

# CEO statement 2012

## Address by Johan Karlström, President and CEO, at the Annual Shareholders' Meeting of Skanska AB on April 13, 2012

Dear shareholders,

As President and CEO of Skanska, of course I note with pride that this year we are celebrating the Company's 125th anniversary, but my address here today will focus on 2011 and the outlook for this year.

Two thousand eleven was the first year of the 2011-2015 business plan that we unveiled late in 2010. The ambition of this business plan is to achieve profitable growth. On the whole, our results during 2011 were quite consistent with the plan. I will return to this later.

The Skanska Group's profit for the year totaled SEK 8.1 billion. This was more than double the figure for 2010. Return on equity also nearly doubled to 41.5 percent. The successful sale of our stake in the Autopista Central toll highway of course strongly contributed to our earnings.

Based on our 2011 results, the Group's financial position and the outlook for the next few years, the Board of Directors is proposing an increase of SEK 0.25 in the regular dividend to SEK 6.00 per share. In this context it is important to recall the extra dividend of SEK 6.25 per share that was already disbursed last year when we received payment for the sale of the Autopista Central.

### Developments during 2011

Before I begin to comment on our 2011 results, I would like to provide an overall picture of economic developments and the construction market situation in our home markets.

#### *A brief macro perspective*

This chart illustrates the general economic trend viewed in a Skanska-oriented perspective. It shows weighted changes in Gross Domestic Product in Skanska's home markets, where the weighting is based on our sales in each respective market. It provides a good illustration of the slowdown in economic growth, especially during the latter part of 2011. Although construction investments normally occur relatively late in the economic cycle, we can note some slowdown here as well.

#### *Construction*

In our Construction business stream, revenue measured in Swedish kronor rose about 2 per cent. In local currencies, the increase was about 8 percent compared to the previous year. In some Construction business units, both earnings and margins were also very good. I am thinking mainly of Sweden, Poland and our two construction units in the United States.

Unfortunately this overall impression was pulled down by losses in our Norwegian and Finnish construction operations. Our overall operating margin of 3.0 percent in Construction was lower than in 2010.

We have of course taken a number of steps to resolve our profitability problems in Norway and Finland. However, it is important to emphasize that the kinds of measures this involves – for example management changes, improved risk management and general skills development – require some time before having their full intended impact.

After a very strong fourth quarter, order bookings in Construction during 2011 reached SEK 123.6 billion. Order bookings divided by revenue – the “book to build ratio” – was 108 percent. The increase in our order book during 2011 gives us a good starting position for the next few years.

As you know, it is mainly in our projects that we generate value at Skanska, so let me mention a couple of examples of projects in our Construction business stream.

The Partihall Interchange in Gothenburg was completed last year and opened to traffic in December 2011. This is a good example of a successful project – for us, for the customer and for motorists.

At Ground Zero in New York City, we have been involved in reconstruction since 2001. At present, we are working on a major contract related to underground work for the big subway and commuter train station at the World Trade Center and with the spectacular creation known as Oculus that will crown the entrance to this station.

### ***Residential Development***

In recent years, our Residential Development business stream has had to cope with relatively sharp market fluctuations. After the 2010 recovery, the demand for new homes in Sweden and Finland again slowed during the latter part of 2011.

Although we were able to slightly increase the total number of homes sold compared to 2010, our Residential Development sales – along with the number of homes started – were nevertheless lower than we had expected.

This, in turn, meant that our overhead ended up being too high compared to operating volume. In some individual projects, especially the Swedish portion of our Residential Development operations, profitability was also lower than expected – among other things as an effect of higher construction costs. Together with the costs of establishing our new Residential Development operations in the United Kingdom and Poland, the profitability of the business stream as a whole was unsatisfactory during 2011.

We are now working intensively to improve profitability in Residential Development, and I believe that we have a good chance of achieving this. However, we should be aware that adjustments in our “land bank” must occur gradually and that it will also continue to be a challenge to all our Residential Development operations to keep up with rapid market fluctuations. This is not made easier by the complicated and often lengthy planning process that is customary in this field.

In the U.K. and Poland, during 2011 we made our first land purchases for residential development. During 2012 we expect to start our first projects. Obviously it will take another few years before we reach the volume required to achieve our long-term profitability targets for these newly started operations, but over time we are of course counting on them to contribute positively to our earnings and profitability.

There are numerous good examples of our ability to develop and implement residential projects that are both attractive and profitable. Let me show a couple of such projects that we were able to offer our customers during 2011.

Adjutantti is the first of three phases of a project in Espoo outside Helsinki, Finland. The project has a distinct environmental profile, featuring solar panels and special energy-efficient elevators, charging facilities for electric cars and opportunities for residents to measure and adjust their own water and energy consumption. Adjutantti is being completed in May this year with a total investment of about SEK 114 M, and 40 out of the 42 apartment have been sold.

Øvre Tastarustå in Stavanger, Norway, is a new project where we just started up the first out of six phases. The first phase will be completed in 2014 and will consist of 48 apartments and 17 attached houses. We have already sold 40 percent of the apartments. Our investment in this first phase of the project totals about SEK 250 M.

### ***Commercial Property Development***

For our Commercial Property Development business stream, 2011 was another very good year both in terms of new project start-ups and divestments of completed and ongoing projects. Last year we started no fewer than 16 new projects. At present we have a total of 32 ongoing projects in our portfolio, which is more than ever before. Our overall investment in these projects will be an estimated SEK 9 billion.

The leasing rate is crucial to the value of a property project, and 2011 was a good year for us in this respect as well. During the year, we thus signed new leases for no less than 220,000 sq. m (2.37 million sq. ft.) of commercial space, nearly twice as much as the year before.

Despite increasing uncertainty in international financial markets, investor interest in the type of modern, energy-efficient commercial properties that we develop remained relatively strong. During 2011 we were thus able to sell a number of property projects with good capital gains. Our property development operations remained the stable profit generator that they have been for many years.

The focus of our commercial property portfolio remains in Sweden's three largest urban areas, but we have gradually created a better geographic balance by increasing our investments in several new local markets in the Nordic countries, Central Europe and the United States.

One interesting example from our project portfolio is 733 10th Street in Washington, D.C. – our first major commercial property development project in the U.S. – which is now almost fully leased and will shortly be ready for occupancy. We expect to sell this project later in 2012. Meanwhile we have several attractive ongoing projects in the four urban areas where we are concentrating in the U.S.

Another example of a commercial property is Lustgården here in Stockholm. This is yet another in a long series of office and residential projects that we have developed along Lindhagensterrassen and its eastern and western extensions in the Kungsholmen district. The first phase of Lustgården will be completed in 2013 and will then become Skanska's new headquarters.

### ***Infrastructure Development***

In our Infrastructure Development operations, we can point to several large, important business events during 2011. Taken together, they underscore the increased role of this business stream for the Skanska Group as a whole.

The single biggest business event, obviously, was the sale of our 50 percent stake in the Autopista Central toll highway in Santiago, Chile, which resulted in a capital gain of SEK 4.5 billion. The average annual return on this investment was more than 21 per cent over the nearly 11 years that our ownership commitment lasted. Also taking into account the profit that we made on the actual construction assignment, as well as the size of the project, this was one of our best and most profitable projects ever.

Our Infrastructure Development portfolio now consists of a relatively large number of projects that are in different phases of the development process, which may be anything between 6-15 years in these operations.

We currently have seven projects under construction, of which the largest in terms of value are two hospital projects – New Karolinska Solna in Sweden and Barts & The London in the U.K. – as well as the M25 orbital motorway in the U.K. and the Antofagasta highway in Chile. All ongoing projects in the portfolio are proceeding as planned.

During 2012 we hope to achieve financial close on another one or more projects, which would strengthen our potential for continued value creation in this increasingly important part of our operations.

I am thinking mainly of the Midtown Tunnel project in Virginia, which includes a 50-year concession, an investment by Skanska of more than SEK 800 M in the project and a construction assignment in which our share is estimated at around SEK 4 billion.

In this context it is difficult to resist showing a slide from the New Karolinska Solna hospital project, where construction is now fully underway. This is already one of the largest construction sites in Europe and will remain so for several years. The construction assignment is worth SEK 14.5 billion. As a part-owner, Skanska will invest about SEK 600 M in the project, which will gradually start going into service in 2016 and will be entirely completed in 2017.

### **Following up our 2011-2015 business plan**

As indicated, 2011 was the first year of our five-year strategic business plan for profitable growth. And as I have mentioned, in a number of respects our results were well in line with the ambitions expressed in the plan.

The business plan is very much based on capturing market share and taking even greater advantage than before of the financial synergies between our four business streams. Basically, one can say that we invest the cash flow and profits from our Construction operations in our three development business streams, thereby generating the potential for further value creation in both Construction and development operations.

During 2011 we accelerated our investments in development operations, and such projects grew to more than 12 percent of total Construction revenue. We also strengthened our market position by means of selective acquisitions of construction businesses in the Nordic countries, Poland and the United States, while the profitability of the Group as a whole remained good.

If we look at the more specific earnings and profitability targets in Skanska's business plan, the target is for the Group to achieve an average annual return on equity of 18-20 percent, which we achieved by a wide margin last year. Another target is that our net cash position, as defined in this context, shall be positive. We also achieved this target despite the large investments in new projects and the acquisitions of companies we carried out during 2011.

In our Construction operations, our target is to achieve an average operating margin of 3.5-4 percent over a business cycle. Here we fell somewhat short last year, mainly due to profitability problems in Norway and Finland.

The target for our three development business streams is to achieve a combined annual return on capital employed in the 10-15 percent range. In 2011 their return was 9 percent, which was explained by the weaker profitability in Residential Development that I commented on earlier.

### **Work site safety**

Another important element of our business plan is to work proactively to create safer work sites. This is something that we at Skanska have focused on extensively for many years, and we compare well with the rest of the construction industry in the countries where we operate.

At the same time, we must unfortunately note that the positive trend toward safer work sites that we were able to show for several years was interrupted during 2011. We measure work site safety, among other ways, as the number of lost time accidents per million hours worked. Last year the number of lost time accidents in the Skanska Group was 3.9 per million hours worked, compared to 3.6 the preceding year.

So we cannot be complacent. Instead we are intensifying our efforts to further improve safety at our work sites, among other things by introducing a new tool – the Skanska Safety Road Map – in order to achieve our vision of zero work site accidents in our operations.

### **The five zeros vision**

We have a zero vision not only for work site safety, but also for ethics and the environment, as well as quality in everything we do and deliver in our projects. Put simply, our five zeros vision is to achieve zero loss-making projects, zero work site accidents, zero environmental incidents, zero ethical breaches and zero defects in our projects.

Turning these visions into reality will of course require focus, training, individual dedication, incentives, follow-up and – not least – good leadership. In purely general terms, I think that

we are continuing to improve in all these zero vision areas. Meanwhile we must not hide the fact that we have also experienced reversals in individual cases.

## **Employees**

One thing is certain – very few, if any, of Skanska's more than 50,000 employees are not aware of the demands being placed on them in these respects. And equally certain is that the great majority of us are also personally very dedicated to helping realize our five zeros vision.

Our operations are of course dependent on dedicated, highly proficient employees. We must therefore work actively to attract, recruit, develop and retain the employees – managers, white collar employees and skilled workers – we need to realize our growth ambitions.

During 2011 this task included compiling proficiency profiles of managers and white collar employees for the purpose of clarifying what proficiencies we need – in different roles and at all levels – in order to achieve our strategic goals. In addition to possessing the basic professional capabilities that are required, a good manager and leader at Skanska must act in accordance with our values, work toward developing our business activities, be operationally proficient and results-oriented and practice good leadership.

Having said this, I would like to take this opportunity to thank all Skanska employees for their very good contributions during 2011.

Let me also mention that around 9,000 of these employees are now also shareholders in Skanska within the framework of our Skanska Employee Ownership Program (SEOP). Together their shares are equivalent to about 4 percent of the total number of shares in the Company.

Before I close by briefly commenting on the outlook for 2012, I would also like to thank the members of Skanska's Board of Directors for their valuable support during 2011.

## **Outlook**

Turning to the outlook for our Construction operations, let us first note that we entered 2012 with a very strong order backlog in our overall operations. I also believe that with a few exceptions, Skanska can count on a relatively stable market trend this year. By acquiring Pudiz in Poland, Soraset in Finland and Industrial Contractors in the U.S., we have also strengthened our position in these respective markets.

In our development operations, we have a good-quality project portfolio. Here I expect high activity and continued value creation during 2012. There is some uncertainty about the housing market, but the underlying demand for new homes remains strong in all markets, which over time should create good potential for our Residential Development operations.

We thus have a good starting position in terms of both order backlog and the project portfolio. As mentioned, the market outlook also appears relatively stable even though there is some uncertainty in individual markets and sectors. Finally, it is important to note that our financial position remains good.

As I mentioned in opening, this year we can look back at 125 years of successful operations at Skanska. Overall, I also have a very optimistic view of the future of the Group, both with regard to 2012 and in a longer perspective.

Thank you for your attention.