

SKANSKA

Annual Report 2016

Sustainability review
Extract of Annual Report 2016



We build for a better society.

Skanska as an investment

Skanska is one of the world's leading construction and project development companies, focused on selected home markets in the Nordics, other European countries and North America.

Supported by global trends in urbanization and demographics, and by being at the forefront of sustainability, Skanska offers competitive solutions for both simple and the most complex assignments. Driven by its values, the Group helps create sustainable futures for customers and communities.

In 2016, the Group's 41,000 employees delivered strong results while building for a better society.

Strong global trends

Demographic changes and continued urbanization lead to an increased demand for infrastructure, hospitals, schools, homes, offices and more. Demand for Skanska's expertise in green construction is significant in a world that is becoming increasingly aware of the human impact on the planet.

Leading market position

Skanska holds a leading market position in each of its home markets. By leveraging the operational synergies across the business streams and home markets, its competitive advantage is strengthened.

Diversification

Skanska's risk diversification across four business streams with operations in several geographic markets and segments helps ensure a balanced and diversified risk profile.

Strong cash flow

Through an attractive business model, Skanska generates a strong cash flow which, combined with net cash, puts the Group in a stable financial position.

Financial synergies

The strong cash flow from Construction is invested in the Group's own high-return development projects. The investments in Project Development will continue to increase.

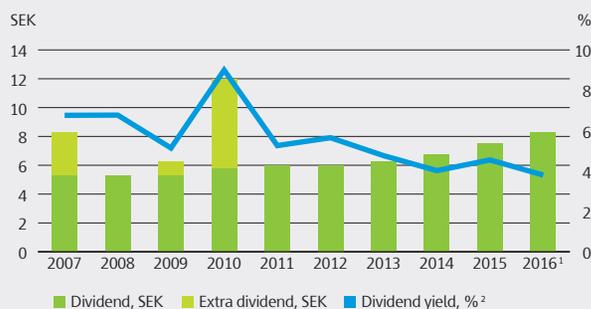
Attractive total shareholder return

Skanska has a competitive total shareholder return with more than ten years of increased or maintained ordinary dividend, while maintaining a continued high level of investments in Project Development.

Earnings for the period per share and return on equity



Dividend history



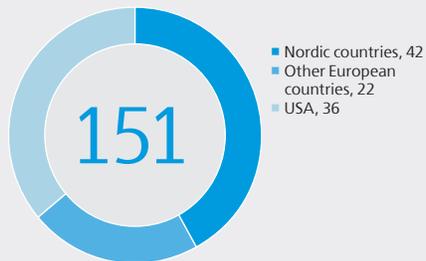
¹ Based on the dividend proposed by the Board of Directors.

² Dividend per share divided by the closing share price for each respective year.

2016 in brief

Revenue, SEK 151 bn

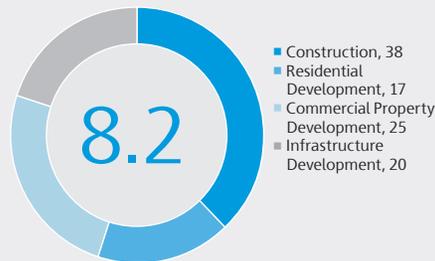
by geography, %¹



¹ Before Central and eliminations.

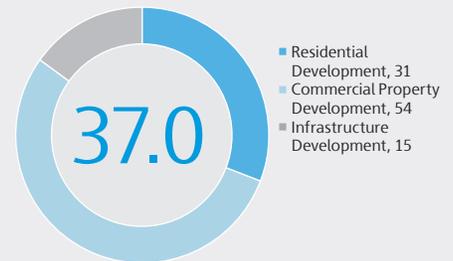
Operating income, SEK 8.2 bn

by business stream, %¹



Capital employed, SEK 37.0 bn

in Project Development, by business stream, %



Construction

- Order bookings amounted to SEK 170.2 billion. The major contracts included:
 - LaGuardia Airport Central Terminal in New York, USA
 - European Spallation Source in Lund, Sweden
- All-time high order backlog, SEK 196.3 billion.
- The operating margin in the stream was 2.6 percent:
 - Strong performance in Sweden and USA Building
 - Weak performance in USA Civil and Poland
 - Stable in all other units

Residential Development

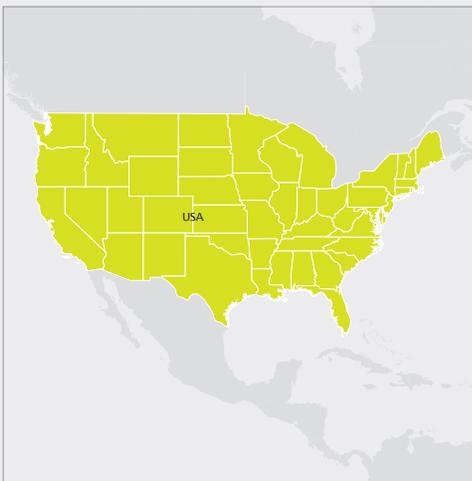
- Continued improved performance with an all-time high in operating income, SEK 1,605 M, and clearly met return targets.
- The number of homes sold and started totaled 4,603 and 4,848, respectively.
- BoKlok, the affordable homes business, continued to deliver great returns.

Commercial Property Development

- A new all-time high in divestment gains at SEK 3.1 billion.
- The number of ongoing property projects was 47 at the end of the year, corresponding to an investment value upon completion of SEK 20.3 billion.
- 26 projects started across all geographies: the U.S., Central Europe and Nordics.

Infrastructure Development

- Operating income totaled SEK 1.8 billion.
- The investment in the M25 motorway was divested for SEK 3.1 billion.
- Financial close reached on the LaGuardia Airport project in New York, USA.
- Net present value of projects is SEK 4.3 billion.



Skanska's home markets

Skanska has operations in eleven countries in Construction, Residential Development, Commercial Property Development and Infrastructure Development. The Business Units in these business streams work together in various ways to create both operational and financial synergies, leading to increased value creation.

Comments by the President and CEO

Skanska delivered very strong earnings growth and maintained a solid financial position in 2016. Our Project Development business streams were the engines of our performance. In 2017, we will continue to deliver on the Profit with Purpose Business Plan, backed by favorable outlooks in our home markets.

In 2016, Skanska began the journey of our Profit with Purpose Business Plan, which will guide us until 2020. Under this plan, our aim is to deliver an industry-leading total shareholder return while achieving our purpose: building for a better society. It's about ensuring that our business prospers by contributing to society and helping customers be more successful. It's about doing more of what Skanska has long done, and doing it better.

With both Profit and Purpose, Skanska demonstrated strong performance in 2016.

Earnings per share increased by 33 percent to SEK 15.89.

Our performance was driven by all-time high earnings in the Residential Development and Commercial Property Development business streams, together with divestment of an Infrastructure Development project. Our Construction stream did not meet its operating margin target. Still, we ended the year with a robust financial position. Based on these results, the Board of Directors is proposing to increase the dividend to SEK 8.25 (7.50) per share.

The Skanska share delivered a total shareholder return of 36.4 percent in 2016, compared with 9.6 percent for the Swedish stock market. Furthermore, in December 2016 Skanska's share reached a new high point of SEK 218.70.

Leveraging synergies to improve competitiveness

Skanska's success is increasingly a result of the operational and financial synergies that come from different parts of our business working together. We are very focused on boosting these collaborations.

Operational synergies include using local, specialized expertise on a global scale to strengthen customer offerings, expand our opportunities and improve how projects are delivered. For example, for the recent pursuit of a major hospital in Norway, we leveraged expertise from the UK, Sweden and the U.S. – the bid was successful. Also, the successful expansion of Commercial Property Development to the U.S. was built on knowledge shared from that stream's operations in the Nordics and Europe.

Financial synergies result from harnessing the free working capital from Construction to invest in development projects – this cycle is the heart of our business model. Skanska benefits in two key ways: we generate our own construction contracts, and we achieve significant returns from the money we invest in Project Development.

Project Development's major contributions

Project Development's significance has increased within Skanska, which is an aspiration of the Business Plan. In 2016, the three Project Development business streams – Residential Development, Commercial Property Development and Infrastructure Development – produced 62 percent of Skanska's operating income.

Other Project Development highlights from last year include:

- Residential Development surpassed our 10 percent target for both return on capital employed and operating margin. BoKlok, our affordable homes business, did especially well.
- 47 Commercial Property Development projects were underway, and we made one of our most successful divestments ever: the sale of the 101 Seaport office building in Boston for about SEK 3.8 billion.
- Financial close was reached for the redevelopment of LaGuardia Airport's Central Terminal in New York, our third U.S. public-private partnership (PPP). This project involves our largest-ever construction contract – worth about SEK 23 billion – and it draws upon Group-wide expertise.
- Divestment of our share in the M25 motorway PPP in London for about SEK 3.1 billion.

We see great demand for all three Project Development streams. In 2017, we plan to start even more development projects and further grow this part of our business.

Construction backlog at all-time high

Most of our Construction Business Units were stable and profitable in 2016. Performance was particularly strong with Skanska Sweden, Skanska Finland and Skanska USA Building. Furthermore, we ended the year with a construction backlog of SEK 196.3 billion – our highest ever.

Still, we are not satisfied, as we did not achieve the 3.5 percent target for Construction operating margin. Both Skanska Poland and Skanska USA Civil had weak performances, and they are taking steps to improve. Reaching or exceeding our Construction operating margin target is a top priority that we are working hard to achieve.



To increase margins in all Construction Business Units, one key way is enhancing how we manage risks and opportunities. We have added an additional layer of scrutiny within the Business Units to bolster our tender review process, implemented a system to better monitor large project performance and are continuously improving our financial steering of projects. A stricter bid strategy is another important action: in order to bid we have to identify the right team to execute the project. Furthermore, we are strengthening our people with the right training for their area of responsibility.

Values provide business benefits

We want our strong Skanska values to guide everything we do. I am convinced that our values make us more profitable and successful, and they are essential to contributing to society. Increasingly, employees want to work for companies with clear values. And I am seeing more customers and partners choose Skanska in part because of our values.

For instance, in Östersund in northern Sweden, Skanska secured the Remonhagen housing project because of our skills and desire for the really innovative part of this assignment: joining a pilot effort with the local public housing company to provide construction skills and language training to newly arrived refugees. And in Poland, our Osiedle Mickiewicza Residential Development project is the first housing development in that country certified by the BREEAM environmental system – more than 40 percent of homebuyers said that green label had an important influence on their decision.

Through what we do and how we work, we help ensure sustainable futures for our people, customers and communities. We focus on the sustainability areas in which we can make the most significant positive contributions: Safety, Ethics, Green, Corporate Community Investment, and Diversity and Inclusion. All of these areas relate to our core business and expertise, and are interconnected. These areas support the sustainable development goals defined by the United Nations Global Compact, which Skanska has actively supported for the last 16 years. Safety is an area in which we particularly need to improve, as four people lost their lives on Skanska projects in 2016.

The need for Skanska's contributions is becoming greater. Society faces intensifying challenges – and opportunities – from a changing climate, increasing urbanization, integrating migrants and more.

“Skanska’s success is increasingly a result of the operational and financial synergies that come from different parts of our business working together.”



Favorable outlooks

We view 2017 with confidence, backed by positive outlooks for all our markets and business streams.

But we also know that 2017 will likely be a year of great change. Brexit in the UK and Donald Trump as U.S. President are expected to lead to big shifts for those countries – two of Skanska's top home markets – that impact the rest of the world. For now, those impacts remain unclear, but the UK government and President Trump have both signaled plans to increase infrastructure investment. Whatever changes may occur, we are confident in our ability to adapt in line with our values. We have successfully adapted many times in our 130-year history.

Focused on delivering our strategy

Based on Skanska's 2016 performance, we are on track to deliver the second year of the Profit with Purpose Business Plan, while positioning our business for success in the years to come.

Continued achievement with the Business Plan depends on having and developing great people; finding new and better ways to contribute to the success of customers; and achieving excellence in our operations and support functions. We are committed to strengthening the performance of the Construction units while maximizing the ongoing success of Project Development.

With ongoing support by our strong values and committed people, we will create further benefits for our shareholders, customers and communities. I am proud to be part of this journey, and am optimistic for what is ahead.

Stockholm, February 2017

Johan Karlström
President and CEO

Skanska's values

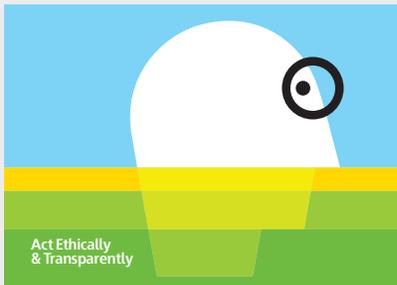
In an ever-changing world, Skanska's culture and identity remain anchored to strong values. The Group constantly drives the need for every employee to live Skanska's values in all they do. Values are fundamental to the Group's success.



Care for Life

Care for Life is how Skanska is accountable to future generations through safe and environmentally responsible actions. One way the Group is improving at this is through increased collaboration between Business Units.

For example, in Central Europe the four Business Units are developing common health and safety standards, and have established a structure to share best practices and coordinate safety activities. As part of this, the Project Development units act as demanding clients to the Construction units, further helping to eliminate injuries and support health and well-being.



Act Ethically and Transparently

Skanska does business with a high degree of integrity and transparency. To support this, in 2016 the Group launched a new Code of Conduct and its first Supplier Code of Conduct. Together, these set the ethical direction for employees and external parties.

The new Code of Conduct has many examples, providing employees with hands-on guidance for living Skanska's values every day.

It can be viewed at codeofconduct.skanska.com.

The Supplier Code states the behaviors Skanska demands from its supply chain. Skanska only works with customers that do not require compromising the Group's high standards.



Be Better – Together

Skanska strives to be better in all it does, and important to this are collaborations both inside and outside the Group. An example is the Global Healthcare Center of Excellence, which shares healthcare facility solutions and resources across Business Units.

When Skanska Norway and Skanska UK were recently pursuing a large hospital in Norway, the Center of Excellence linked them to experts in Skanska Sweden and Skanska USA Building – this was key to the bid being successful.

This Center of Excellence enables Skanska to be highly strategic and better understand trends in healthcare, a top Skanska sector.



Commit to Customers

Skanska helps customers be successful in their business. In the UK, for Anglian Water to successfully deliver a large infrastructure program it wanted more than a collection of designers and contractors – it wanted a partnership.

It found that with the @one Alliance, a collaborative organization of consultants and contractors, including Skanska. The Alliance will deliver about 800 projects by 2020 using multidisciplinary teams focused on mutual trust and respect. By understanding Anglian Water's internal customers, the Alliance added an "after care" role to help teams start operating newly completed projects.

Business plan 2016–2020

– Profit with Purpose

The current business plan outlines the strategic direction that will take Skanska to the next level of performance. The aim is to increase shareholder value while working toward a more sustainable future for employees, customers and communities. This is how Skanska creates Profit with Purpose.



Generating value for shareholders

Generating value and delivering an industry-leading total return for shareholders is Skanska's aim. A strong focus on profitability is combined with controlled growth. This results in a stable, long-term earnings trend and provides the cash flow necessary for an attractive dividend. To achieve this Skanska is focusing on Great People, Market Making and Operational Excellence. This is described in more detail on pages 12–14.

Profit with Purpose

Customers, investors and potential employees all prefer companies that are working in responsible ways. Genuine market leaders create shareholder value that contributes to general improvements in society. Skanska

is built on strong values and is very committed to helping society prosper while also running a profitable business.

Skanska's purpose is to build for a better society.

It is not about choosing profit or purpose; it is about doing both at the same time. Profit is needed to deliver Skanska's Purpose, and a strong purpose – in other words, building for a better society together with customers – contributes to Skanska's profit.

Delivering purpose

Skanska provides innovative and sustainable solutions to create a sustainable future for its people, customers and communities. This is reinforced by a commitment to Safety, Ethics, Green, Corporate Community Investment as well as Diversity and Inclusion. All this is linked to the core business and employees' key competencies. All of Skanska's home markets provide the right conditions for delivering the sustainable solutions that both customers and communities need.

The way Skanska operates also contributes to sustainable development: constantly finding safer and greener ways to work, working ethically, embracing diversity and engaging in communities. Skanska also encourages both the industry and society in general to act sustainably. The company's ambition is to be an industry leader and an authority on sustainability.

Aspirations 2020

- Industry-leading total shareholder return
- Balanced value creation between Construction and Project Development
- Recognized as a preferred partner when it comes to creating solutions that meet customers' needs
- Living our values and recognized as a value-driven company building for a better society
- An injury-free and ethical environment
- The most attractive employer in our industry
- Cooperation within and between units and business streams as One Skanska in high-performing teams
- Improved operational efficiency

Focus areas within Sustainability

- Safety
- Ethics
- Green
- Corporate Community Investment
- Diversity and Inclusion

Great People

Success in Skanska's project-based business depends on having people with the right skills and commitment, and who share Skanska's values. Recruiting top people and developing them are key parts of this focus area, as is becoming more diverse and inclusive.

Skanska aims to be the most attractive employer in its industry. The Group provides a culture based on transparency, values and high performance, with employees working together on teams to build for a better society. Skanska provides employees with many opportunities to learn and grow: when an employee grows, Skanska as a company develops.

Skanska wants employees to continuously develop and contribute to the company. Seop, the Skanska employee ownership program, helps build pride of ownership among employees and an understanding of how to create value for shareholders. Seop

has around 10,500 participants who invested a total of about SEK 300 million in 2016. If counted as one group, they are now the third-largest Skanska shareholder.

Sharing knowledge and building broader experience

Another important aspect of ensuring the Group's success is providing employees with a broader range of experiences. Employees are encouraged to work in different Business Units and geographies: this helps share knowledge and improve collaboration. Skanska's internal recruitment policy was updated in 2016 to better support this.

Improving through diversity and inclusion

The Group is focused on achieving a more diverse workforce: attracting, recruiting and retaining people from a larger pool, thereby mirroring the diversity in society. This will help Skanska build relationships with an increasingly diverse customer base, and boost innovation by leveraging the unique experiences and perspectives of all employees. The Group also prioritizes achieving a more inclusive culture, in which every employee can reach their full potential.

Paul Wright's tenure as Operations Director in the UK includes building "mega" public-private partnership (PPP) hospitals with up to 2,000 people on-site. For the last five years, Paul has been working in Sweden, leading the design and construction of New Karolinska Solna. It is ideal for him, being another large PPP healthcare project.

This transfer from Skanska UK to a Skanska Sweden-led project has been beneficial to the Group and to Paul personally. It enabled the project team to gain from Paul's deep knowledge and experience as a 30-plus year Skanska employee. And it provided Paul the opportunity to expand his abilities working in another country and leading a construction site with more than 32 nationalities in the wider team.



Skanska's main risks

Risk management is key to Operational Excellence. Skanska annually surveys more than 200 top managers to understand the Group's main risks. For each main risk, comprehensive management and mitigation measures are implemented and regularly updated.

Ethical breach

A breach of the required and expected standards of business ethics has consistently been assessed as a top risk facing Skanska. A severe breach could inflict long-term damage on Skanska's reputation and ability to participate in home markets, and it could lead to financial penalties and other sanctions.

Skanska has proactively invested in strengthening its ethical organization, culture and compliance processes. In 2016, a new Code of Conduct, the Group's first Supplier Code of Conduct and a framework for implementing and supporting both were introduced. The Code is built on the value Act Ethically and Transparently.

Also, Skanska has introduced Value Moments, structured time outs to have discussions around values within teams and workgroups; this strengthens Skanska's ethical culture.

Lack or loss of key employees

Construction and development are most of all people businesses. New project opportunities will not be pursued unless employees with the right competencies are available. Skanska needs to attract, develop and retain a skilled, diverse and committed workforce, in competition with many other organizations.

Skanska focuses on developing excellent leaders and providing an inclusive workplace in which people can flourish and everyone can contribute. Skanska has a structured process of evaluating and reviewing each employee's performance and potential. The Group offers many career development opportunities.

An important tool in recruitment and retention is Seop, the Skanska employee ownership program that is open to all permanent employees.

Project or systemic losses

Not every project or investment goes to plan: unforeseen events, delays, extreme weather, failure of suppliers, unachieved production improvements, estimating mistakes, or any number of other circumstances can cause a project to turn into a financial loss maker. In an isolated project, the issues can generally be addressed quickly and every effort is made to turn performance around; given the size and diversity of Skanska's business, the damage is limited.

It would be much more damaging if there are organization-wide problems in the estimating or execution organization of a large Business Unit; such issues could take years to work through. Skanska has several layers of defense to protect against one-off and organization-wide losses. This includes the Group's scrutiny and approval procedures, follow-up, review and reporting, plus the early warning system for all construction projects subject to Senior Executive Team Tender Board approval. This system tracks a set of key performance indicators custom to each project, and alerts senior management according to set protocols should any of those metrics go out of tolerance.

Macro financial instability

Macro-economic risks cannot be avoided, so Skanska focuses on mitigating their effects and ensuring its business is strong enough to weather economic downturns. Real-time management of financial exposure in terms of cashflow, committed investments and capital employed are key to this. Skanska Financial Services plays a lead role in managing the Group's exposure; supporting Business Units; and looking ahead at markets, economic indicators and political factors to provide early signals of coming changes that might affect Skanska and its partners. The diversity of Skanska's operations in terms of geography, sector, business model, customer type, and business cycles together provides significant built-in resilience.

Accident with multiple people affected

Skanska's Care for Life value directs the Group to work safely or not at all. That drives Skanska to never be satisfied or complacent with safety, health and well-being. Skanska treats safety as an industry-wide issue: only by working in partnership with all stakeholders, including competitors, can the construction industry's culture be changed to deliver Skanska's goal of eliminating injuries and ill health.

Skanska continually works to improve its culture of safety, health and well-being, and regularly develops and enhances systems and processes. The Group strives to learn from others and to share what it has learned.

Focus areas within sustainability

Sustainability is key to delivering on the Profit with Purpose Business Plan. Skanska focuses on sustainability areas directly connected to its business to make the most significant positive contributions to society. Advancing as a leader in sustainability is a business advantage for Skanska as a partner and employer.

Holistic approach to sustainability

Skanska's projects and how they are delivered ensure a sustainable future for communities, customers and employees. The Group focuses on sustainability aspects most relevant to its core Construction and Project Development operations: Safety, Ethics, Green, Corporate Community Investment, and Diversity and Inclusion. Through that strategic approach, Skanska brings the most value to society.

The Group aims to capitalize on the interconnectedness within sustainability. For example, more diverse and inclusive project teams should think more creatively, improving safety and helping provide the best solutions for customers. Ultimately, Skanska aims to be recognized as an industry leader within sustainability

as a whole, extending beyond leadership in individual sustainability areas. The work with sustainability contributes to delivering profit and creating shareholder value.

Leveraging global knowledge

Skanska shares the best solutions and knowledge across the Group, and cross pollinates solutions between Construction and Project Development business streams to further improve performance. Also, Skanska seeks to involve customers and partners with sustainability, learning and sharing for mutual benefits.

Further information on sustainability can be found on page 65–69 and on www.group.skanska.com.



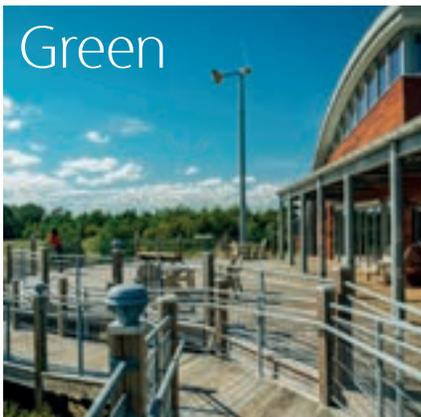
Skanska's Care for Life value commits the Group to eliminate injuries and long-term work-related damage to health, both mental and physical. As a way of living this value, Skanska is developing a Health and Well-being Strategy. This will provide improved direction on reducing long-term health hazards – including noise, dust and poor ergonomics – and will offer employees guidance and information to enable better lifestyle choices with diet, alcohol, smoking and more. This strategy will help people remain healthy throughout their entire lives.

Skanska's upcoming Health and Well-being Strategy will reduce long-term harm to thousands of workers. It builds upon local Business Unit-level initiatives.



Skanska provides employees with resources to help them live the Group's values – ensuring that the values are not just mere words. During the year, an easy-to-read Code of Conduct was launched to be a regular guide for employees. Also debuting in 2016 was a Value Moments Library, a collection of short films depicting real situations that challenge any of Skanska's values. The library is a tool to start discussions around values: everyone is encouraged to begin meetings with a "value moment."

To help employees live Skanska's values every day, they are encouraged to start meetings by discussing those values.



Constructing and operating buildings and infrastructure emits much carbon. That challenge provides Skanska with an opportunity to help society, which is why the Group is on a journey to be a low-carbon business. That effort achieved a milestone in 2016 when Skanska was included in CDP's Climate A List, the top ranking in a scoring that recognizes management of climate change risks. Also, Skanska continued advancing the Envision and CEEQUAL systems that rate the environmental and social performance of infrastructure.

Skanska was named to CDP's Climate A List, recognizing the top nine percent of 2,000 companies across industries worldwide in the ranking.



Skanska strategically supports communities through its projects and people, delivering mutual benefits to local societies, customers, employees and the Group. One Corporate Community Investment (CCI) area is strengthening and integrating local workforces, such as providing training and opportunities for refugees, new immigrants and military veterans. Another CCI focus is developing projects in ways that enhance surrounding neighborhoods. These CCI priorities directly relate to Skanska's business, maximizing the Group's impacts.

Being a responsible community member is about delivering projects that benefit Skanska's customers and that make a wider contribution to society.



Diversity and Inclusion (D&I) work on the Business Unit level continued with increasing efforts in 2016, producing concrete results. Headcount statistics and employee survey results show a clear positive trend, indicating Skanska is improving with diversity as well as inclusion. D&I has become a way to better connect with customers and suppliers, and to stimulate the creative thinking needed to be most competitive. Efforts continue across the Group to further embed Diversity and Inclusion into key business practices.

Skanska UK received two prestigious industry honors for Diversity and Inclusion activities and initiatives.

Market overview

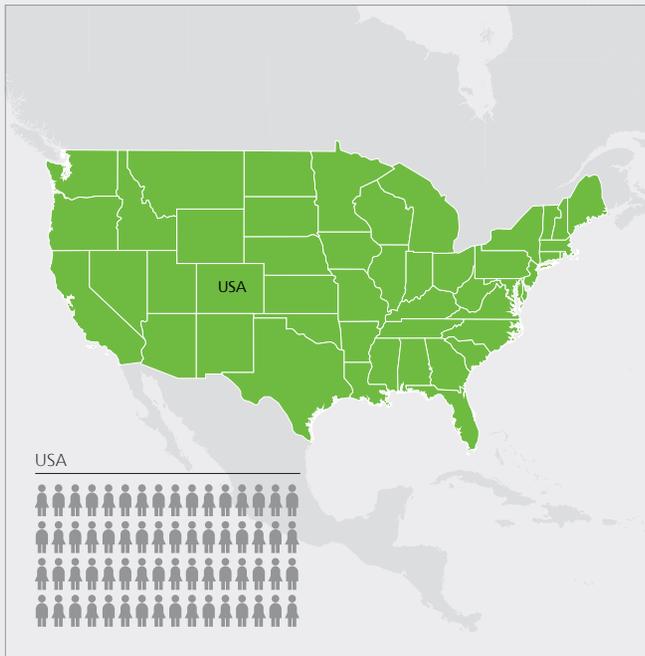
Skanska's ability to grow and create value in its home markets is affected by a number of external factors. Some of these variables – macroeconomic as well as more sector-specific – are presented below.

Skanska's home markets

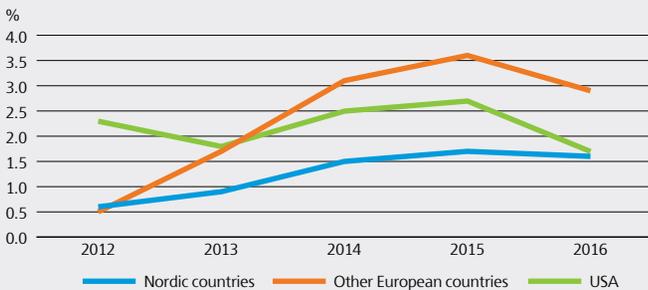
Construction investments 2015



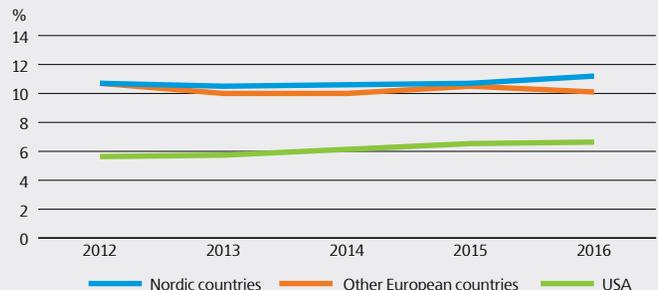
Population



GDP growth in Skanska's home markets



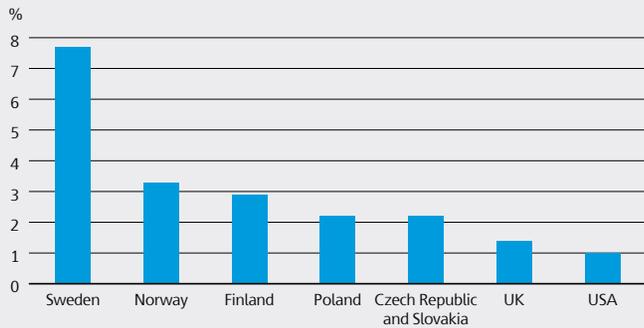
Construction investments in Skanska's home markets as a percentage of GDP



The economic recovery has been strongest in the Central European countries. The Finnish economy is still struggling and pushing down the Nordic average. The U.S. has not had the lows nor the highs of Skanska's other home markets, but is more stable.

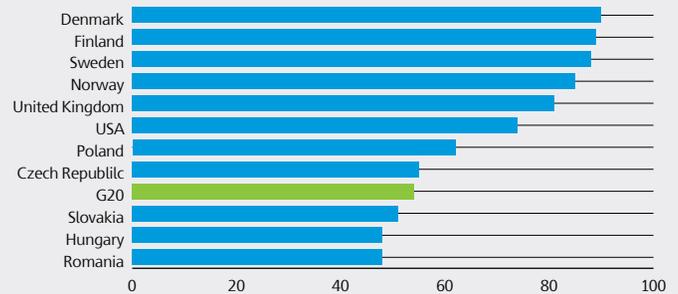
Led by Norway, the Nordics have the highest level of construction investments as a percentage of GDP in Skanska's markets. In the U.S., this share is much lower and is far below pre-crisis levels but increasing, while in Central Europe it has been decreasing.

Market share, Skanska's Construction business stream



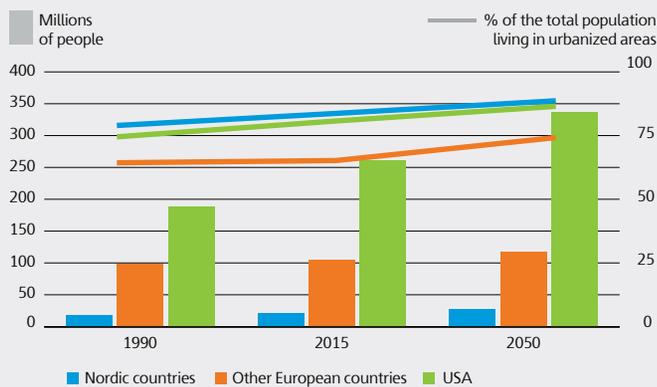
The market share in Sweden is significantly higher than the rest of Skanska's markets. Despite being one of the leading companies in the U.S. and the UK markets, the market share is low due to higher market fragmentation and competition.

Transparency index



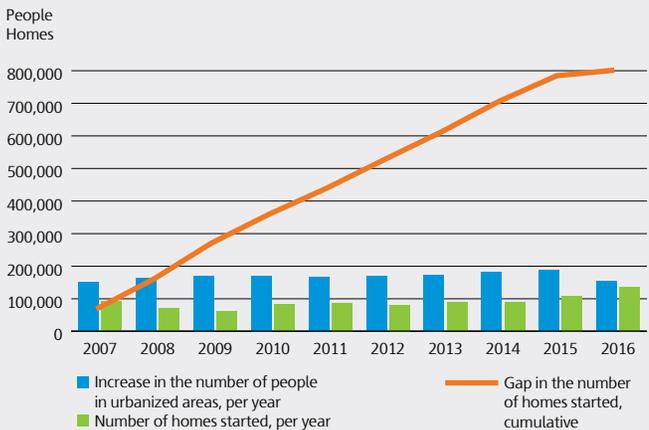
This is a corruption perceptions index that goes from 0–100. The closer a country is to 100 indicates it is less perceived as corrupt. The Central European countries are still struggling with corruption issues, while the situation in the Nordics is much better.

Urbanization in Skanska's home markets



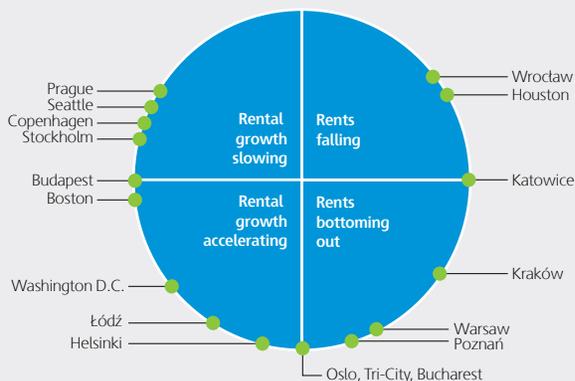
The urban population is increasing all over the world, with an average of 70 percent of the global population living in urban areas by 2050. All of Skanska's markets are above that average and have a higher degree of urban population.

Homes constructed in relation to urbanization growth in Sweden, Norway and Finland



For years, the number of homes started has not matched the number of people moving to urbanized areas. This has resulted in a large deficit in the supply of homes. During 2016, the number of homes started increased compared to previous years.

Property clock



Source: JLL, Q3 2016 and Q4 2016

The Property Clock indicates where the respective market is in the property cycle. Skanska has a diversified portfolio of projects and land in different development phases in the cities listed above.

Sources: JLL, Central Statistics offices, SEB, HSBC, Citibank, Transparency International, UN Department of Economic and Social Affairs, World Bank.

The following pages are extracted from the
Directors report of Skanska Annual report 2016

Focus areas within sustainability

Skanska's sustainability agenda consists of five focus areas: Safety, Ethics, Green, Corporate Community Investment and Diversity & Inclusion. These focus areas were identified as the sustainability areas Skanska has the greatest influence on, and the company aspires to be an industry leader in each of the areas. Skanska's 2020 Business Plan – Profit with Purpose – aims to create value for shareholders while also building for a better society. The five pillars embody Skanska's purpose and ensure that its sustainability efforts transcend the entire company.

Safety

Safety performance

Skanska continues to improve its safety management, with all Business Units implementing the strategic safety action plans developed as part of the 2020 Business Plan. However, these improvements have yet to significantly improve injury rates.

Skanska's lost-time accident rate declined in 2016 compared to 2015: the 2016 lost-time accident rate was 2.8 (3.3), with a total of 638 lost-time accidents. The injury rate that includes restricted duty cases was 4.7, down from 5.0 in 2015. In total, 1,058 injuries prevented people from returning to their normal work activities.

Lost Time Accident Rate (LTAR) 2008–2016

Number of employee lost time accidents times 1,000,000 hours divided by total labor hours. Inclusive of Skanska employees plus contractors working on Skanska jobsites.



Skanska believes that all injuries must be eliminated. With this in mind, the Group has changed the emphasis of its internal reporting to focus on all injuries sustained at the workplace – not just those injuries resulting in lost time from work, as traditionally tracked in the construction industry.

During 2016, there were four work-related fatalities on Skanska worksites: in Poland, Peru and the U.S. All of these are tragic events for the families, friends and colleagues of the deceased. Following each fatality, Skanska held a Global Safety Stand Down at every workplace to share learnings from the accidents with colleagues, and to pay respect.

Skanska treats potential fatality events, even if no one was hurt, as serious incidents involving investigations and follow-up. These provide a learning opportunity to revise and improve the systems, organization and leadership skills to avoid future accidents.

Health and well-being

Skanska's Care for Life value was the catalyst for the Group in 2016 to begin developing a Health and Well-being Strategy for all Business Units. The strategy is based on ensuring a healthy workplace, with workers who are physically and mentally fit so they can perform at their best. This includes providing improved direction on reducing long-term health hazards, such as from noise, dust and poor ergonomics. The intent is to prevent work activities from causing or worsening ill health, both physical and mental.

Furthermore, the Health and Well-being Strategy will offer employees guidance and information to enable better lifestyle choices with diet, alcohol, smoking and more. The strategy recognizes that lifestyle decisions are matters of personal choice. This strategy will launch during 2017, building upon initiatives of several Business Units.

Skanska is committed to giving health and well-being the same priority as safety. Health and well-being topics will be included in an extended version of the Safety Road Map, the framework around which Skanska management teams plan their safety improvement programs. This will enable each part of Skanska to develop local action plans.

A learning organization

In keeping with the Be Better – Together value, Skanska continues to develop the various ways it internally shares information and knowledge. Primarily these are the networks of the Global Safety Leadership Team, which advises the Senior Executive Team; the Safety Performance Network, comprised of Business Unit heads of safety; and the use of digital platforms. These are aimed at developing networks that can leverage similarities to improve safety, health and well-being.

In 2016, Skanska's four Business Units in Central Europe formed a cluster to develop common health and safety standards, and to share best practices; a similar cluster has been formed in the Nordic countries.

Other examples of learning activities used in various Business Units in 2016 include:

- Continuation of the safety peer review program that provides Business Unit managers with additional perspectives on safety management. This involves bringing line managers and safety experts from other Business Units to observe projects and provide advice.
- Holding "Stand up for safety" sessions that facilitate sharing of good practices.
- Conducting safety days, during which jobsite managers and work crews come together to discuss and solve safety issues.
- Exploring the use of wearable technology to aid injury identification and improve ergonomics.
- Engaging with employees and subcontractors through in-depth safety perception surveys. These surveys provide valuable information about how safety programs are perceived by employees and contractors; the feedback is used to develop new action plans.

Additionally, in 2016 Skanska updated and strengthened its Global Safety Standards, which are requirements that go beyond laws and industry norms. New standards were added for safe delivery of materials, temporary electrical systems and safety audits. These standards – which now total 12 – form a key part of establishing Skanska's minimum expected safety behaviors. The 2016 updates will drive further improvements.

Safety Week

The 12th annual Skanska Safety Week occurred in April 2016. The overarching theme was “Plan for today,” which recognizes that planning is key to reducing accidents in the dynamic settings found on construction sites. In the U.S., Poland and Finland, Safety Week has become an industry-wide event that demonstrates to hundreds of thousands of workers the critical importance of working safely. Customers, peer companies, suppliers and regulating authorities all take part.

Ethics

In 2016, Skanska took key steps to further its strong ethical culture, which is central to living the Act Ethically and Transparently value. Two highlights were launching a bold new Code of Conduct and Skanska’s first-ever Supplier Code of Conduct. The Code of Conduct can be viewed at codeofconduct.skanska.com.

Developing the Code of Conduct provided an opportunity to review and improve everything associated with the Code. This included updating policies; refining risk assessment processes; revising training requirements to suit risks associated with particular roles and functions; and redefining the areas of assurance reviews and audits. Among the policies strengthened was that which prevents retaliation of any type against employees who report legitimate ethical concerns, and the policy stating Skanska does not tolerate corruption in any form.

Recognizing it will take time to fully implement new processes and procedures, Skanska has prioritized the activities for implementation using a risk-based approach. This comprehensive approach helps proactively reduce the chance of an ethical breach, one of Skanska’s major risks.

New Code of Conduct

The new Code of Conduct applies to all employees: temporary, part-time, full-time and contract. Also, all employees must be trained on the Code by January 1, 2018, and then retrained every two years. New employees must be trained within one month of beginning employment.

The launch of the Code included an app for mobile devices that helps make accessing and searching the Code easy for employees. The app was pushed out to more than 20,000 mobile devices used by Skanska employees.

Consistency across the Group

Each year every unit develops an ethics plan to identify key risks, challenges and activities to help achieve Skanska’s target of being an ethics leader. The units continued that work in 2016, with emphasis on risks, goals, and specific action plans. The ethics plans address strengths as well as opportunities for the units, based on input from the Ethics Scorecard, employee survey results, and reports of alleged misconduct during the past year. These ethics plans are reviewed by the Skanska AB Ethics Committee to ensure that the plans are appropriate, set a framework to a stronger ethical culture and are aligned with the 2020 Profit with Purpose Business Plan.

As in 2015, each Skanska unit participated in a mid-year peer review of its ethics plan and progress on action items. The units also continued to submit quarterly reports to the Skanska AB Ethics Committee. A summary of the quarterly reports was submitted to and discussed with the Board of Directors’ Audit Committee during 2016.

Ethics organization

The Global Ethics Network – comprised of representatives from each Business unit – held four meetings in 2016 to share best practices and overall increase ethics competencies across the Group.

Additionally, Group Support Unit Ethics added two staff members: an Ethics Manager and a Compliance Manager. The Ethics Manager came from one of the Skanska Project Development units, which will be especially helpful as the development units are becoming a larger part of Skanska under the 2020 Business Plan. The Compliance Manager will work closely with the Business units regarding risk assessments and due diligence, as well as monitoring external parties – with particular emphasis on joint venture partners and intermediaries.

External parties

The focus on business partners and other external representatives of Skanska took significant steps forward during 2016. Skanska introduced its first-ever Supplier Code of Conduct, intended for external parties that are contracted to provide goods and/or services to Skanska. The Supplier Code includes topics from the full Code of Conduct that are relevant to Skanska’s supply chain.

Skanska began a more formal process to consistently conduct due diligence on every joint venture partner. Also, the Group introduced a comparable due diligence process for intermediaries, such as leasing agents and others who represent Skanska. The intent of this due diligence is to ensure that Skanska’s values are upheld in all business conducted on the Group’s behalf. Skanska will not compromise its values for any entity, person or business opportunity.

Reports of alleged misconduct

In 2016, Skanska received 88 reports via its Code of Conduct hotline, which allows employees to anonymously report suspected misconduct or anything that could be considered a breach of the Code. This compares to 64 reports in 2015. Skanska favorably interprets an increased number of reports as an indication that employees are recognizing their responsibility to report misconduct, and that employees feel Skanska’s culture empowers them to speak up.

Through the use of anonymized cases and developing ethical dilemma discussions based on actual scenarios, Skanska will continue to strengthen its ethical culture.

Value Moments Library

Skanska introduced the Value Moments Library, a collection of short films with an important purpose: encouraging and guiding employee conversations about how to best navigate dilemmas involving living the Group’s values. The films depict real-life examples gathered from employees in various roles, home markets and units, and many of them focus on situations in which two or more values are competing. This library will grow over time, with additional contributions from the Business Units.

Green

Skanska's Journey to Deep Green™

Skanska strives to develop and construct buildings and infrastructure that have near-zero environmental impacts during construction and operation. This is the target of the Journey to Deep Green™, which Skanska is reaching for in collaboration with its customers and supply chain. The Color Palette™, Skanska's green strategic tool, defines Deep Green according to energy, carbon, materials and water criteria – these are the environmental aspects the Group's projects influence the most.

Each Business Unit uses The Color Palette™ to report green revenue, and each unit has an environmental plan fully integrated with its business to increase both green performance and operational efficiency.



Since Bentley Works was transformed into a healthy facility that meets Deep Green criteria, sick leave has been reduced by two-thirds while employee comfort and satisfaction has increased.

Improving well-being and productivity through healthy offices

Skanska is focused on creating healthy offices that improve well-being and productivity. In 2016, the Group supported the World Green Building Council's "Building the Business Case" report, which links building design to the health, well-being and productivity of occupants.

The Building the Business Case report features Skanska's Bentley Works facility in Doncaster, UK: since the facility was redeveloped to Deep Green criteria, sick leave has been reduced by two-thirds while employee comfort and satisfaction has increased. Lower absenteeism costs provide a significant annual savings that reduces the green payback period of the refurbishment project from 11 years to eight years. Bentley Works demonstrates the many benefits from healthy offices.

The full World Green Building Council report can be found at betterplacesforpeople.org.



Skanska believes it is important that infrastructure – not just buildings – achieve green certification to measure and guide environmental achievements. Skanska has a key role in developing the next version of the Envision green infrastructure rating system.

Helping set the standard for green infrastructure certification

Skanska believes it is important that infrastructure – not just buildings – achieve green certification to measure and guide environmental achievements. In 2016, several of the Group's projects achieved major milestones under the two leading green infrastructure rating systems: CEEQUAL and Envision.

At the CEEQUAL Outstanding Achievement Awards, the Borough Viaduct project in London received two honors: for minimizing disruption and for retaining a historic urban neighborhood. Also, the Spårväg City Line 7 Accessibility Upgrade Part 1 in Stockholm was "highly commended" in the Project Management category.

In the U.S., the Expo Line Phase 2 light rail expansion in Los Angeles became the first transit project certified under Envision. Furthermore, it was certified at the highest level – Platinum. Also, Skanska's I-4 Ultimate highway public-private partnership (PPP) in Florida achieved Envision Platinum too.

Skanska has made a strong commitment to integrate Envision into U.S. civil infrastructure projects. Also, as beneficial as Envision is, the current version is focused on the planning and design phases of a project, with little focus on construction. For the next version of Envision due out in 2018, Skanska has a key role in incorporating construction aspects throughout the system, and in leading the development of four credits focused on construction activities.

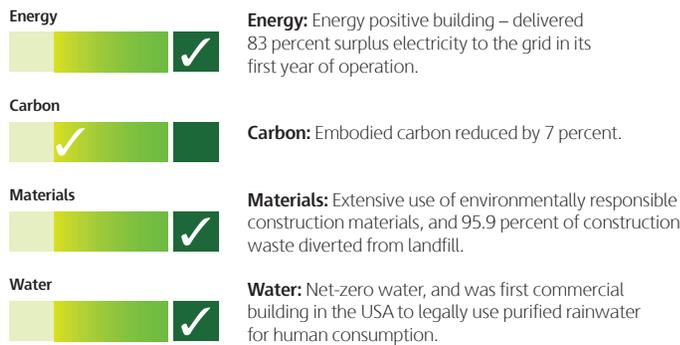


Through such aspects as treating rainwater to use as drinking water, the Brock Environmental Center meets Deep Green criteria and is certified as a Living Building.

A project so Deep Green that it transforms rain into drinking water

In 2016, the Brock Environmental Center in Virginia Beach, USA, became the 11th building in the world certified under the Living Building Challenge, which sets demanding green building criteria, including for materials. Living Buildings meet Skanska's Deep Green criteria.

In the Center's first year, it generated 83 percent more power than it used, thanks to its photovoltaic panels and wind turbines. Also, it is the first USA commercial building permitted to turn rain into drinking water. As program manager, Skanska advised the customer and the design and construction team, drawing on the Group's involvement with other Living Buildings.



Systematic environmental management

Since 2000, Skanska has certified all its operations to the international ISO 14001 environmental management standard; no major non-conformities were reported in 2016. With this, Skanska has systematic environmental management and risk management procedures, and is currently transitioning to the new ISO 14001:2015 standard. Skanska UK certified to this new standard in April 2016, being one of the first companies worldwide to do so.

Climate leadership recognition

Skanska was recognized as a climate leader by the 2016 "Climate A List" compiled by CDP, formerly the Carbon Disclosure Project. This puts Skanska among the leading 193 companies in the world on climate action - or around 9 percent of the responding companies worldwide. This is an important milestone on Skanska's journey to be a low-carbon business.

Greenhouse gas emissions from Skanska's operations Direct (Scope 1) and Indirect (Scope 2)

in tons CO₂e

	2016 ¹	2015	2014	2013	2012	2011	2010
Scope 1	312,800	330,758	367,791	386,154	354,518	341,869	305,986
Scope 2 ²	52,704	49,207	60,494	51,305	50,981	67,886	110,866

¹ In 2016, Skanska changed the reporting year for carbon to cover a 12-month period from the fourth quarter of the prior year through the third quarter the following year. The 2016 carbon emission metrics cover from the beginning of the fourth quarter 2015 through the end of the third quarter 2016.

² Location based approach.

A majority of carbon emissions from Skanska's Construction Business Units are third-party reviewed.

Corporate Community Investment

Skanska continues to embed Corporate Community Investment (CCI) into its business. CCI is becoming a core component of Skanska's projects, just like other Sustainability aspects and technical elements. The Group's intention is to leverage all projects to create long-lasting positive benefits for local societies, customers, Skanska and employees.

Skanska focuses its CCI on stimulating local workforce integration and advancement, and on developing projects in ways that enhance surrounding neighborhoods. These are important for the future of society and directly relate to Skanska's business. Through CCI, Skanska helps address social challenges faced by local communities. Skanska benefits too: more engaged employees, value delivered to our customers' customers, and lasting, positive legacies for communities. Also, CCI helps Skanska live its strong values, such as Commit to Customers.

Appreciated by customers

The Group's CCI initiatives continue to be appreciated by customers, many of which are increasingly aware of CCI and expect it. Legislation, such as the European Union Procurement Directive, will further drive this. While Skanska strives to advance with CCI, the Group's CCI commitment and capabilities already are a key reason why some customers choose Skanska.

Investing in local workforces

Workforce development and integration provides opportunities for local residents to contribute their skills to Skanska projects; to better enable Skanska to seek talent from untapped parts of the labor market; and to develop Skanska's employees.

For example, at the Kvibergs Entré Residential Development project in Gothenburg, Sweden, Skanska provided construction training to local people who were having trouble gaining entry to the labor market. This helped those people unlock employment opportunities, and better integrate into society. Also, the local municipality benefited from this integration, and Skanska gained the diverse skills of new employees.

Investing in communities

The increasing number of projects developed by Skanska are a top opportunity to enhance local communities and support customers through their design and what they provide.

For example, the educational courtyard at Klipporna, a Skanska Commercial Property Development project in Malmö, Sweden, is an inviting space open to the local community. The garden is used as a space for occupants to relax and for school children to learn. It adds value for tenants, the building owner and the community.

Focused on maximized impacts

With Corporate Community Investment, Skanska's focus is on maximizing impacts – emphasizing quality over quantity. For example, with workforce integration we prioritize creating high-quality programs that provide participants with a high possibility of finding a job, rather than aiming to get the most people through the program in the shortest time and at the lowest cost, and with less focus on the end result. In this case, people getting jobs is what creates value for society.

Skanska strives to actively demonstrate to customers and society how CCI adds value to projects and developments. The Group is keen to lead the industry in this form of thinking to show how Construction and Project Development can contribute to a better society.

Diversity and Inclusion

In 2013, Skanska stated a Group-wide Diversity and Inclusion (D&I) vision that still guides the company. It states that by 2020, Skanska will be recognized as a leader in diversity and inclusion in all home markets, mirroring the diversity in society on all levels of the organization. Also, by 2020 Skanska's leaders will be excellent in fostering an inclusive culture. Skanska sees its high level of focus on diversity and inclusion as a competitive advantage.

Integrated into core activities

In 2016, the implementation of the 2020 Profit with Purpose Business Plan meant an increasing focus on diversity and inclusion, both on the Group level as well as in the Business Units. It has also meant a closer collaboration between the different Sustainability areas.

This increased diversity and inclusion focus has included Group-wide Human Resources efforts, such as the relaunch of the Skanska Leadership Profile that guides employee development and increased focus on living Skanska's values. Also, diversity and inclusion is addressed in the new Code of Conduct. Several Business Units used the launch of the new Code of Conduct as a way to increase D&I awareness and review D&I actions.

Overall, diversity and inclusion is increasingly becoming part of core business activities. The connection between D&I and safety is increasingly being made. For example, as Skanska Sweden sets out to achieve an Injury-Free Environment through an extensive development program targeting all employees, they simultaneously address D&I. The end goal with the Injury-Free Environment program is to create a culture of employees caring for the safety of one another, which corresponds very well with ambition within D&I to create an inclusive culture.

Active diversity and inclusion activities

Through ongoing meetings and learning sessions, the Group-wide community of inclusion advocates – senior line managers who head D&I within Business Units and who report to their Business Unit

President – and Human Resources experts working with D&I has grown stronger and become more skilled as change leaders. SWAG, the Senior Women Advisory Group advising the Senior Executive Team on matters related to inclusive culture and leadership, has grown and been very active. SWAG's activities in 2016 included two Group-wide meetings in which Skanska D&I leaders met with EY, Google and other companies to benchmark and share ideas with diversity and inclusion.

To develop more leaders who are skilled in inclusive leadership, several Business Units run inclusive leadership programs and/or workshops with the ambition of targeting all managers.

Positive achievements

In 2016, Skanska continued to see positive developments with key diversity and inclusion metrics.

One indication of progress is that the number of women among all employees and in management positions continued to increase in 2016. Women employees have increased from 12 percent (2012) to 17 percent (2016). Also, the share of women in the three highest managerial levels has increased from 13 percent (2012) to 20 percent (2016).

A great highlight of the year was Skanska UK being awarded two prestigious industry awards for D&I efforts: Diversity Champion of the Year Award and Judges' Supreme Award.

Employees divided by gender

Category	2016, %		2015, %	
	Men	Women	Men	Women
Skilled workers	98	2	98	2
White collar employees	71	29	72	28
Management positions	80	20	81	19
Senior executives	78	22	78	22
Skanska AB Board	77	23	79	21

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