend continued for Infrastructure Development's project portfolio, with sales of hospitals in London generating a healthy profit. By being selected for LaGuardia Airport, another major step forward was taken in the U.S. market for public-private partnerships.

#### **Construction margin, ROCE, ROE**

Construction margin 2.8 percent (3.5). All construction units except the UK and the U.S. are improving their margins. However, U.S. Building again met the target in Q4.

Return on capital employed in project development 14.9 percent (10.4)

Return on equity 22.5 percent (20.1).

### **Net cash and financial assets**

Financial assets – which is a compilation of net cash, construction loans to housing associations and interest-bearing pension liabilities – is to be positive.

We closed 2015 with a financial strength of SEK 13.8 billion after a steady increase year on year since 2012. This gives us a financial capacity to invest to generate profits in the project development operations.

### **Dividend**

As most of our shareholders have certainly already noted, the Board is proposing an increase in the regular dividend by SEK 0.75 to SEK 7.50 per share. The proposal is based on the year's earnings, the Group's financial position and the market outlook for the current year.

### **Dividend 2004-2015**

If the dividend proposal is approved by the Meeting, this would be the twelfth consecutive year that the regular dividend is either unchanged or raised.

It is also important to note that the dividend has not jeopardized the Group's financial position, which has been strong and stable for several consecutive years.

### **Development in 2015 from a macro perspective, GDP in the home markets**

This diagram illustrates the general economic trend seen from a Skanska perspective and shows the weighted real GDP development in Skanska's home markets, where the weighting is based on our sales in the respective market. We can see that we had relatively stable economic growth of 2.7 percent in 2015 and that the forecast for the current year indicates a growth rate of 2.5 percent.

### **GDP/Construction investments**

If we look at construction investments, which have been weighted in the same way here, we had average growth of nearly 8 percent in 2015, with positive development in all of our geographical markets. This year, we are

expecting the increase in construction investments to continue at a growth rate of around 6 percent.

I will expand on our market outlook for 2016 when I talk about the various business streams. Now I would like to comment in more detail on our 2015 results.

### **Construction Revenue, margin**

In Construction, we had a revenue increase of around 9 percent in SEK (adjusted for currency rate effects -1%) in 2015. All units except the UK and the U.S. improved their margins. Altogether, this yielded an operating margin of 2.8 percent, which means that we did not reach the target interval of 3.5-4 percent for this operation.

The underlying cause is the impairment loss of SEK 750 million for the full-year that applied to six projects in the U.S., main within civil construction. This is a matter of the customers requesting different kinds of changes relative to our original contract. This entails delays, extended project periods and cost increases. We are taking the entire cost for this and no profits are being reported until new agreements have been reached with the customers. The negotiations have begun and we have extensive hope of succeeding, even if we cannot state an exact time for when this is expected to take place.

### **Book-to-Build**

Order bookings relative to revenue is 13 percent lower, mostly due to a major order cancellation in the U.S. at the same time as a number of customers chose to postpone their projects. This involves Early Contractor Involvement or partnering where the customer involves us at an early stage to develop a new project. This most often leads to a construction contract, but now, a few major projects have been postponed. We expect the majority of these to be converted to order bookings in 2016-2017.

The order bookings in civil construction in the U.S. were also lower in 2015 due to a reduced offering and because we were more cautious with the tenders to ensure profitability.

### **Construction**

The negative working capital in Construction increased to SEK -20.5 billion. Since this is an important source of financing for our development operations, it is an area to which we are devoting a great deal of focus. Earnings and margins remained satisfactory in Sweden, Finland and

Poland. Order bookings increased in the UK, Sweden, Finland and the Czech Republic.

Construction operations in Sweden, Finland and Poland continued to present strong earnings in 2015. Norway presented an improvement in earnings and the Czech Republic accounted for a marked improvement with growing order bookings, revenues and margins – earnings are now approaching the sustainable profitability level.

The UK and civil construction in the U.S. are below the expected sustainable profitability level. Building construction in the U.S. did not achieve the target for the full year, but recovered and reached the target for the fourth quarter.

In construction operations, we create value both for you shareholders and for the customers – we are building for a better society. Let me show some examples from the past year.

**European Spallation Source, Lund, Sweden**, a research facility being built in a One Skanska partnership between Skanska UK (25%) and Skanska Sweden (75). The contract amounts to SEK 2 billion. Completion scheduled for 2022.

**Slussen, Stockholm, Sweden**, five contracts, totaling SEK 2.4 billion, for the reconstruction of central roads and bridges. To be completed 2021-22.

**Nashville Ascend Amphitheater and West Riverfront Park, Nashville, USA**, an outdoor stage for an audience of 6,800. Contract value USD 40 million. Completed in 2015 and LEED Gold certified.

Construction order bookings last year amounted to just over SEK 122 billion, which in local currency is 23 percent lower than in the previous year, and order bookings in relation to revenue — “book-to-build” — was 87 percent. Order backlog decreased in local currency by 5 percent to around SEK 158 billion, which is equivalent to 14 months of production. This, of course, puts us in a strong position for the next few years.

### **Market Outlook**

If we look at the market outlook for Construction as a whole, we can conclude that the forecast is relatively good for most of our markets. Although the picture is positive in the Nordic region as a whole, it remains somewhat mixed. In the Swedish market, which is our second largest market in terms of revenue, we expect the market to remain strong in 2016. The Norwegian economy will continue to be negatively impacted by low market prices on oil and gas, but the civil construction market is still strong.

In Finland, the economic downturn of the past few years has leveled out, but we expect the market to remain relatively weak in 2016.

In Finland, we were able to strengthen order bookings, however, by developing new projects in close cooperation with the customers at early phases, Early Contractor Involvement or partnering. The Finnish construction units are very advanced in terms of being proactive and generating business this way.

In terms of our other European markets, the outlook remains good in the UK and Poland. The Czech Republic and Slovakia continue to improve.

In the U.S. – our single largest market in terms of revenue – we are expecting the positive market trend to continue in 2016, at the same time as competition is growing more intense.

### **Residential Development 10/10 targets and outcome 2015**

In Residential Development, the restructuring and efficiency enhancements of recent years have gotten us very close to achieving the targets for both operating margin and return on capital employed as we promised. We usually talk about 10/10 and for 2015, we can report an operating margin of 9.5 percent and a return on capital employed of 14.4 percent.

### **Revenue**

At the same time, we increased revenues to SEK 12.3 billion (9.6) and almost doubled operating profit to SEK 1,174 million (683).

We sharply increased both the number of sold and number of started residential units – to more than 4,000, which is the highest figure in many years.

### **RD 2015 Summary**

Our Swedish operations are mainly responsible for the improvement in the Nordic region, with continued strong demand for new homes, especially in Stockholm, as well as other cities. Sweden accounts for half of both new project starts and homes sold.

The Norwegian residential development was slowed by the decline in the oil regions, but with continued healthy demand in Oslo. The Finnish operations still suffer from a weak market, but a strong improvement in earnings has been made here through the sale of complete residential packages to investors.

The residential development operations in Central Europe reported strong earnings with improvements in both Prague and Warsaw.

Let me now highlight a few good examples of our Residential Development operations.

**Bo Klok Raketen, Kiruna, Sweden**, comprises 34 apartments and 16 townhouses completed in 2015. In 2015, we sold a full 1,000 BoKlok homes. 7,000 BoKlok homes sold since the beginning in 1996.

The basic idea of the BoKlok concept is to create homes that offer value for money for everyone. In Sweden, the BoKlok product concept, which Skanska developed together with IKEA, continued to be a success. We sold more units than ever in 2015. BoKlok is an unequivocal success – good housing at an affordable price, ideal for first-time buyers and single people. A very profitable concept thanks to efficient industrialized production – all components are factory made and transported to the construction site where they are assembled in a few days.

**Kviberg Gothenburg, Sweden**, totaling 612 apartments with completion in phases 2015-2020.

### **Market Outlook**

Looking forward, we can see that the underlying demand for homes is strong in most markets. In the Nordic region as a whole, we expect the strong demand to continue in 2016, especially in the Swedish market. In our assessment, demand in the Norwegian residential market will also be strong this year in Oslo, Bergen and Trondheim, while Stavanger remains weak.

The Finnish residential market is expected to be relatively weak in 2016 as well. We believe both prices and volumes will continue to develop positively in Central Europe this year. In Warsaw, operations have been in a start-up phase, but the goal is to increase volumes while retaining satisfactory profitability.

### **Commercial Property Development Revenue and divestment gains**

2015 was another very good year for Commercial Property Development. It was actually one of the best ever with records set in divestment gains, project investments and new leases.

### **Investments and leasing**

In 2015, the strong interest in property investments – especially the type of modern and energy-efficient commercial properties that Skanska develops – made it possible to sell 27 property projects with a divestment gain of SEK 2.6 billion.

The extensive interest in our properties means that sales prices exceeded the expected prices.

Consequently, Commercial Property Development remained a stable profit generator as it has been for many consecutive years. But we are, of course, continuing to invest in new projects.

In 2015, we began 20 new projects and, at the beginning of 2016, we had a total of 44 ongoing commercial property projects in the portfolio, in which the total investment will amount to more than SEK 18.8 billion.

Leasing properties is, of course, a crucial factor for the value of a property project and demand for modern office premises remains strong in several of our markets. Last year, we signed new leases for around 375,000 sq m, which in itself is also a new record, and we thereby continued to create value in our portfolio.

We can also note that the estimated market value of the portfolio – which includes completed and ongoing projects as well as development properties – exceeded the estimated total investment by around SEK 6 billion at the end of the year.

Allow me to present a few examples of interesting Commercial Property Development projects.

**Corso Court in Prague, Czech Republic**, 24,000 sq m that was completed in 2015. LEED Platinum certified.

**400 Fairview, Seattle, USA**, 45,000 sq m was completed and LEED Platinum certified in 2015. 90% sold for USD 235 million.

**101 Seaport Boston, USA**, 48,000 sq m completed and LEED Platinum certified in 2015. The project was sold in 2016 for USD 452 million.

### **Capital employed distribution**

From a geographical perspective, we now have a well-balanced portfolio in Commercial Property Development, which now stands on three steady legs of equal size – the Nordic Region, Other European Countries and the U.S.

### **Market outlook**

The outlook is also favorable in all of our markets, in terms of both the leasing market and investor interest. The only exception is the market in Houston, Texas, which continues to be negatively impacted by the price drop on oil and gas of recent years.

Based on our current portfolio and the market outlook, it is my belief that there is good potential for continued growth and value creation and we can expect ongoing realization of development gains for several years to come.

### **Infrastructure development Revenue, divestments and gains**

We reported markedly improved operating income of SEK 863 million for Infrastructure Development. This includes a profit from the sale of our interest in the UK hospital project Barts and the Royal London in London as well as revenue from the projects that are in operation, such as M25, A1, Midtown and I-4.

In this type of public-private partnership (PPP) project, in which innovative and long-term sustainable project solutions are developed and implemented, Skanska is involved in development, construction, operation, maintenance and financing.

The fact that our business model works is apparent both from the aforementioned sale in the UK, where we were also contracted for a new hospital project, as well as the success of the expansive U.S. market for PPP, where we were selected for the expansion of LaGuardia Airport. We expect to be able to close the financing agreement in the middle of the year and book a construction contract for SEK 21 billion – our largest ever.

### **Project portfolio investment**

At the end of 2015, we had 12 projects in the portfolio, just over half of which (54%) are in “steady state” and the rest (46%) are under construction.

### **Portfolio and Unrealized value**

We are constantly creating value in our portfolio as ongoing projects gradually approach the point of completion. At the end of the year, the net present value of the portfolio was estimated at SEK 4.8 billion. The estimated, unrealized developing gains in the portfolio amounted to around SEK 1.7 billion during the year.

Let us look a little closer at the large ongoing projects in the portfolio.

**Interstate-4 Ultimate, Orlando, USA**, comprises 34 km of highway construction. Contract amounts to SEK 7 billion and Skanska’s investment to SEK 0.6 billion. To be completed in 2021.

**St Bartholomew Hospital and Royal London Hospital, UK**, are now completed and Skanska’s 38-percent interest sold for SEK 1 billion.

**New Karolinska Solna, Sweden**, is under construction. The contract amounts to SEK 14.5 billion and Skanska’s investment to SEK 0.6 billion. The first hospital section of New Karolinska Solna hospital will be handed over this year. This is being carried out in a public-private partnership project to meet the growing need for healthcare as a result of the growing population of Stockholm County. NKS will become a hospital for first-class advanced care, it will be a fantastic workplace and it generates value for the shareholders.

### **Market Outlook**

I believe that the greatest potential at present is in the U.S. where 39 states now have the necessary legislation in place and where there are many projects in the pipeline.

We have also identified opportunities for new PPP projects in some markets in Europe. The UK will also continue to be an important market for us. In Norway, planning is under way for a number of major road projects that may be procured as PPP.

### **Latin America**

All construction operations ended in 2015. Operations and maintenance activities divested in the first quarter of 2016.

Back in 2014, we announced that we intended to leave the construction market in Latin America, where profitability has been a major disappointment. In 2015, we concluded all construction projects and at the beginning of this year; we also divested the remaining part of the operations and maintenance business. Latin America has therefore not been reported as part of Construction.

### **Profit with Purpose - We build for a better society**

We have now set the future focus for greater value creation through our new Business Plan for 2016-2020 Profit with Purpose.

We are convinced that our well-trying business model has more potential. The strong cash flow in the construction business gives us strength to increase investments in project development activities where the return on our capital is documented to be high.

We see an improved economic trend in most of our home markets. We know that urbanization is continuing and being reinforced by the migration flows, creating a need for schools, hospitals, homes, workplaces and transport links. Everything people and societies need for positive growth.

### **Financial targets 2020**

The target for the period 2016-2020 is to achieve a return on equity of 18 percent or more. We have already shown that we can and we have the goal of continuing to deliver at a high level.

In Construction, the target is a margin of at least 3.5 percent. Last year, we did not achieve the target, but we see improvements in most of the units. As a whole, business was pulled down, however, by the U.S. projects I mentioned earlier. But we are working to obtain compensation for the costs that have arisen. Risk work is also important to achieve the margin target.

For return on capital employed, the target is at least 10 percent in total for the three project development operations. The intention is to continue to use our financial strength to utilize the financial synergies in the business model. By increasing investments in project development, we also increase the synergies.

Our ambition for the period 2016-2020 is for the Skanska share to be the industry leader in terms of total return.

### **Key Strategic Actions**

The possibilities are good for growth in all four business streams and in most of our geographic markets.

We are therefore aiming for:

Controlled growth in Construction in the home markets. Continuing to strengthen risk management. Increasing the element of Early Contractor Involvement.

Stable Residential Development with a focus on profitability. Continuing to enhance efficiency to further improve profitability. In part, through more cost-effective design of our projects. Further strengthening the capital efficiency. The aim is to continue to grow BoKlok in Sweden and to establish the concept in Norway and Finland.

Expand Commercial Property Development: Increase investments. Focus on cost-effectiveness. We can continue to grow in all of our markets except possibly Sweden, where we already have an incredibly strong position. Expansion to new local markets in the U.S. and Central Europe will be considered. A main task is to secure land access for future projects.

In Infrastructure Development, we will use the business model to grow by increasing the presence in the U.S. and establishment in Norway. Strengthening the value of the project portfolio and selling projects that are in operation. The development potential is extensive – societal needs continue to grow and interest is increasing in many countries for implementing important social projects through public-private partnerships.

### **The business model**

Cash flow from construction operations and our strong finances are being utilized to provide leverage in the project development operations. At the same time, this creates a considerable number of construction projects for the construction units.

Around 12 percent of the revenue in Construction currently comprises internal assignments.

### **Balanced value creation between Construction and Project Development**

By utilizing the financial strength and increasing investments in Project Development, we will create a better balance in the value creation between Construction and the Project Development operations.

We have expanded the three business streams in Project Development and 2015 was a remarkable year. For the first time, earnings (EBIT) were as large in Project Development as in Construction.

We increased investments while earnings improved strongly in all three business streams for Project Development – Residential, Commercial Property and Infrastructure Development.

### **CCI**

Profitability is highly prioritized – both in Construction and Project Development. Profitability is the foundation of the Business Plan 2016-2020 Profit with Purpose. Profit creates both shareholder value and value in the form of social benefit. Doing the right things contributes to our profitability at the same time as we build for a better society.

### **Values**

Our values drive shareholder value. We should demonstrate our values in practice and be seen as a value-driven company, which improves society on a broad front through innovative and sustainable solutions. Both what we do and how we carry out assignments contribute to forming a sustainable future for employees, customers and society.

This is strengthened by us continuing to drive the development of business ethics, green, diversity and inclusion, as well as greater social commitment and for an improved working environment.

Ethics are the groundwork for success in all of our operations and for our employees. The ethical issues are also gaining importance in society,

among our customers and employees. Our Code of Conduct is currently being revised, we are strengthening the risk analysis of our partners and we are reinforcing the resources to drive ethical issues and the continuing education in ethics for the employees.

### **An example of improved safety**

Our efforts to ensure a safe working environment must continue: Let me give an example of how our activities in this area raise the bar for an entire industry.

Mobile work platforms, such as scissor lifts, are good aids when working at a height. But they can also be death traps. We have had fatal accidents where people have been crushed during work. This is unacceptable! Which is why we began cooperation with leading international manufacturers of scissor lifts and mobile work platforms to equip them with extra protection for the control panel and crushing stops. We are now in the midst of fully implementing this so that safety-equipped platforms will be used in our projects.

### **Risk management**

In a project-oriented company, the results of the individual projects are crucial for the Group's profitability. This is why our risk management is of central importance. We have a well-developed risk management process, but at the same time my employees and I are aware that we have to continuously work to improve, in part, through expanded training and inspection efforts. We also continuously work to improve the operational efficiency in the implementation of our projects.

### **Employees**

Skanska should be the industry's most attractive employer. We offer exciting projects and development opportunities in an international environment with high-performance teams.

Committed and knowledgeable employees are the foundation for achieving success. It is the employees who prepare tenders and win contracts, who carry out both construction projects and project investments and sales. It is the employees who make Skanska the customers' first choice for creating solutions that meet their needs.

It is also the employees' conduct and work that demonstrate our values in practice, and the employees who work as ONE Skanska and strive for

diversity and inclusion that provides everyone the opportunity to contribute their expertise.

This is something we naturally emphasize in our recruitment work, which is a very important task in order for us to keep our promises. The share allocation program Seop that has been put before the Annual General Meeting for resolution today is one thing that improves Skanska's attractiveness to new employees.

In this context, I would like to thank all of our colleagues at Skanska for their hard work in 2015 and also take this opportunity to express my appreciation to the members of Skanska's Board of Directors for their valuable support throughout the year.

### **Outlook 2016**

Solid financial position, strong backlog and positive market.

Altogether, this allows me to remain optimistic about the Group's outlook for the future – both for 2016 and in a longer perspective. Development in our home markets is generally positive even if the growth rate naturally varies and competition is intense.

Put simply, conditions are good for creating greater shareholder value with more profit and more benefit to society. We create shareholder value and we build for a better society.

In conclusion, I would like to thank you for the trust you as shareholders have shown me and for my colleagues and we hope that you will also have continued faith in the company and us.

Thank you.