

# Capital Market Day



**We build for a better society.**  
Slussen, Stockholm, Sweden

# Agenda

- 9.30 Our operations and markets
- 9.50 Performance Skanska Group
- 10.00 Performance and actions in Construction
- 10.40 Coffee break
- 11.00 Performance and actions in Project Development
- 11.40 Financials
- 12.20 Q&A
- 12.50 Summary
- 13.00 Lunch mingle



**We build for a better society.**  
Slussen, Stockholm, Sweden

# Group Leadership Team



**Anders Danielsson**  
President and  
Chief Executive Officer



**Magnus Persson**  
Executive Vice President,  
Chief Financial Officer



**Caroline Fellenius-Omnell**  
Executive Vice President,  
General Counsel



**Richard Kennedy**  
Executive Vice President



**Claes Larsson**  
Executive Vice President



**Kirsi Mettälä**  
Executive Vice President,  
Human Resources

## Skanska in brief

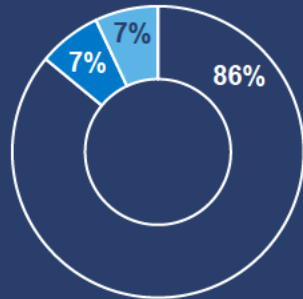
- One of the world's leading project development and construction groups
- 2018 revenue of SEK 170 bn
- 38,000 employees



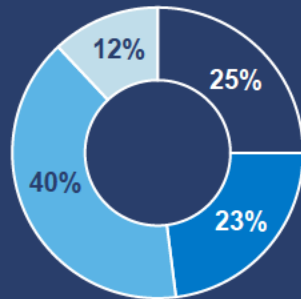
# Our business streams

## Well diversified

Revenue



EBIT

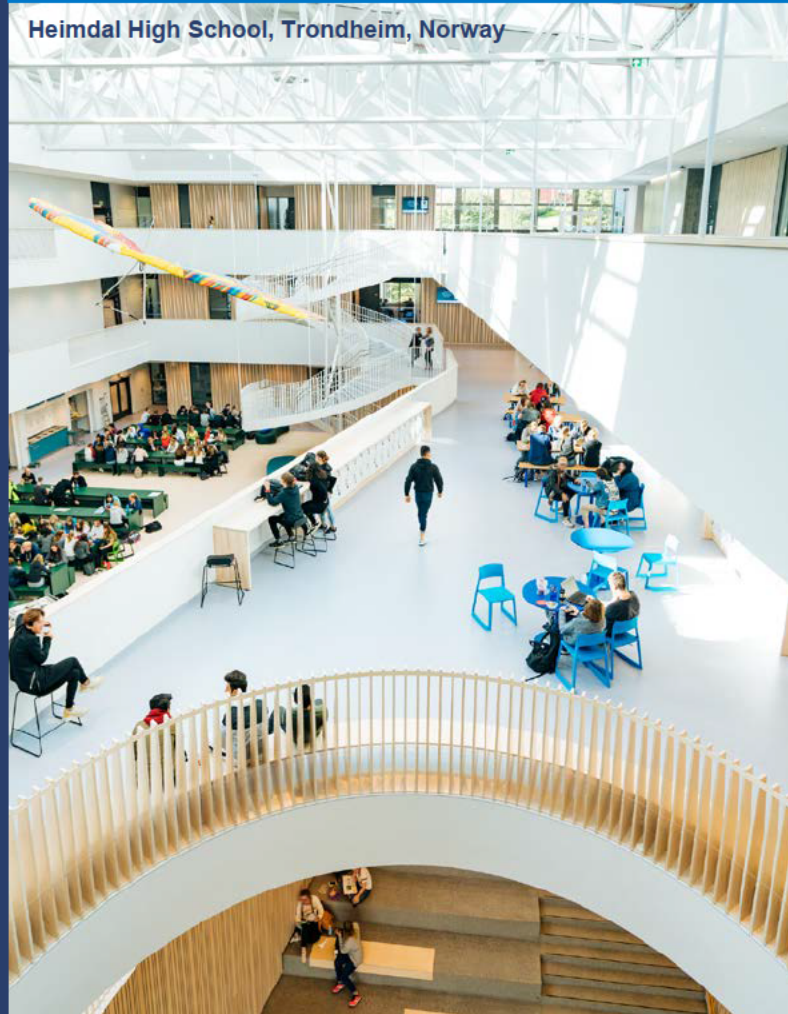


% of total 2016–2018 average

- Construction
- Residential Development
- Commercial Property Development
- Infrastructure Development, to be reported in Central starting Q1 2019

## Construction

Heimdal High School, Trondheim, Norway



## Project Development

### Residential Development

Björk, Norra Djurgårdsstaden Stockholm, Sweden



### Commercial Property Development

121 Seaport Boulevard Boston, USA

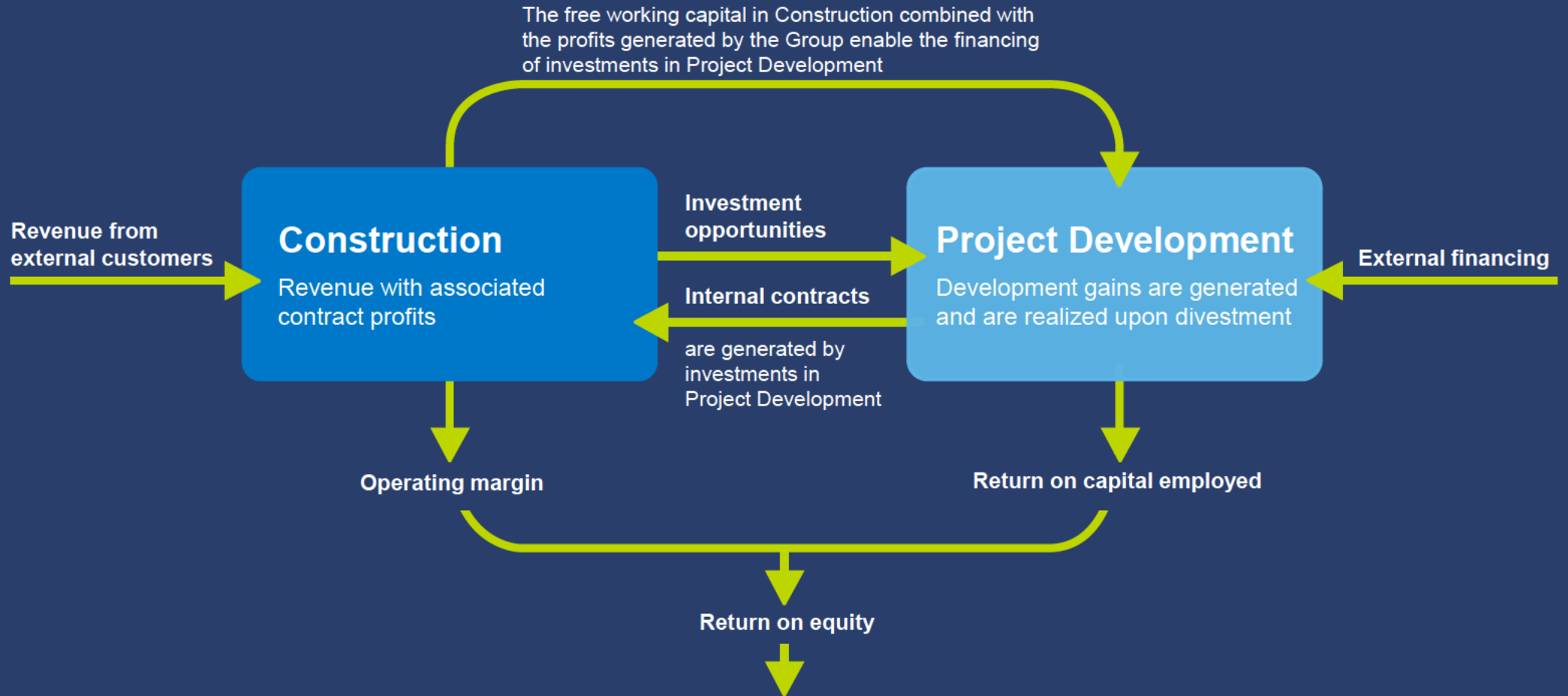


### Infrastructure Development

Rv3 Løten to Elverum Norway



# One Skanska business model



# Our industry's most important factors

Political stability

Transparency

Business confidence

Consumer confidence

Growing populations

Public finances

Migration

Climate impact

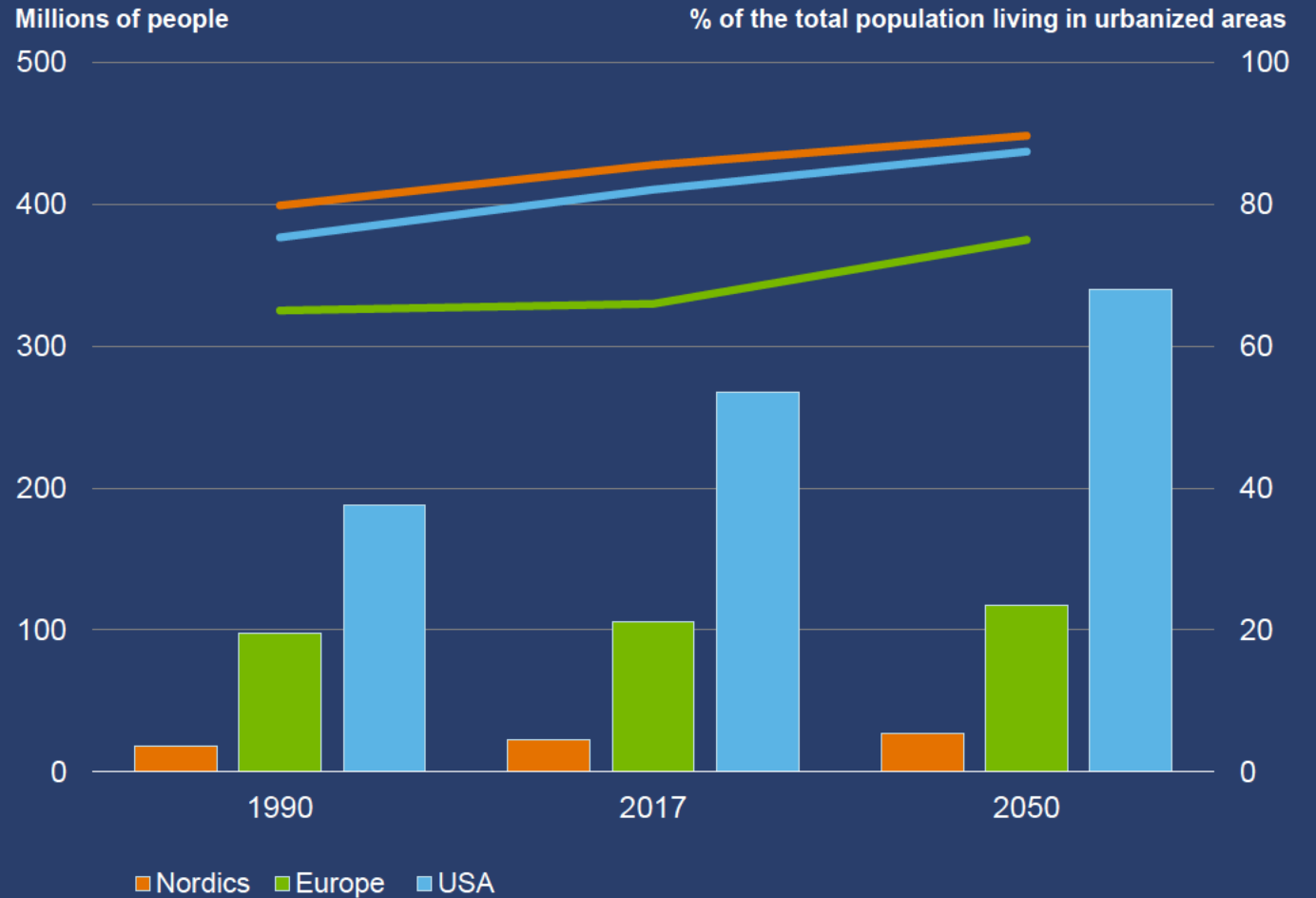




# Urbanization

Drives investments into

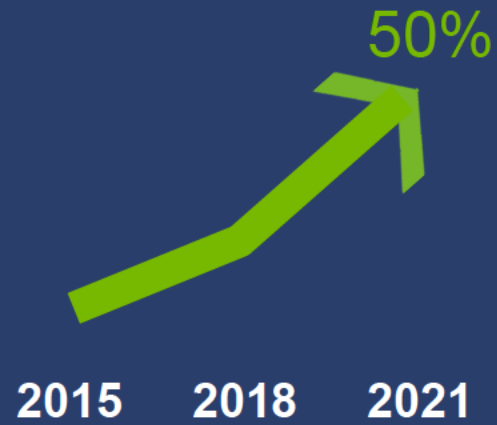
- Housing
- Offices
- Transport/Transit
- Water
- Education
- Healthcare



Source: Health Nutrition and Population Statistics: Population estimates and projections (World Bank)

# Sustainability trends in Skanska's business

## Green building



## Climate



## Partnership for innovation

## Employee well-being



# The political landscape

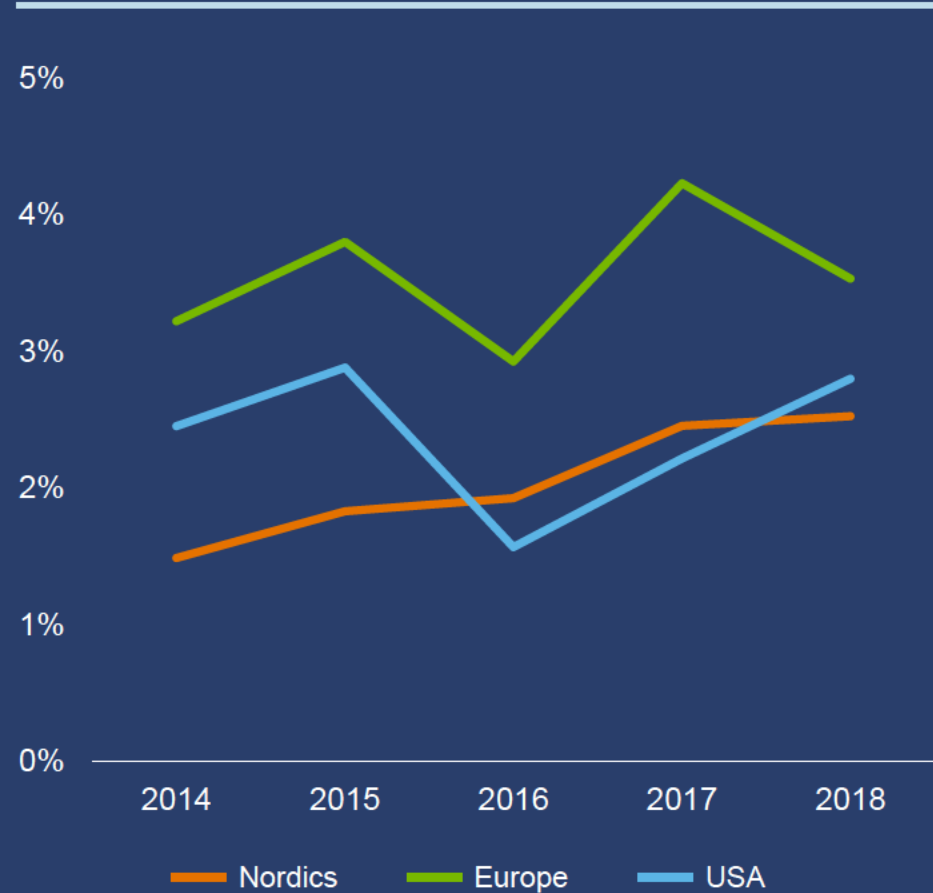
- Operating in the political landscape
- Political uncertainties
- Working together towards a greener and better society



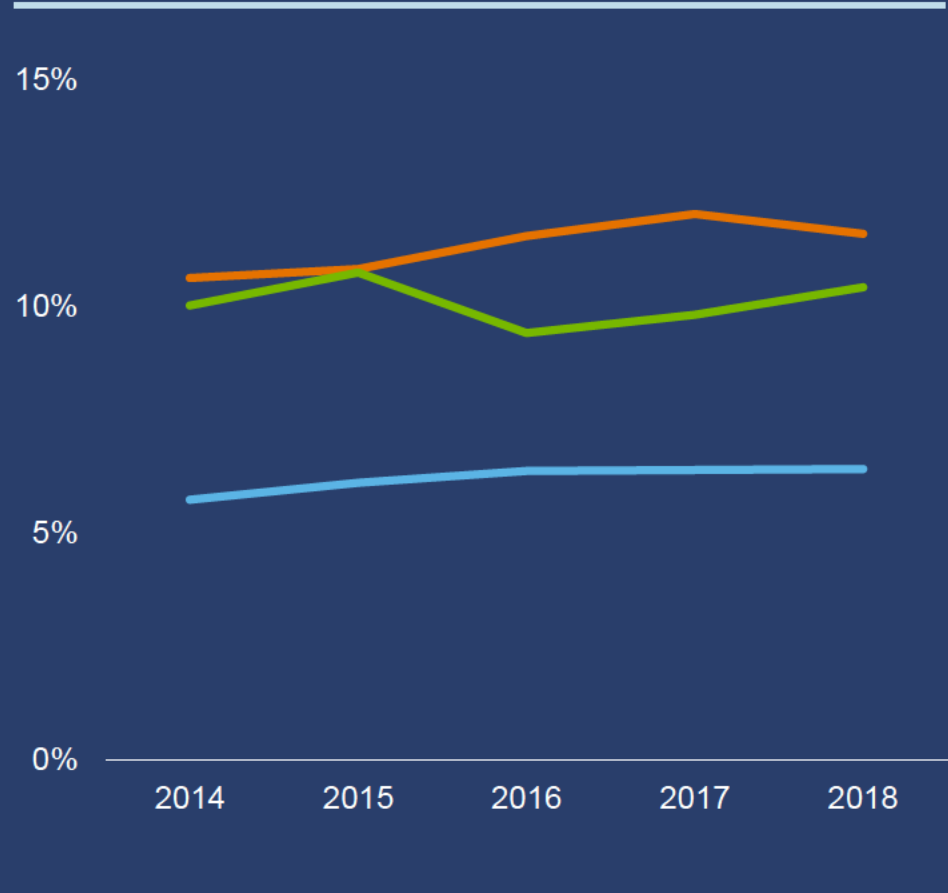
Slussen, Stockholm, Sweden

# GDP growth and construction investments

GDP growth



Construction investments as % of GDP



Source: Central Statistical offices, SEB, HSBC, Citibank

# Our People

People driven company – building for a better society

- Development and learning
  - Several home markets and operations gives opportunities to develop
  - Extensive development programs
  - Focus on training to lead in a more diverse environment and manage risks and grasp opportunities
- Strong culture and values
  - Openness
  - Collaboration
  - Pride



# Skanska Values



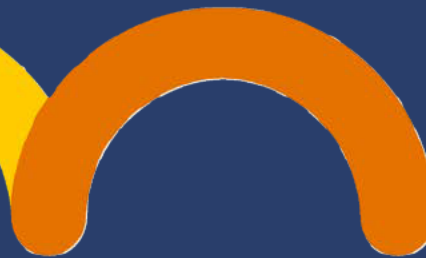
Care  
for Life



Act Ethically  
& Transparently



Be Better –  
Together



Commit to  
Customers

# European Spallation Source (ESS) Lund, Sweden



# Performance Skanska Group



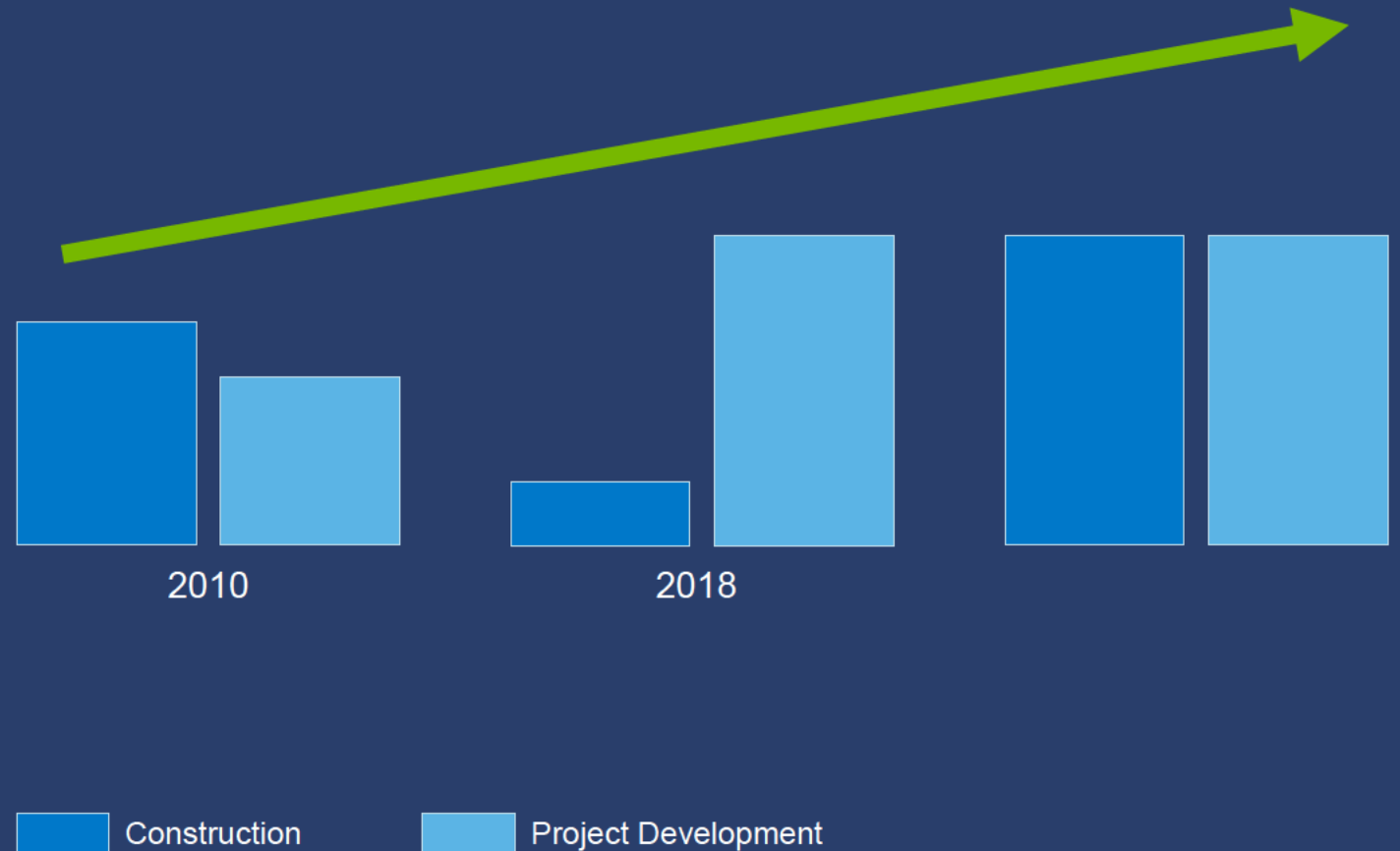
Slussen, Stockholm, Sweden



# Aspirations 2020

- Industry-leading total shareholder return
- 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
- A company fostering One Skanska and high performing teams
- Improved operational efficiency
- Balanced value creation between Construction and Project Development

Balanced  
value creation  
Construction  
and Project  
Development



# Increasing value contribution from Project Development

## Group EPS vs. Unrealized Project Development gains



# Financial targets 2016–2018

	Target	Average outcome 2016–2018
<b>Project Development</b>		
Return on Capital Employed	≥ 10%	15%
<b>Construction</b>		
Operating margin	≥ 3.5%	1.3%
<b>Group</b>		
Financial strength, ONFAL	can be negative	SEK 11.5 bn
Return on Equity	≥ 18%	20%

# Ambition to be the preferred partner by stakeholders

Sustainability aspects integrated in our way of working

- Health & Safety
- Ethical management
- Green
- Training and development
- One Skanska

This improves and differentiates what  
we can offer to our customers

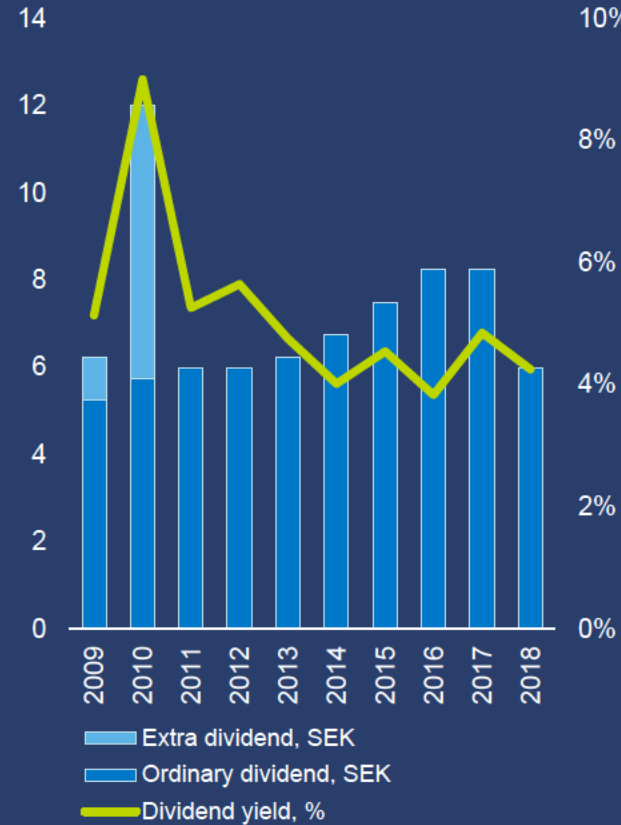


# Return history – December 31, 2018

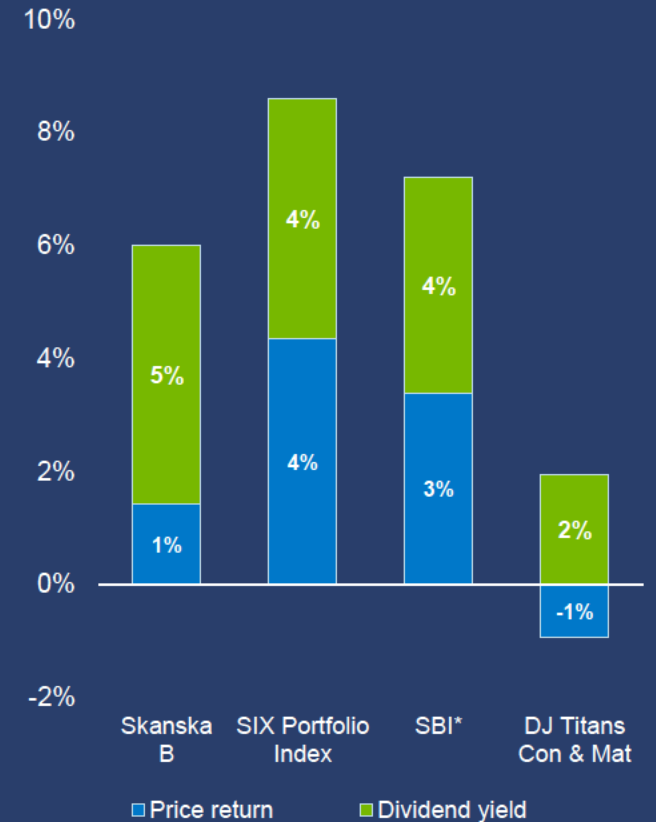
Return on Equity



Dividend



Total Annual Shareholder Return, 5 years



\* Strategic Benchmark Index

# Performance and actions in Construction



Slussen, Stockholm, Sweden

# Construction

## Our markets

### Revenue split 2018:

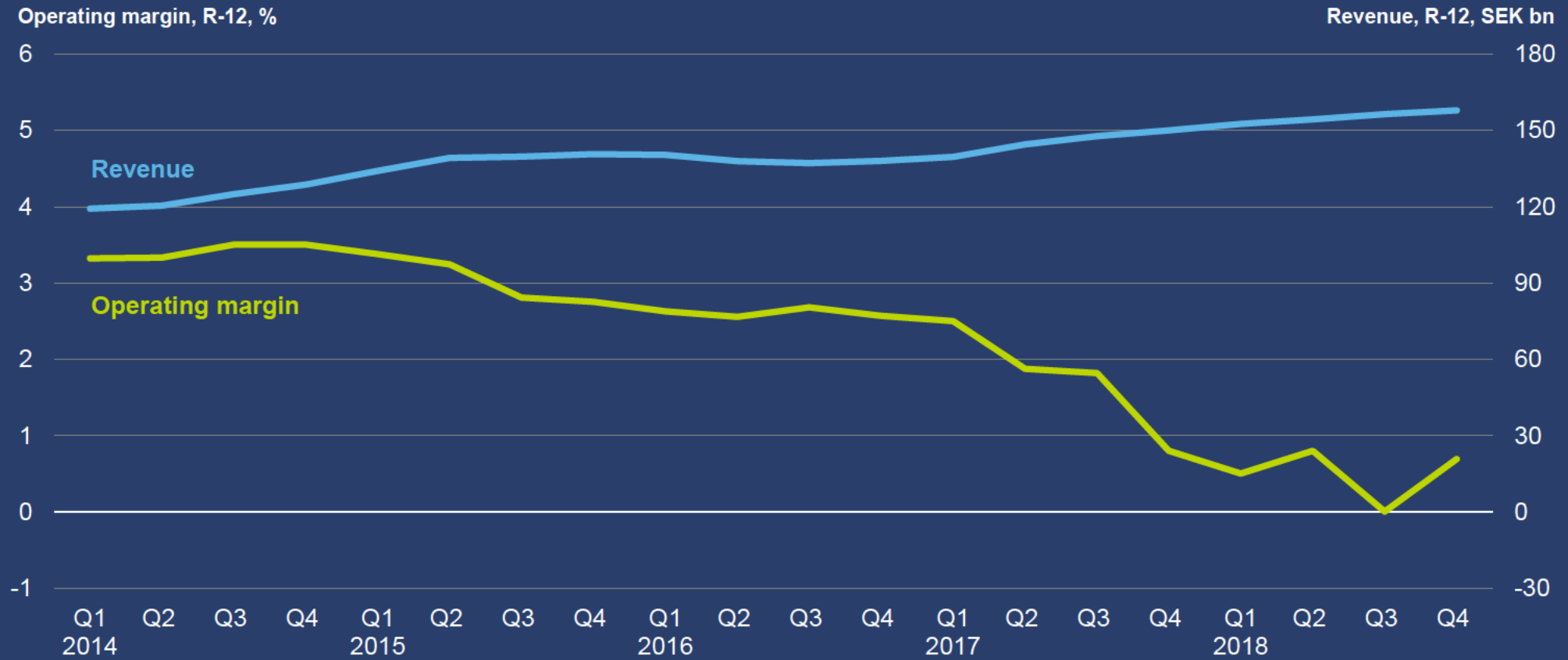
USA	41%
Sweden	22%
UK	14%
Norway	9%
Poland	5%
Finland	5%
Czech Republic/ Slovakia	3%





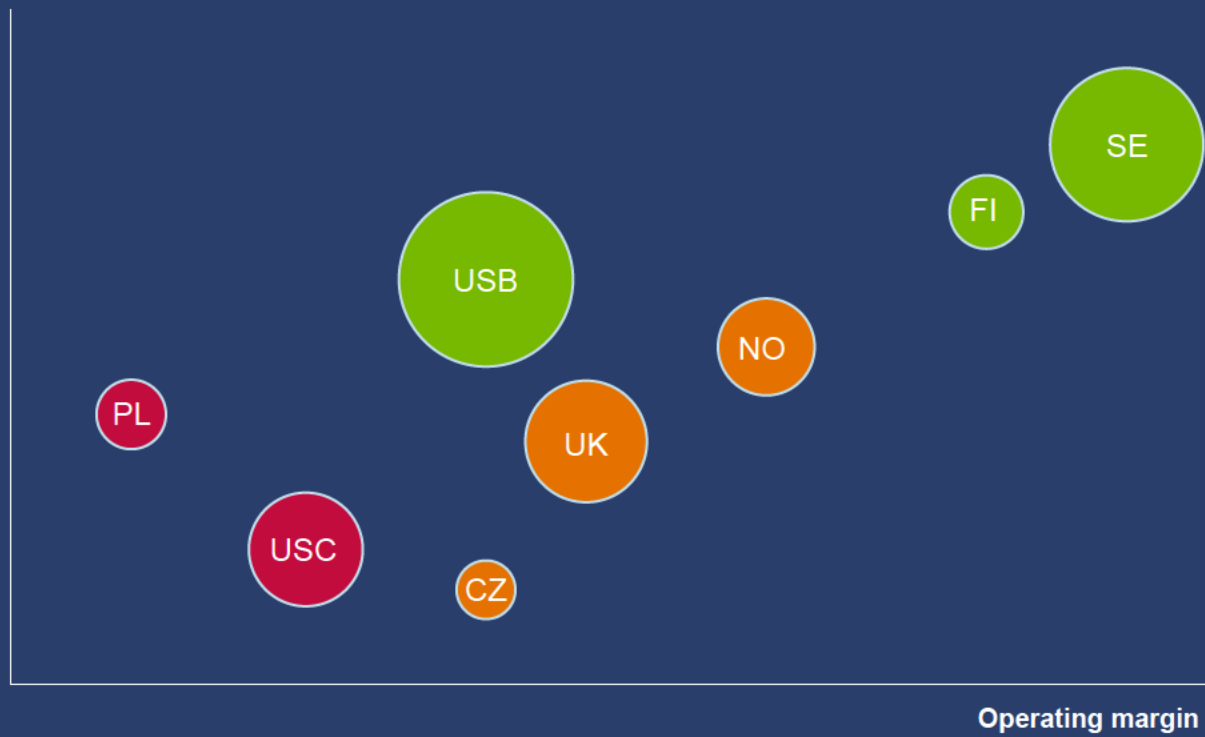
# Construction

## Revenue and operating margin



# Construction Operating margin

Average 5y performance by Construction Business Unit



● Bubble = 2018 Revenue, SEK M



Olympic Stadium, Helsinki, Finland

# Construction

## Measures to improve profitability

- Leave the US power sector and certain contract types
- Major restructuring in Poland
- Focus on core business in the UK
- Focus on core operations in Czech Republic
- More decentralized way of working, accountability
- Reduce costs
- Selective bidding
- Risk and claims management



Waterloo Station and Southwestern Main Line Upgrades, London, UK

# Construction

Measures to improve profitability in **the US**

- Contain and complete low performing projects
- Exiting the power sector and stop bidding for EPC projects
- Stop bidding for mega design-build PPP projects
- Selective bidding in general
- Focus on claims management
- Attract and recruit the most talented and experienced people
- Development and training

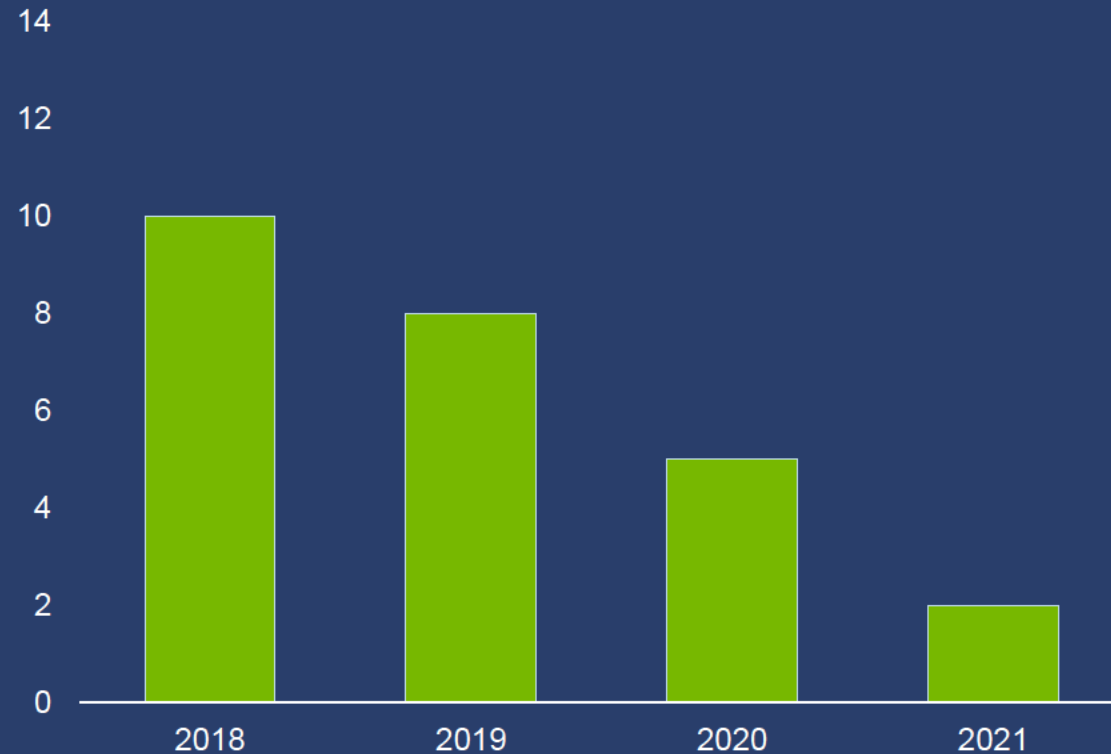


Life Sciences Building, Seattle, USA

# Construction

## Measures to improve profitability in **the US**

Total USA dead revenue, SEK bn



Measures to contain and reduce dead revenue

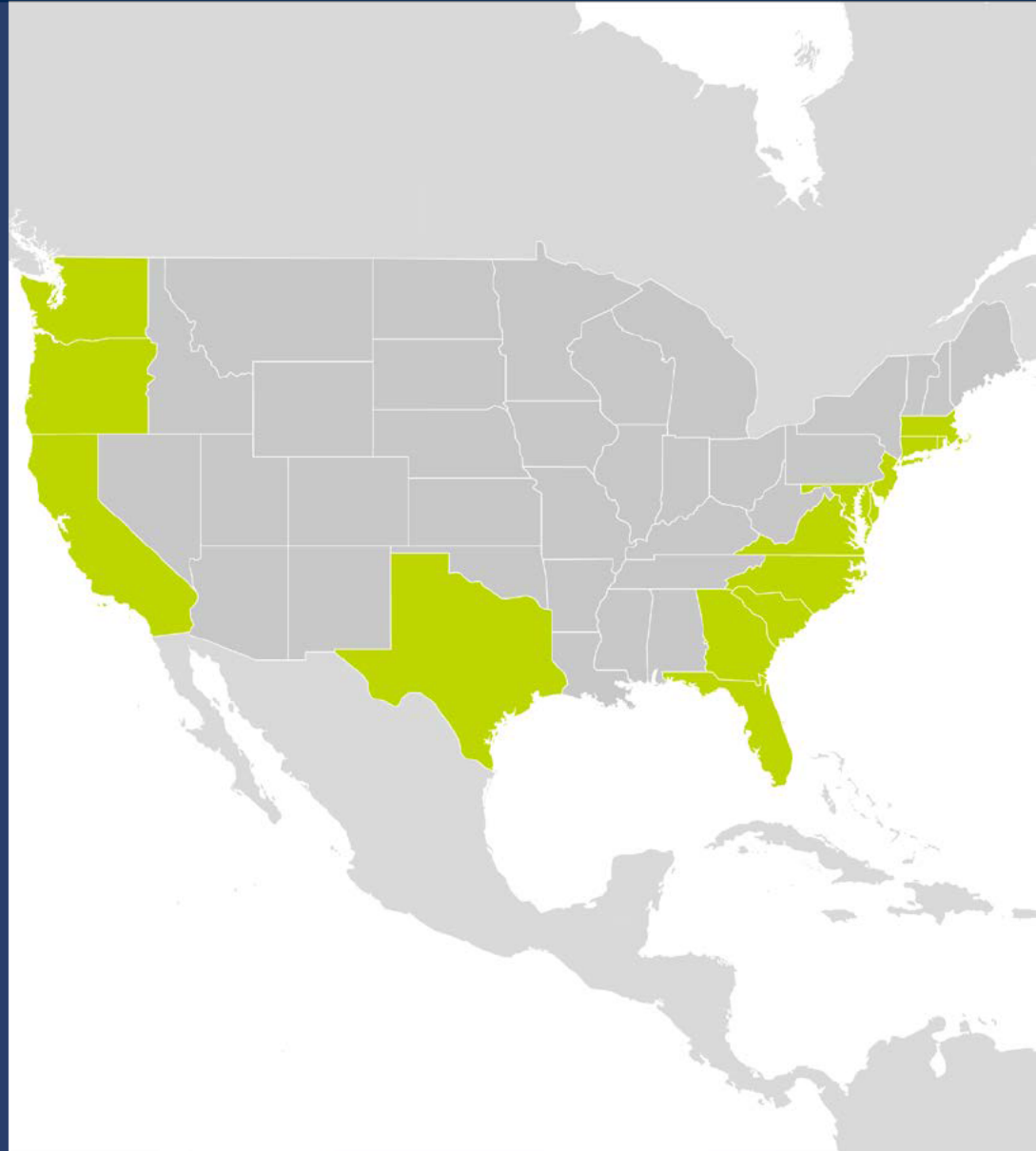
- Task forces
- Risk management
- Claims management

# Construction

Measures to improve profitability in **the US**

Our targeted market going forward

- Building construction
  - Small to large projects in selected states
  - Education, Health care, Offices, Aviation
  - Construction management, “cost plus” contracts
- Civil infrastructure construction
  - Medium to large projects
  - East Coast and West Coast
  - Various fixed price contract types



# Construction

## Measures to improve profitability in **Poland**

- Scaling down and focusing on internal and selected external customers in building and civil construction
- Selective bidding in general
- Improving processes, assurance and control
- Improve expertise
- Development and training

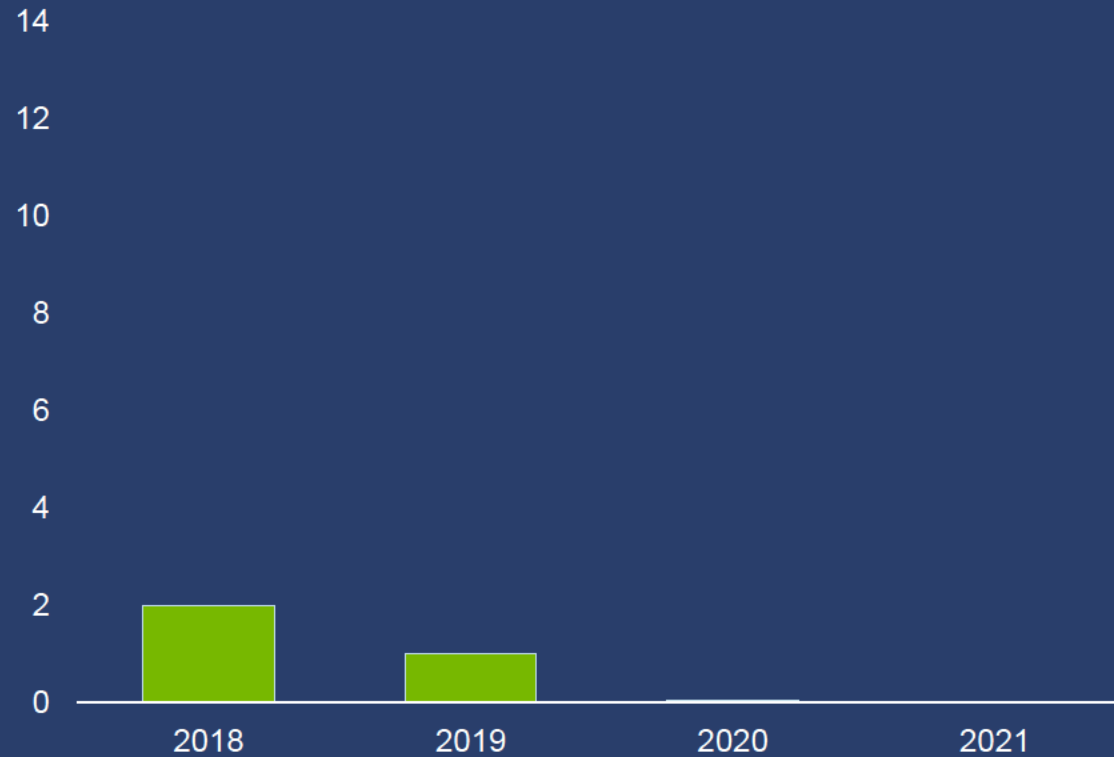


Spark, Warsaw, Poland

# Construction

## Measures to improve profitability in **Poland**

Poland dead revenue, SEK bn



Measures to contain and reduce dead revenue

- Procurement
- Risk management

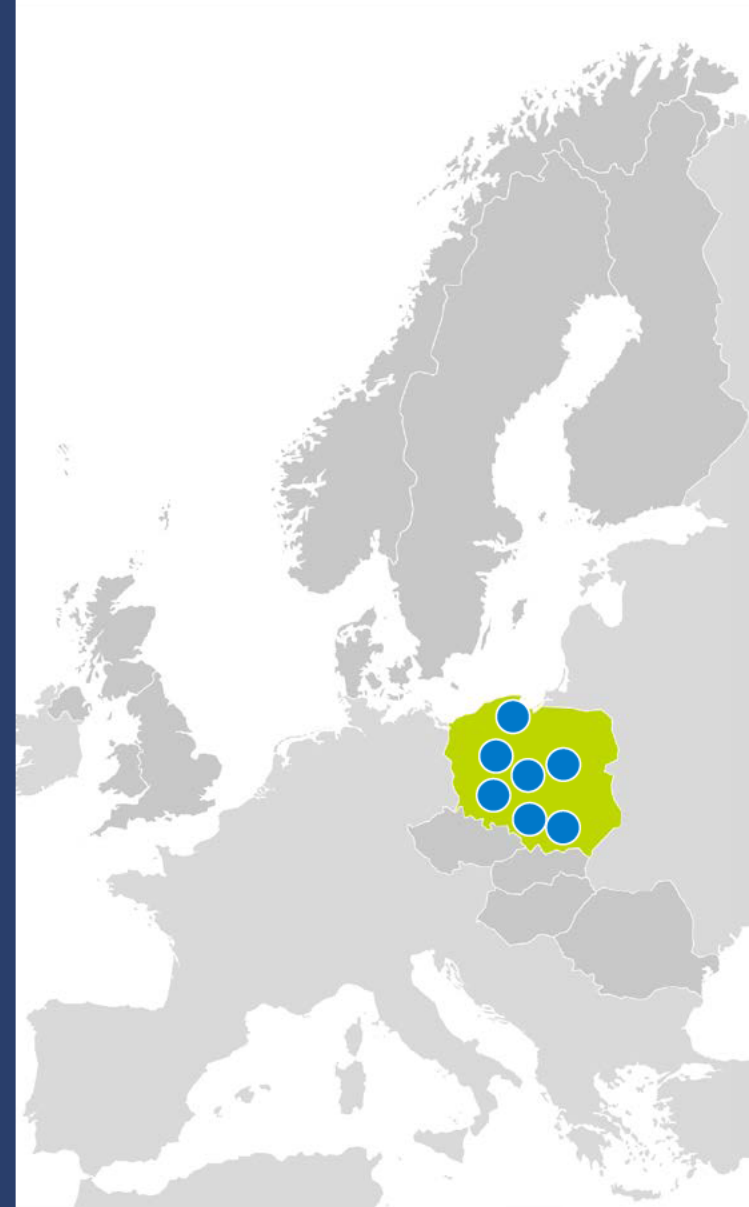


# Construction

Measures to improve profitability in **Poland**

Our targeted market going forward

- Building construction
  - Internal Residential and Commercial Development projects
  - Selected external building clients
- Selected civil infrastructure projects



# Construction

Measures to improve profitability in **the UK**

Our targeted market going forward

- Building construction
  - Non-residential buildings
- Civil infrastructure construction
  - Rails, highways and tunneling
- Selected maintenance projects
- Mainly greater London area



# Construction

Measures to improve profitability in  
**Czech Republic and Slovakia**

Our targeted market going forward

- Building construction
  - Internal Residential and Commercial Development projects
  - Selected external building clients
- Selected civil infrastructure projects



# Construction

## Measures to improve profitability

### Sweden and Finland

- Uphold best in class performance
  - Training, development and succession planning
  - Attract and recruit
  - Values

### Norway

- Improve performance in building construction
- Opportunities in civil infrastructure



# Construction

## Measures to improve profitability

### Claims management

---

Understanding  
Contract  
Terms

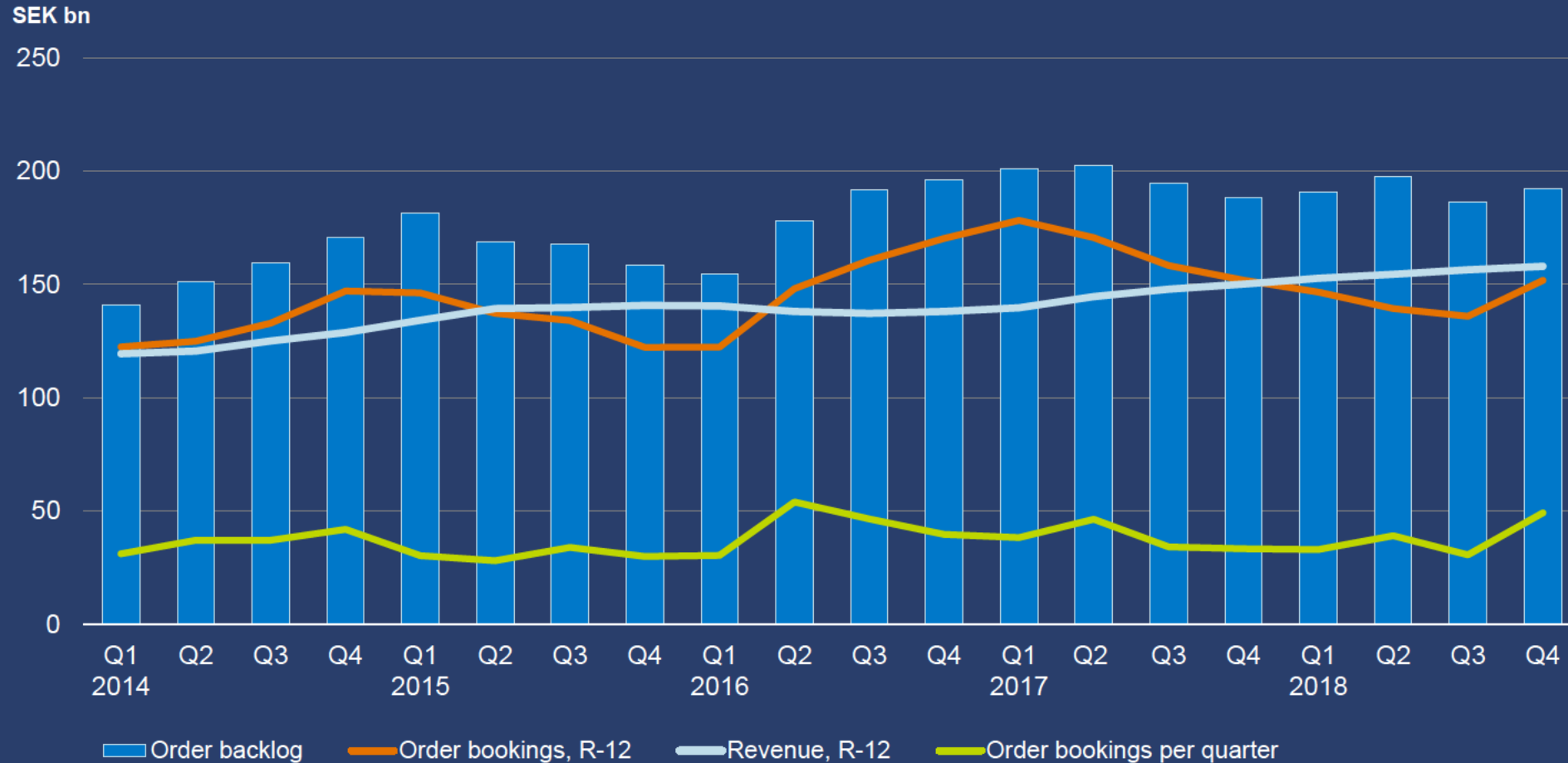
Change Order  
Management

Claims  
Management

Litigation  
Management

# Construction

## Order bookings – De-risking by selective bidding



# Construction

## The market

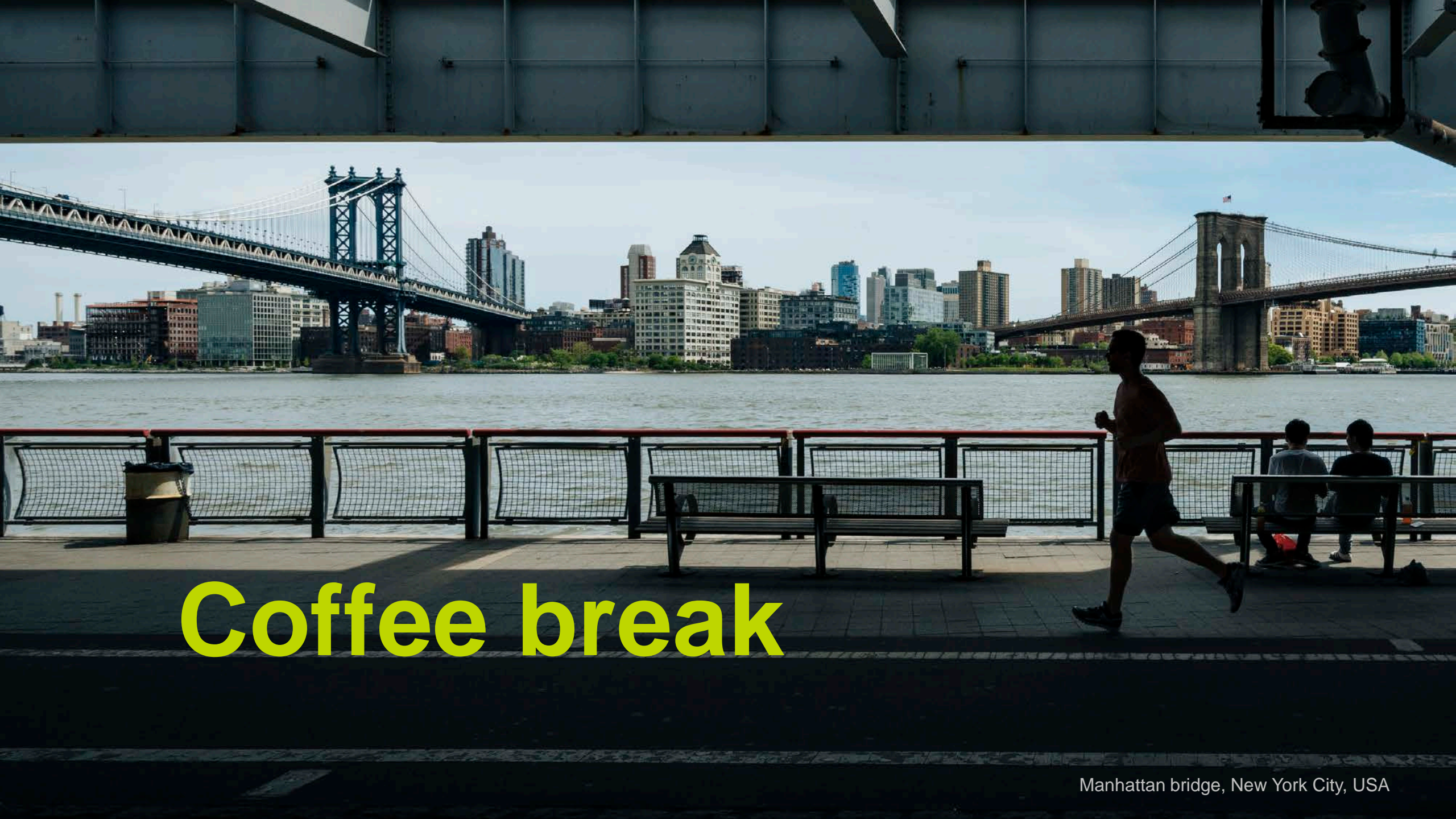
The high activity level in general is expected to level out

Construction	Building – Non-residential	Building – Residential	Civil
Sweden	✓	✓	✓
Norway	✓	✓	✓
Finland	✓	✓	✓
UK	✓		✓
Czech Republic	✓	✓	✓
Poland	✓	✓	✓
USA	✓		✓

# Juvelen Uppsala, Sweden







# Coffee break

# Performance and actions in **Project Development**

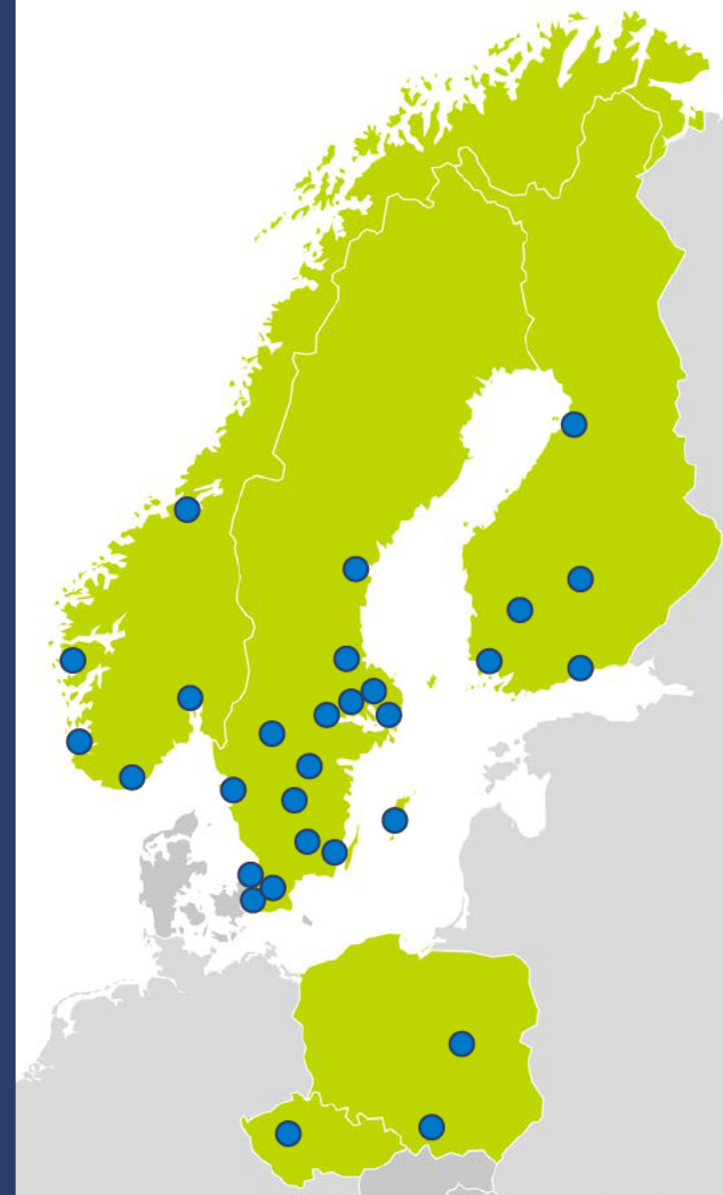


Slussen, Stockholm, Sweden

# Residential Development

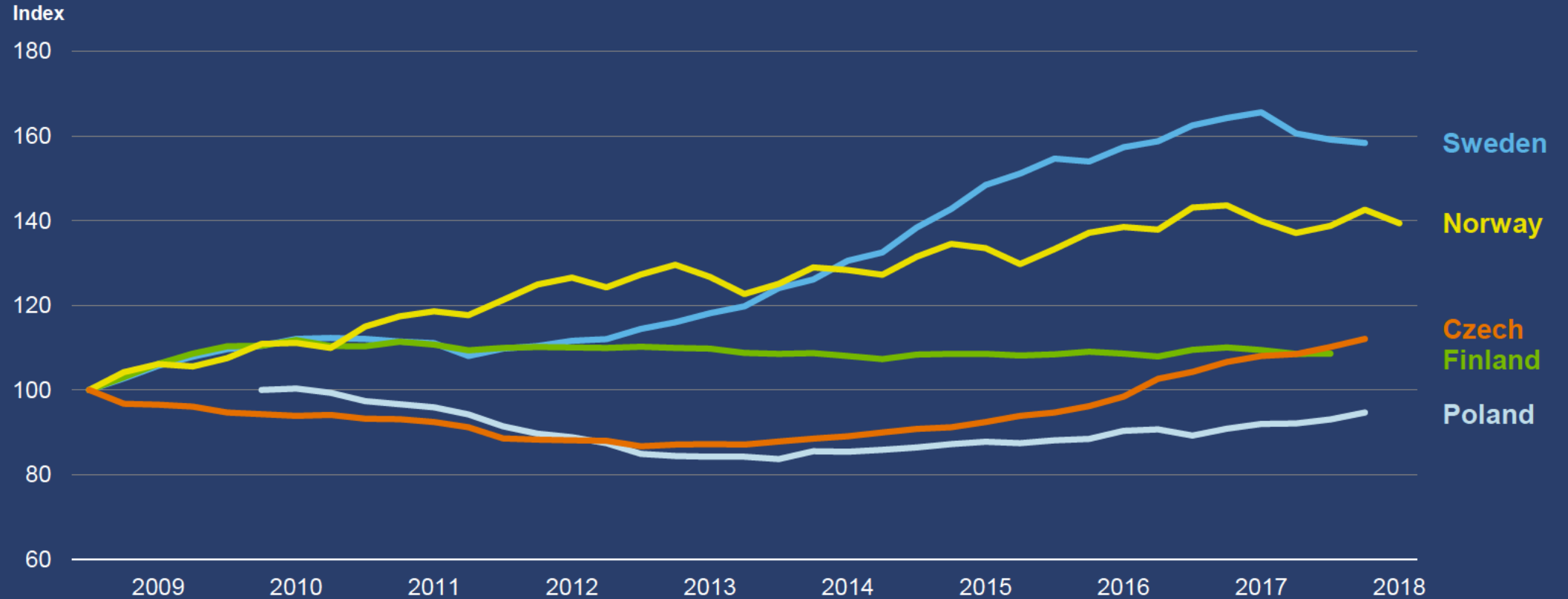
## Our markets and offer

- Operations in the Nordics and Central Europe
- Well diversified in the Nordics, especially Sweden
- Majority of our product offer is in the Core to Affordable range and Green



# Residential Development

## Housing prices (real)



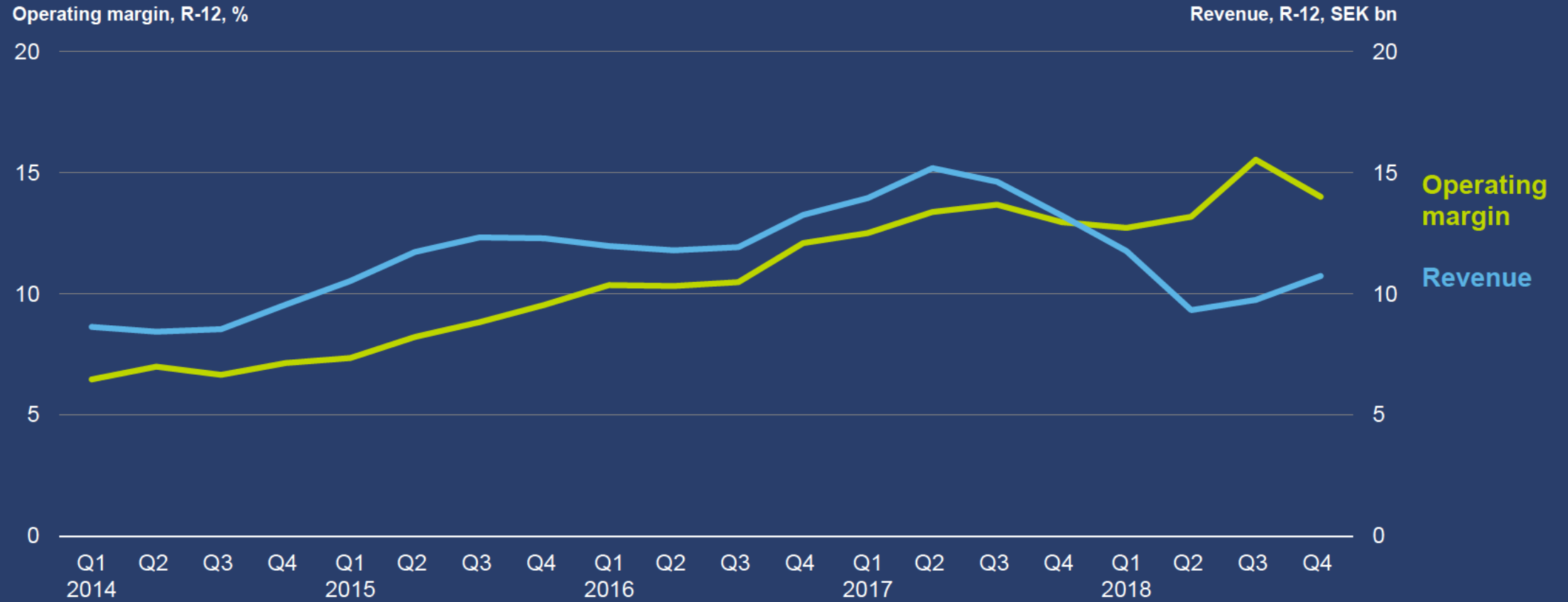
Source: Bank of International Settlements

# Residential Development

## Homes started and sold

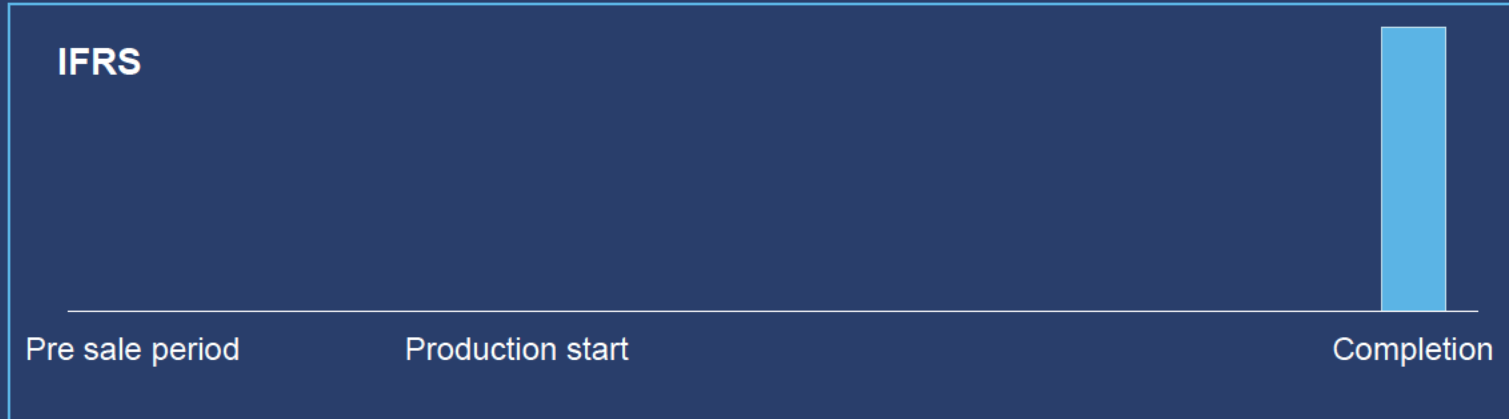


# Residential Development Revenue and operating margin



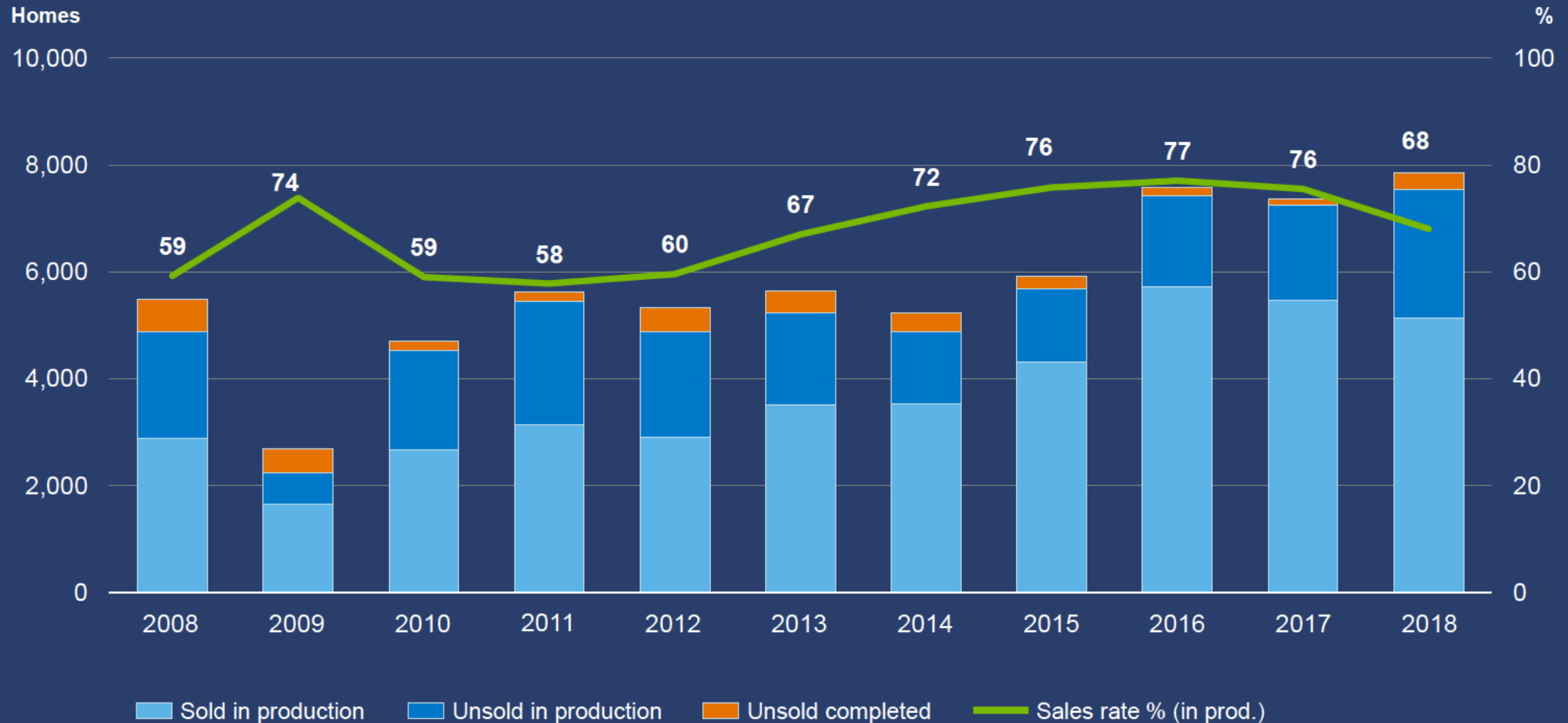
# Residential Development

## Revenue recognition – Segment reporting vs. IFRS



Customer cancellations <5%, usually close to completion and due to credit or health reasons

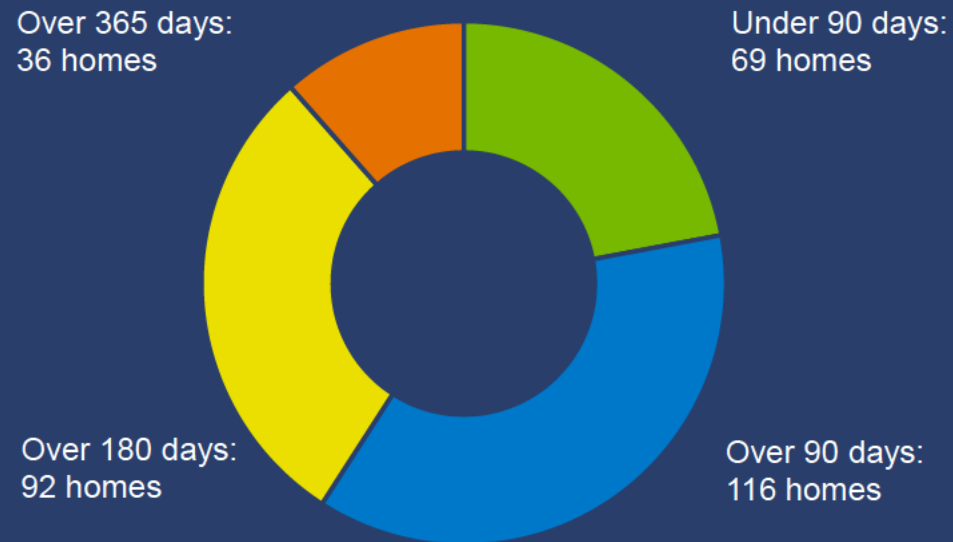
# Residential Development Sales rate





# Residential Development

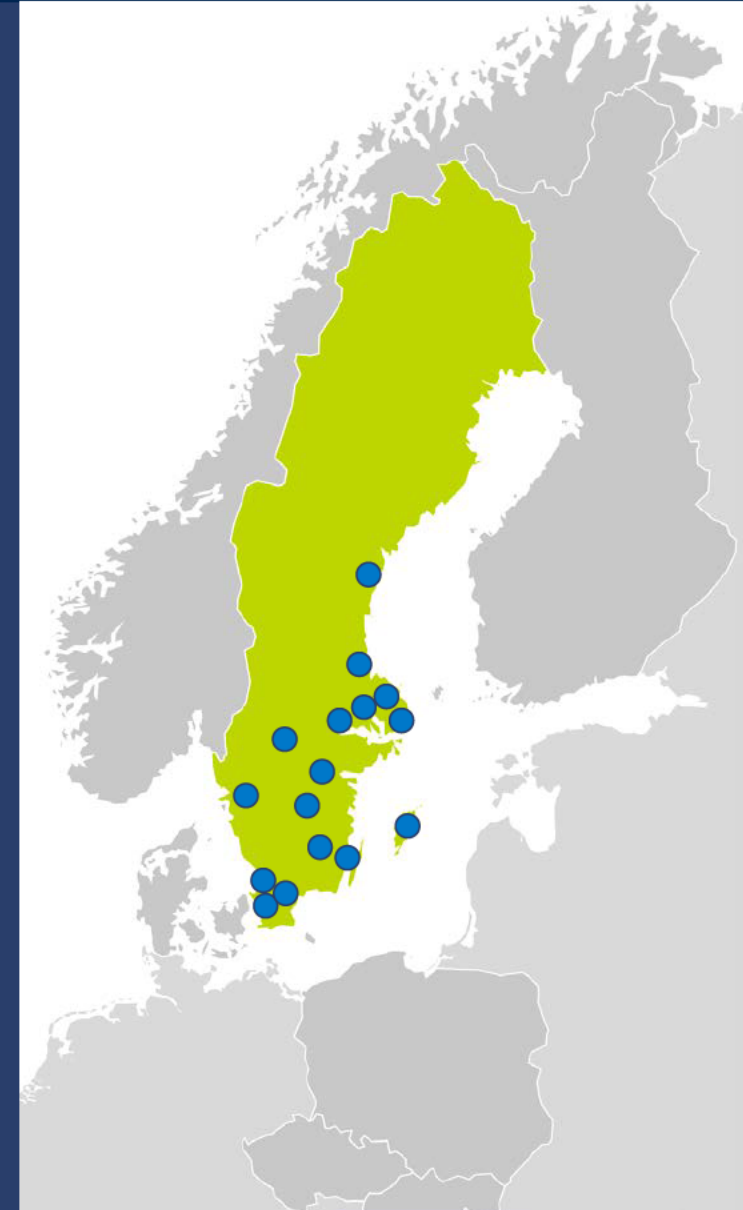
## Completed unsold homes age structure



# Residential Development

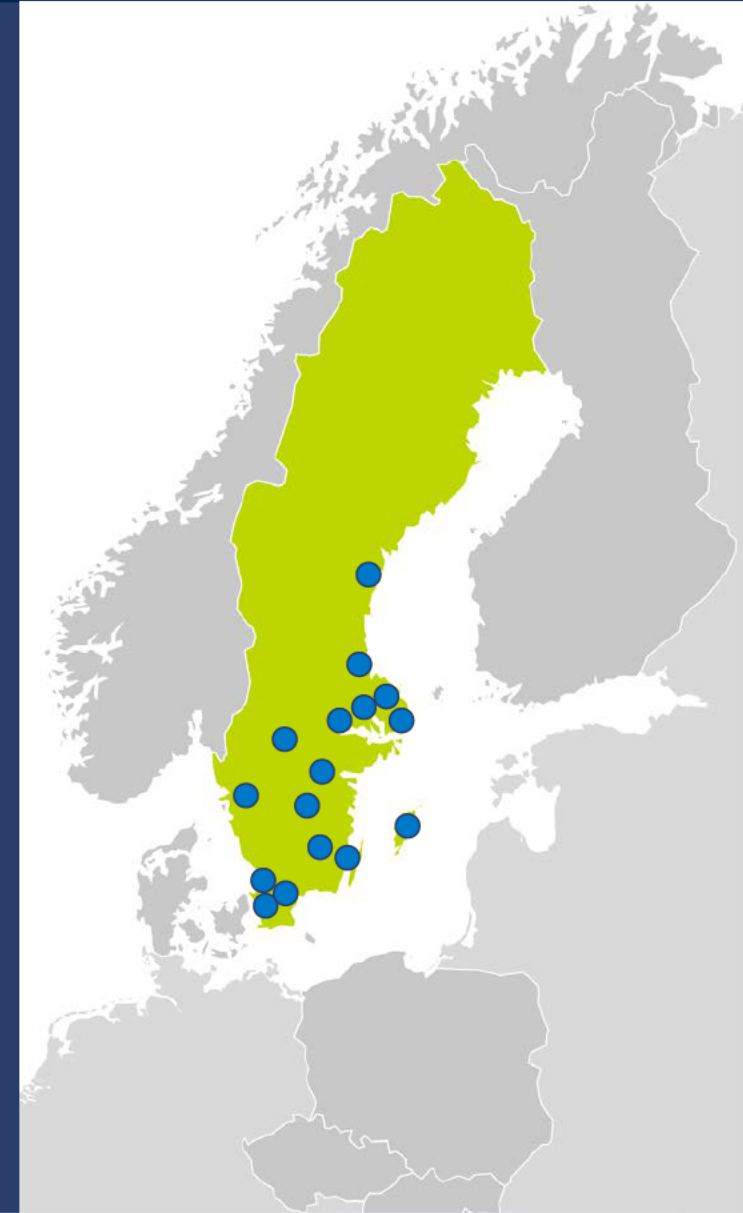
## The Swedish market

- Price correction mainly in Stockholm and in high-end segments
- Oversupply of new built in certain areas
- Lower sales pace in general
- Consumer confidence decreasing
- Bank mortgage more demanding
- Customers signing up closer to completion
- Underlying factors gives support for a strong market long term



# Residential Development Actions

- Monitoring sales rates closely
- Minor discounts in selected projects
- Reviewing cost structure
- Limits on sales exposure
- More selective in project starts
- Reviewing pre-sale limits on project level
- Mix-shift in portfolio, including Rental housing
- Pursue opportunities



# Residential Development Portfolio mix-shift in Sweden

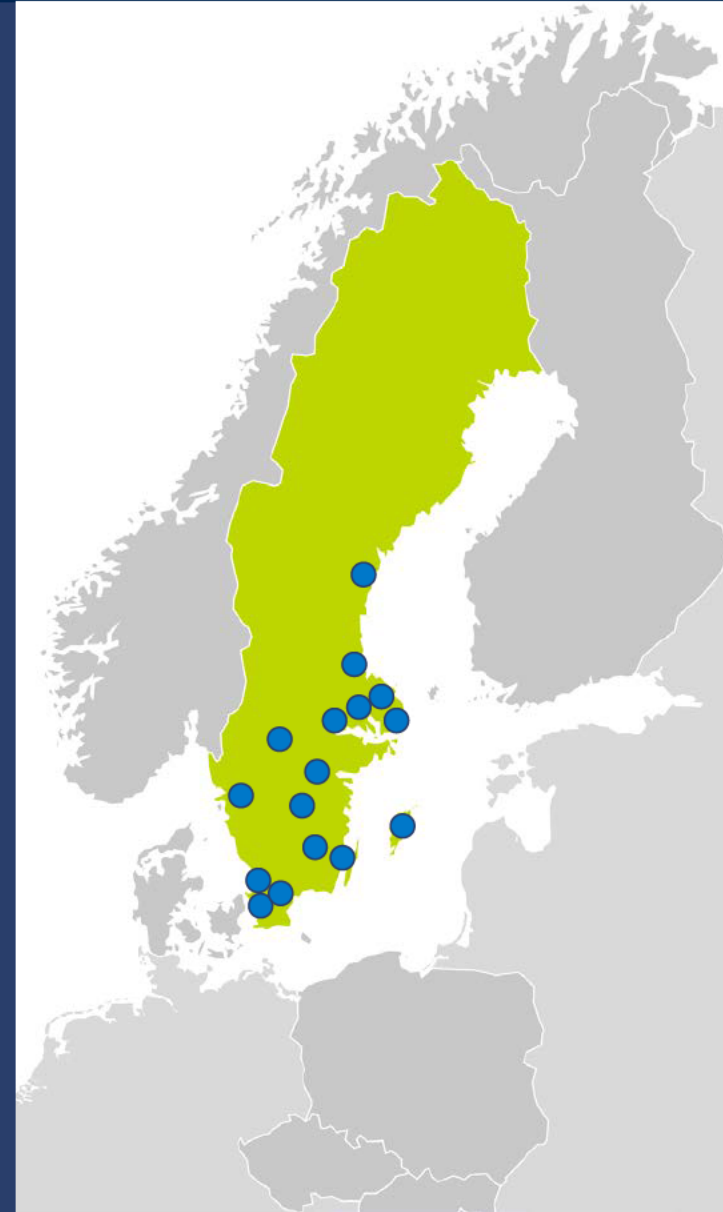
% of sales **2016**



% of sales **2018**



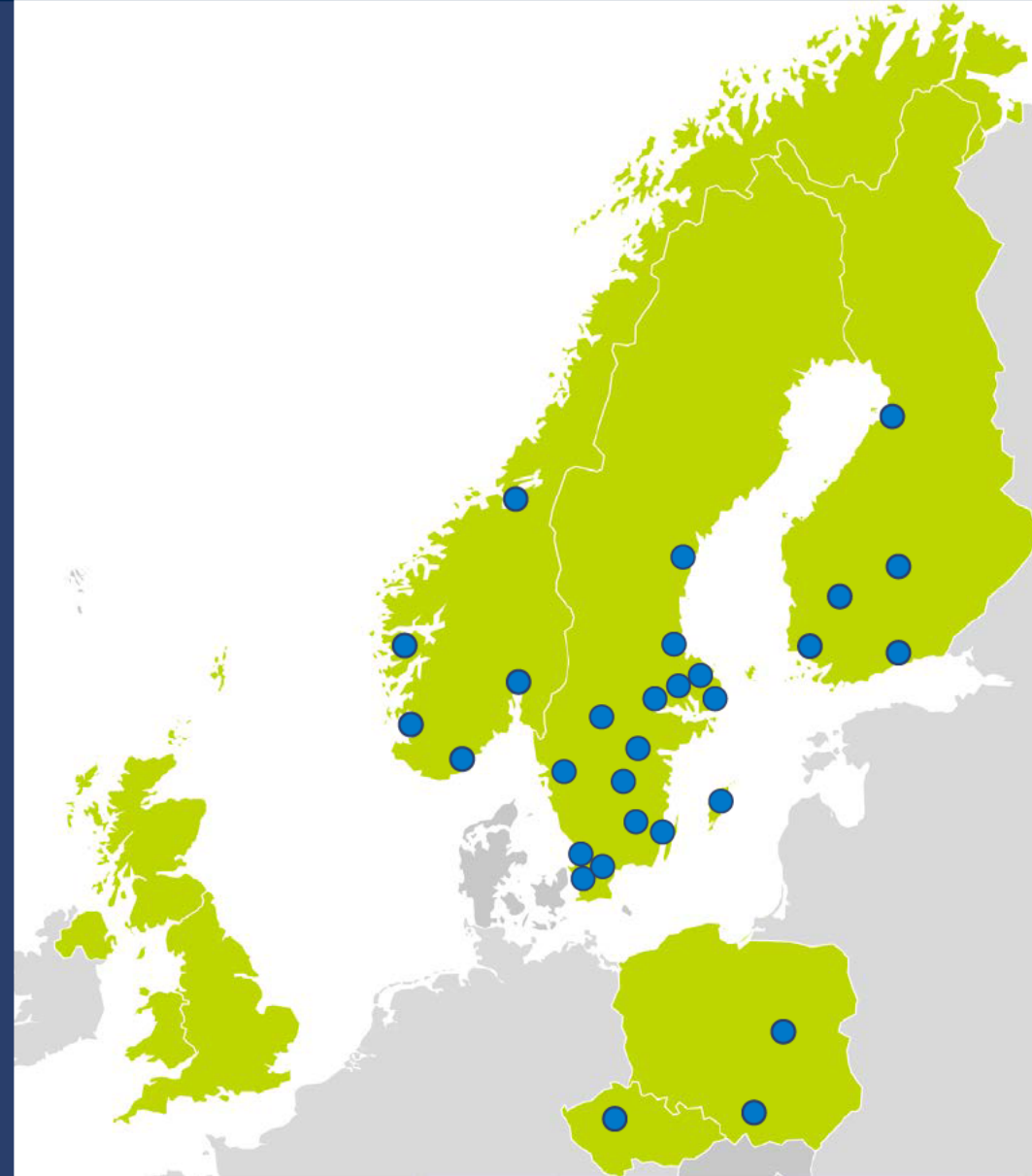
Core BoKlok Rental



# Residential Development

## The way forward

- Manage a challenging market in Sweden and come out stronger
- Focus on capital efficiency and market risk
- Maintain position in Norway and Finland
- Expand in Central Europe
  - Especially Poland, Warsaw and Krakow
- Grow BoKlok in Norway and Finland
- Assess the potential for BoKlok expansion into the UK



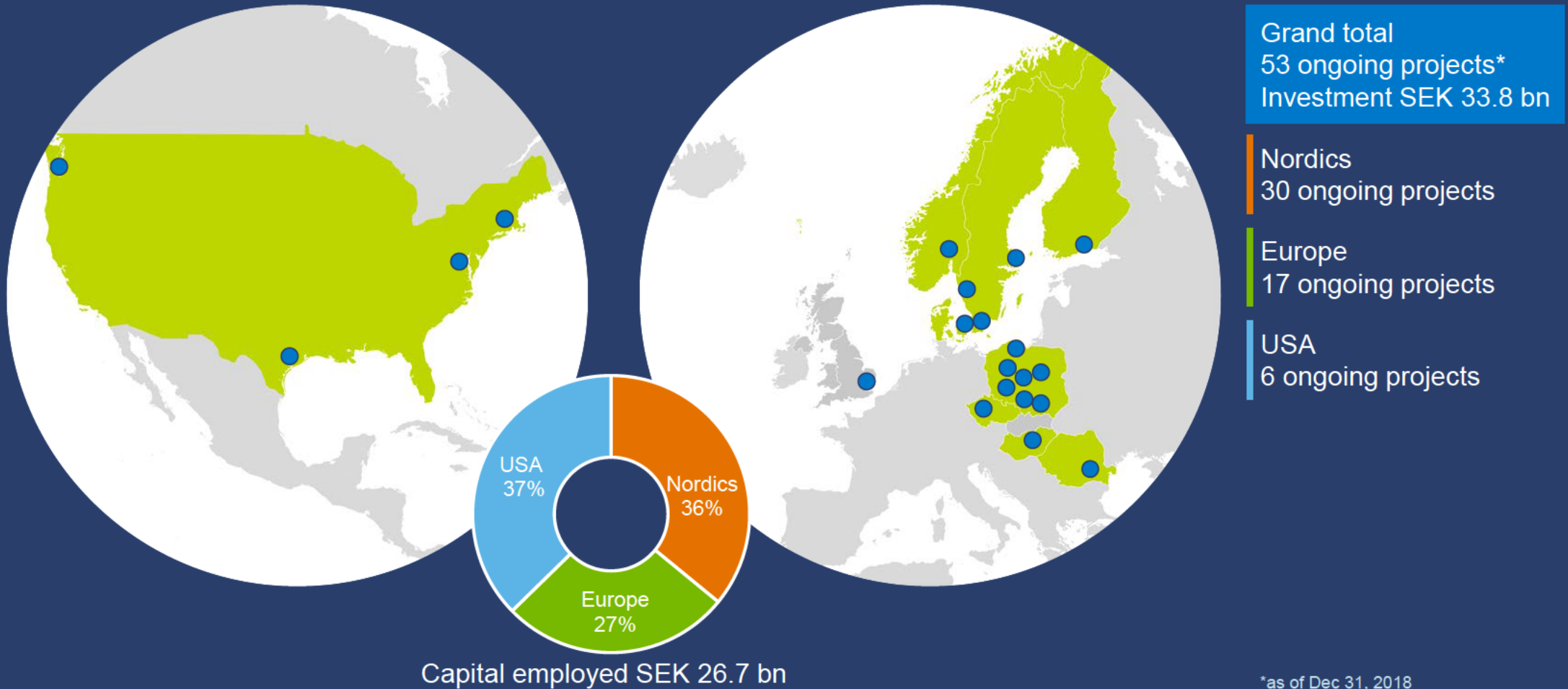
# BoKlok Geografin

## Haninge, Sweden



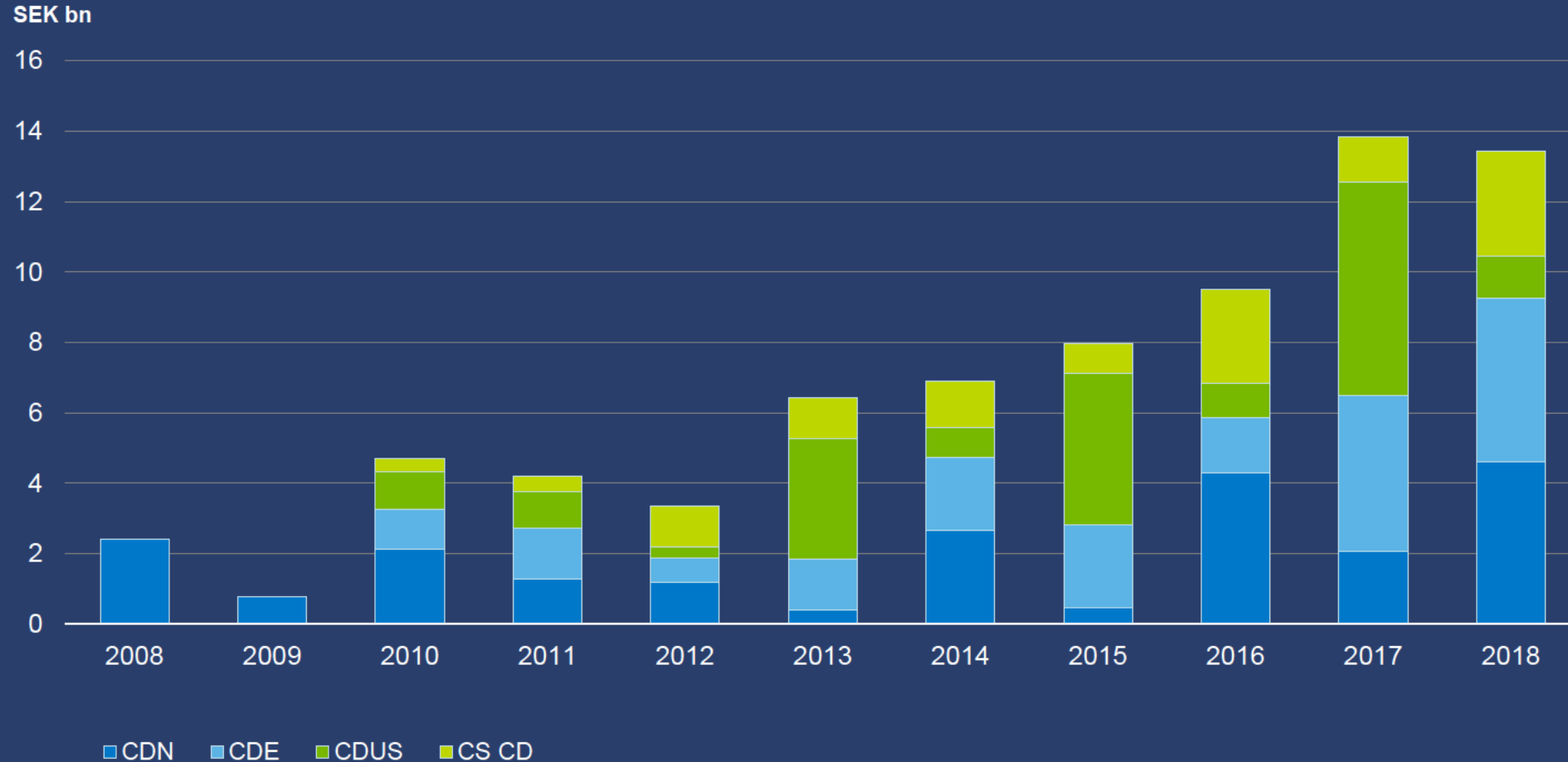
# Commercial Property Development

## Our markets



# Commercial Property Development

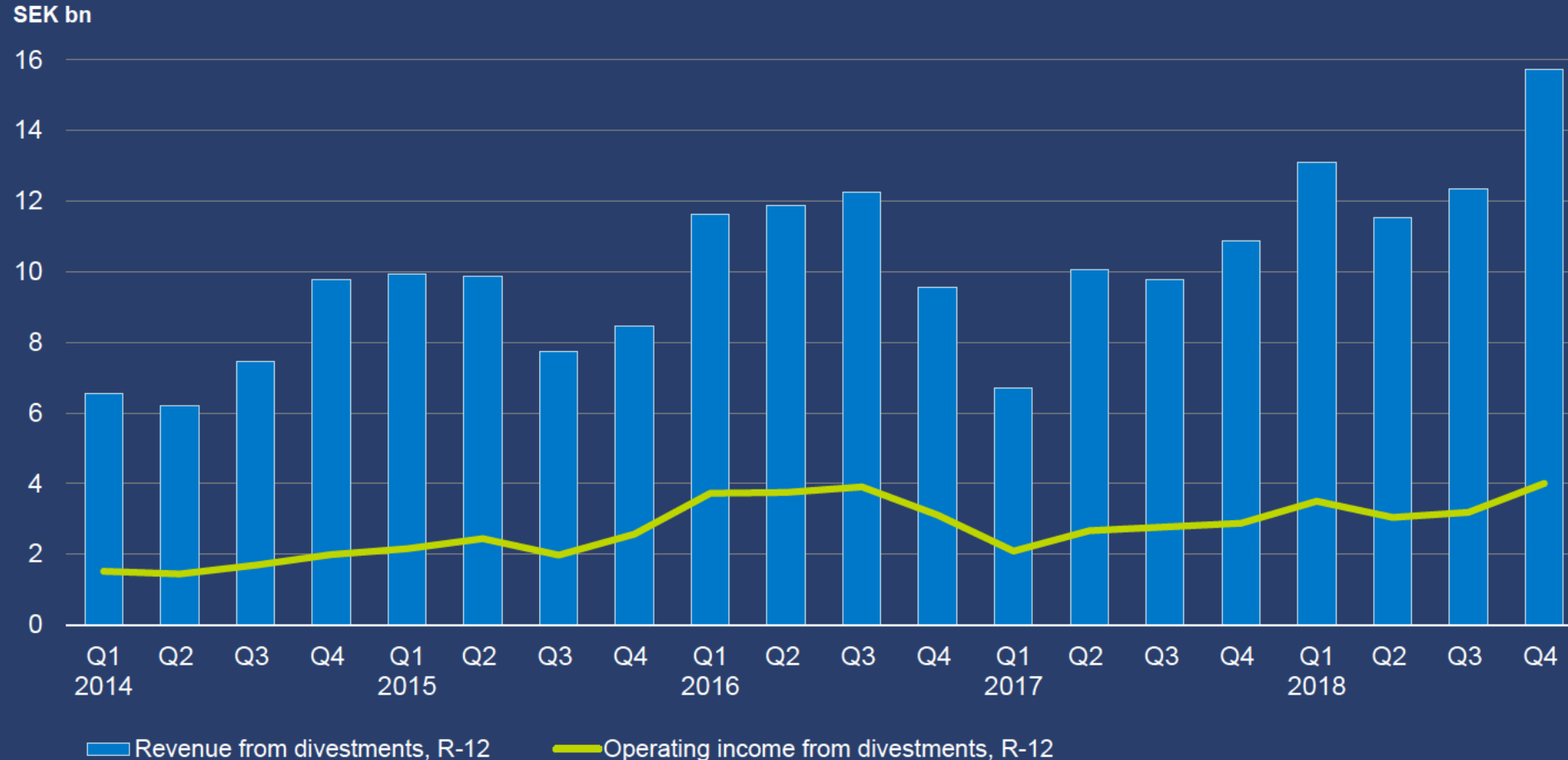
## Project starts, total investments





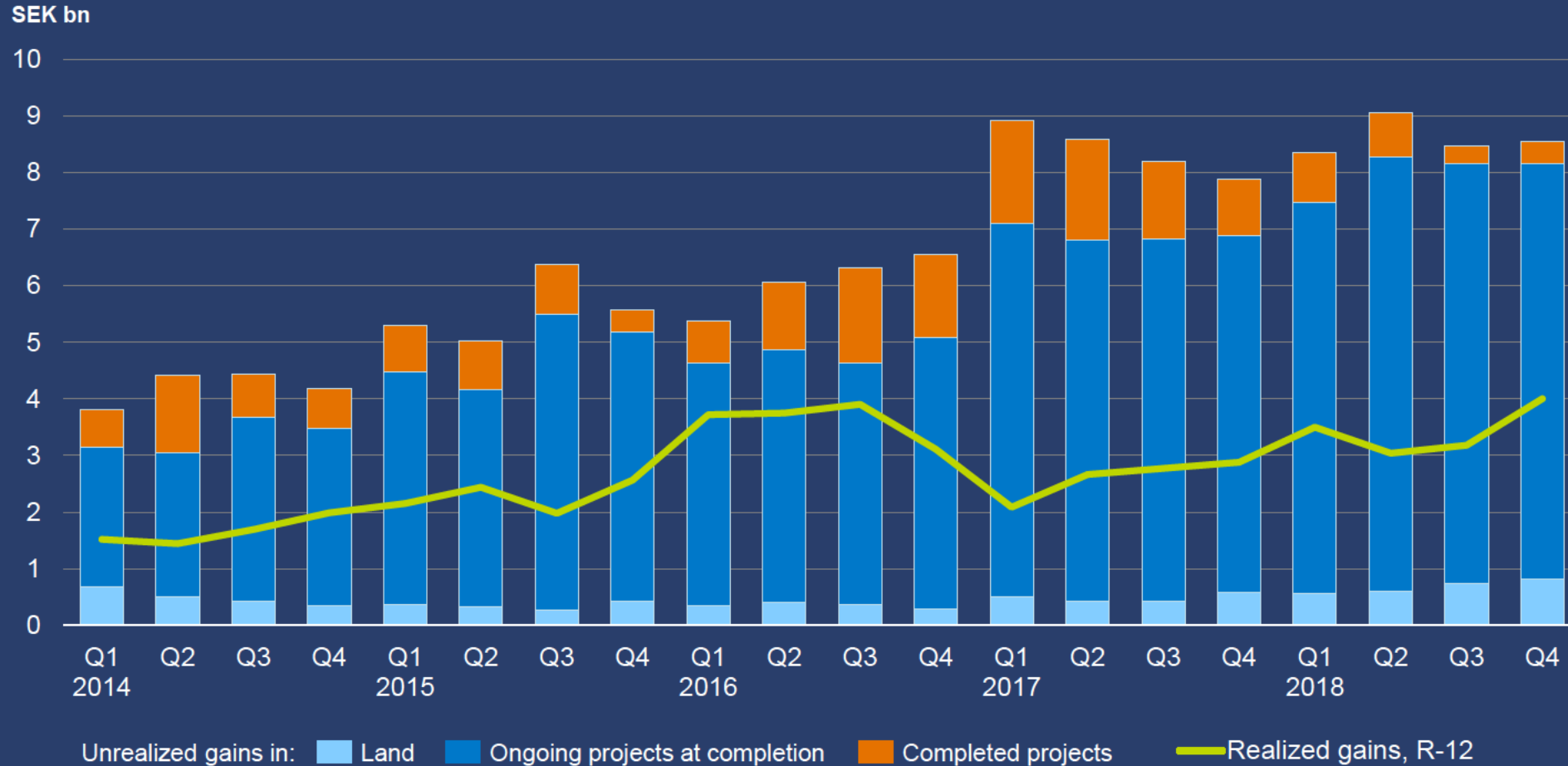
# Commercial Property Development

## Revenue and operating income



# Commercial Property Development

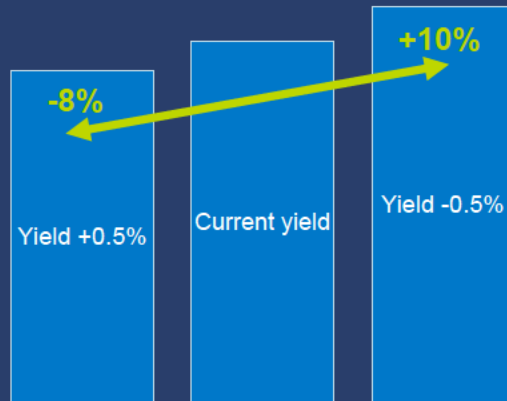
## Unrealized gains



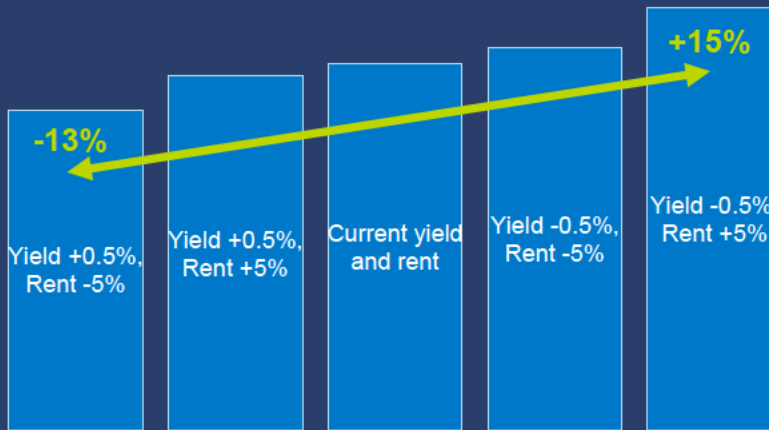
# Commercial Property Development

## Market valuation sensitivity, ongoing projects

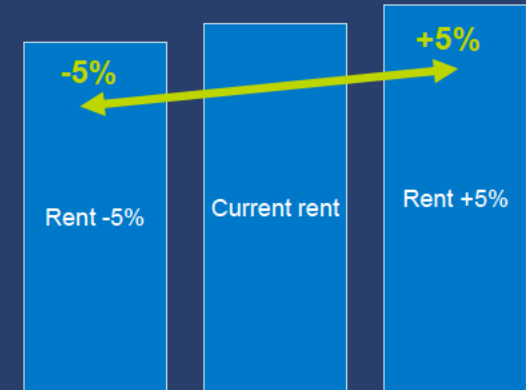
### Yield sensitivity



### Yield/Rent sensitivity

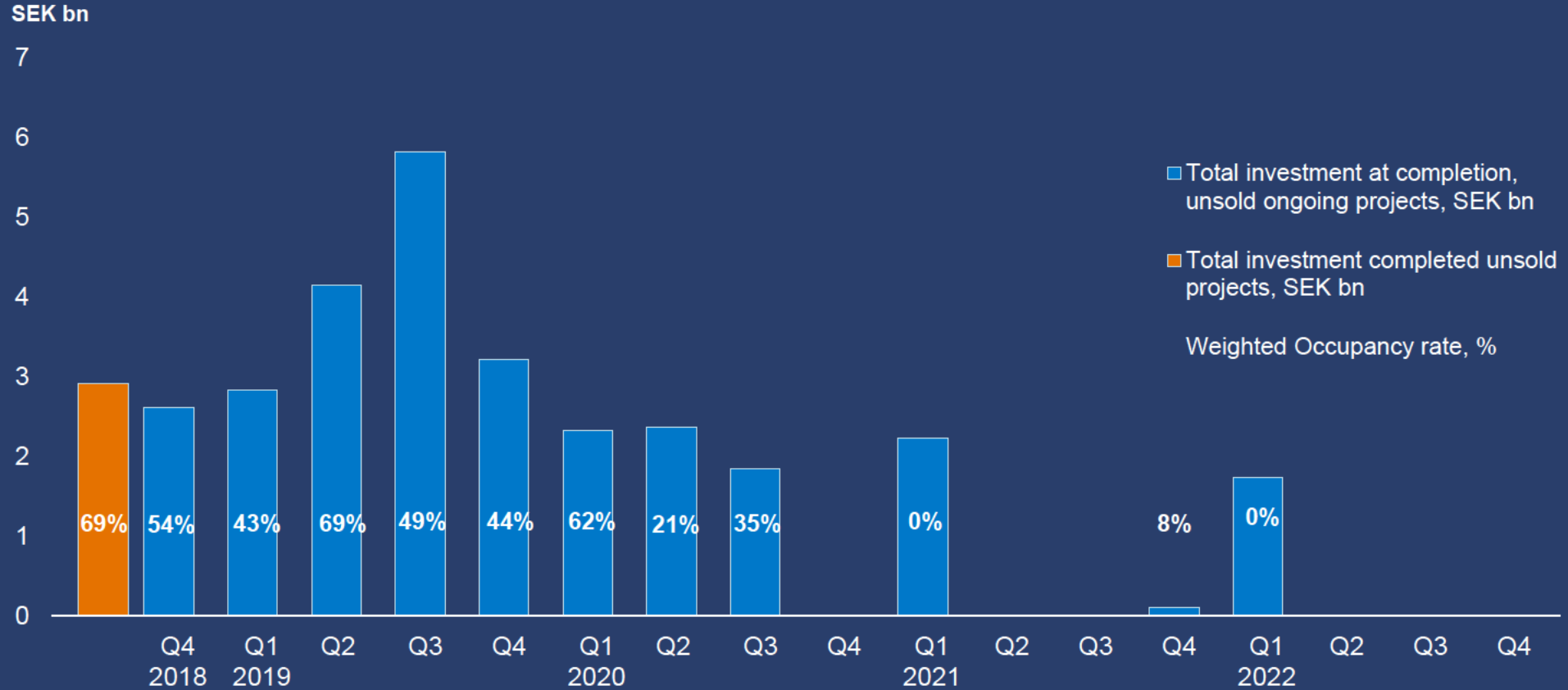


### Rent sensitivity

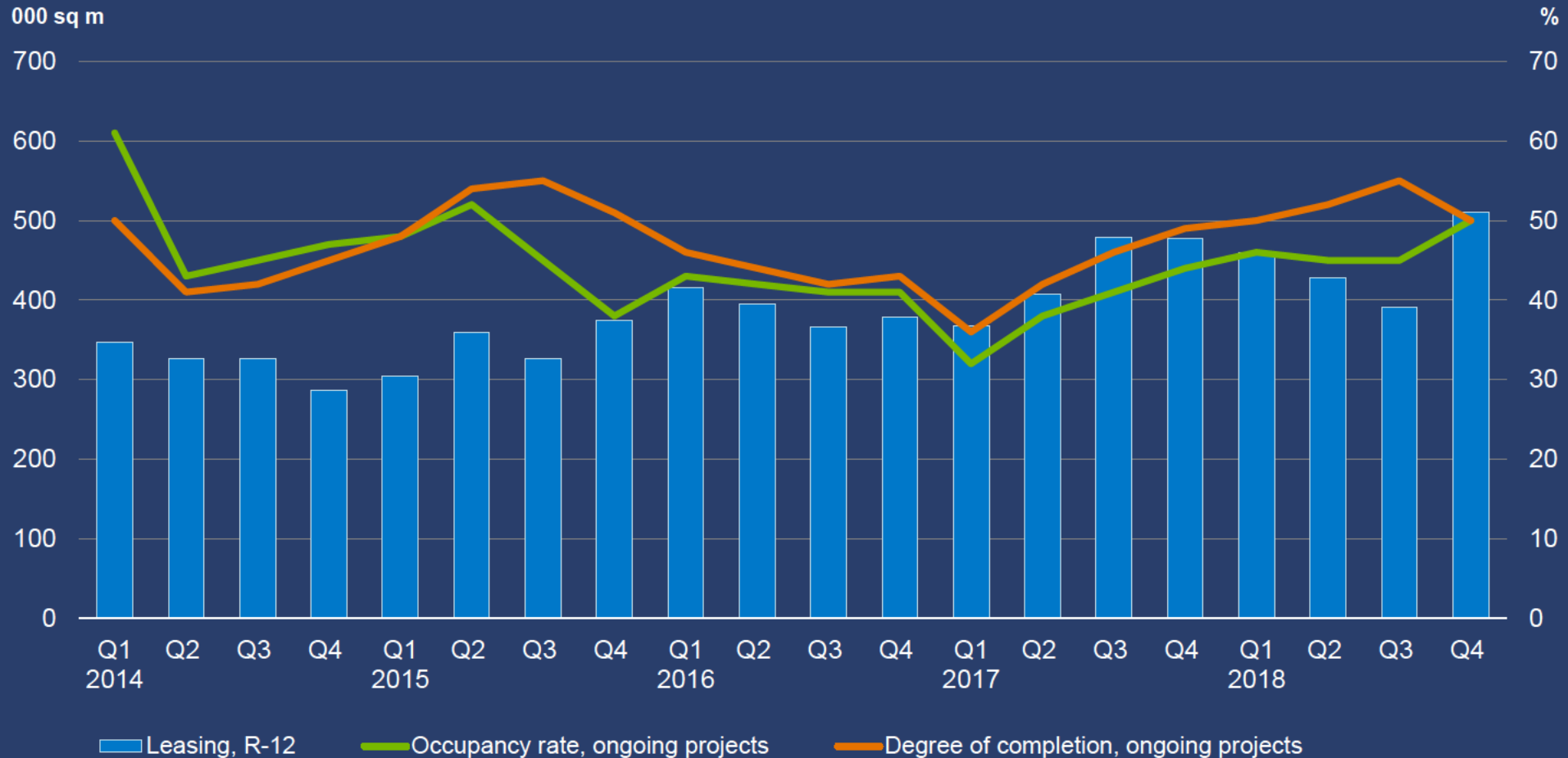


# Commercial Property Development

## Completion profile, unsold projects



# Commercial Property Development Leasing



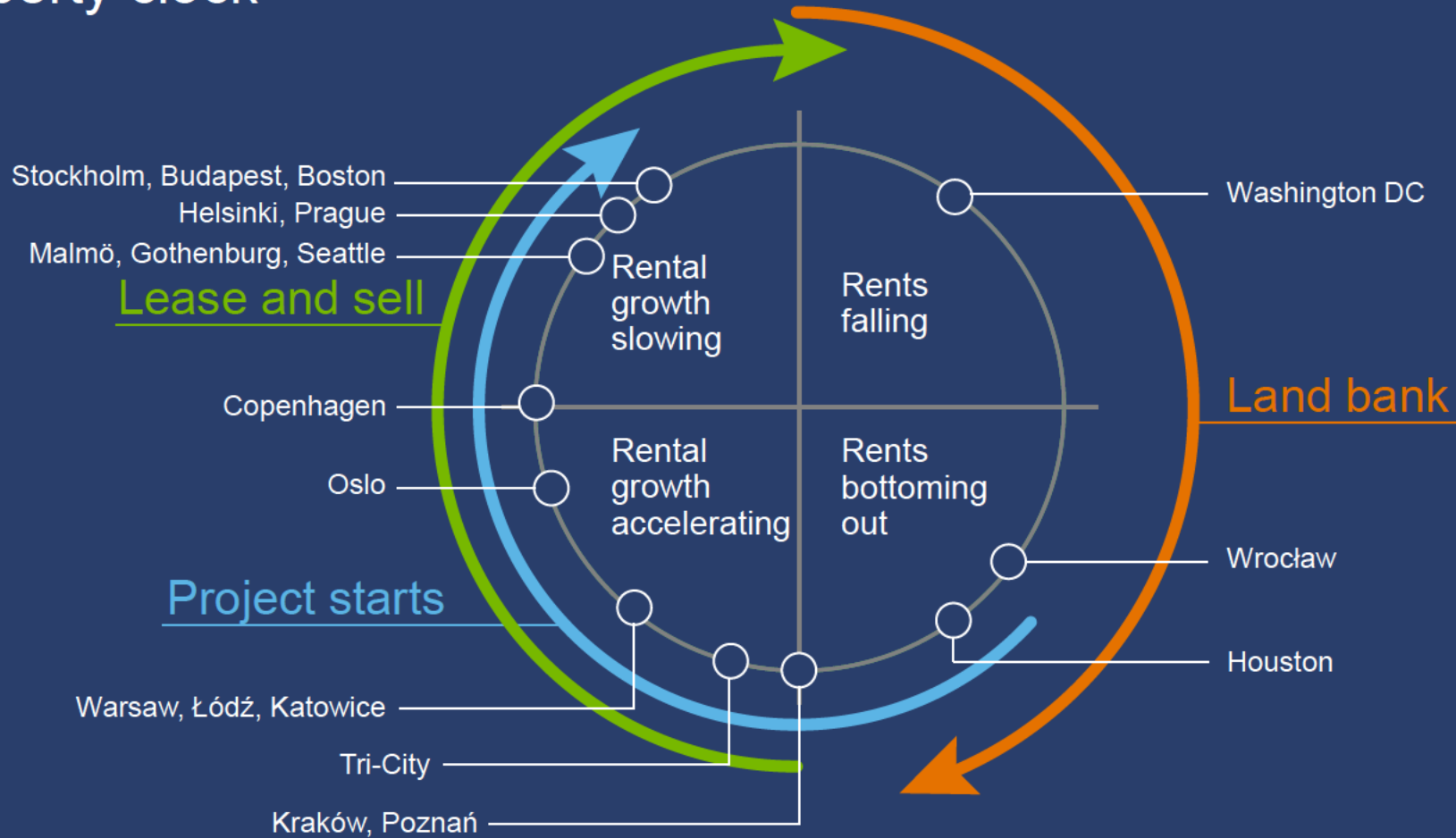
# Commercial Property Development

## Historical long term development – investment yields

Our markets in	2008	2018
Nordics	6.5 – 4.8%	4.3 – 3.5%
Central Europe	8.3 – 6.3%	7.3 – 4.7%
USA	6.3 – 5.3%	6.6 – 4.8%

Source: Nordanö, JLL, CBRE, Colliers, C&W, Real Capital Analytics

# Commercial Property Development Property clock



Source: Jones Lang LaSalle

# Commercial Property Development

## The value of green buildings

1

**Green buildings** are a competitive differentiator

2

**Green buildings** attract tenants and owners and support their brands

3

**Green buildings** are cost-effective and saves energy

4

**Green buildings** can increase rental rates

5

**Green buildings** mitigate risks and support communities



Corso Court, Prague, Czech Republic



# Commercial Property Development

## The way forward

- Strong platform built up over the years
- Controlled expansion
- Maintain strong position in Nordics and Central Europe
- Grow stronger in current US markets
- Enter the Los Angeles market
- Follow the market development and our risk exposures closely
- Build future pipeline



2+U, Seattle, USA

# Capitol Tower Houston, USA



# Infrastructure Development

- Focus on creating and realizing the values in the portfolio
- Starting Q1 2019 Infrastructure Development stream reported in Central on a separate line

## Project Development

Residential  
Development



Commercial  
Property  
Development



Infrastructure  
Development



# Infrastructure Development

Project portfolio, SEK 3.6 bn in Net Present Value

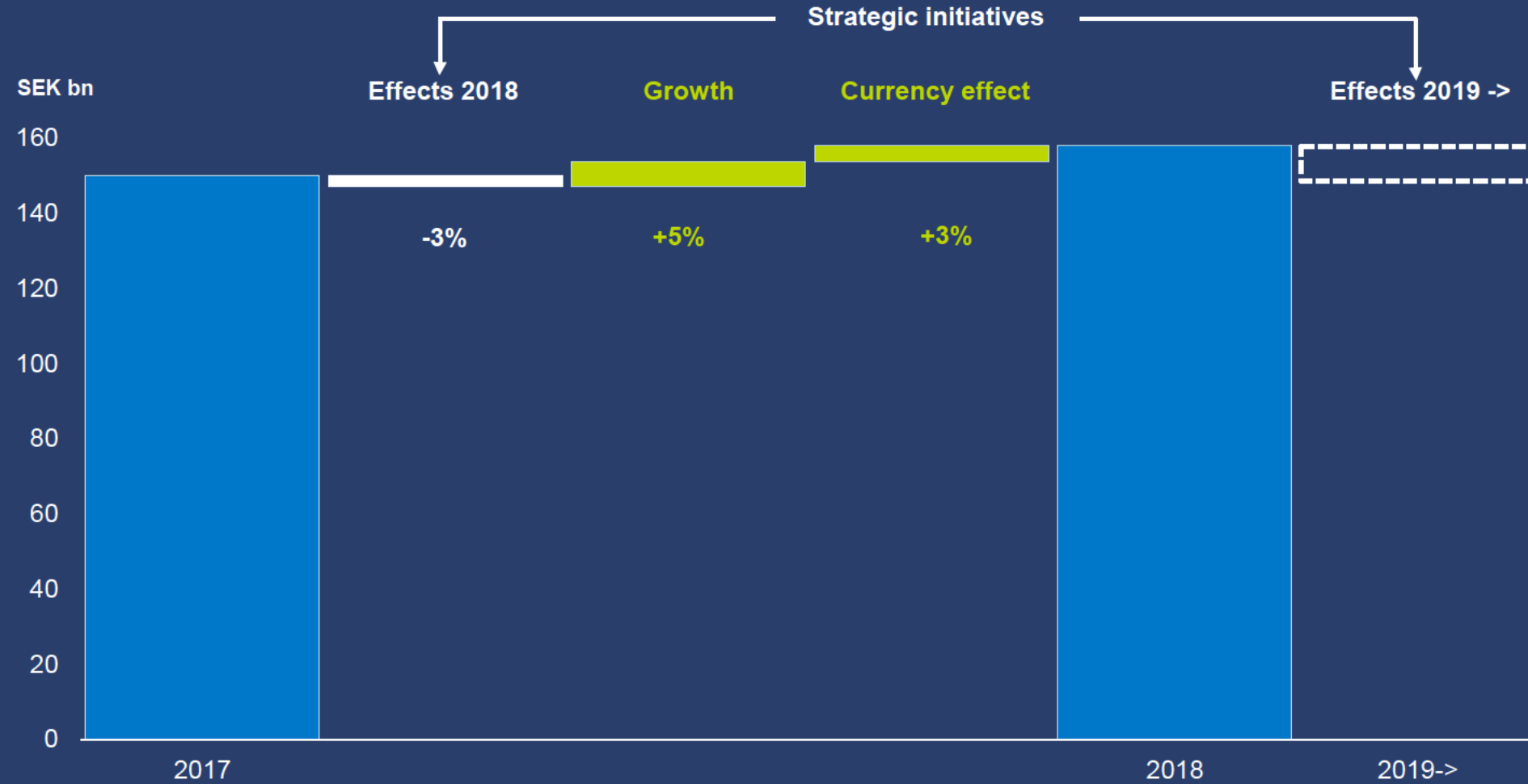


# Financials

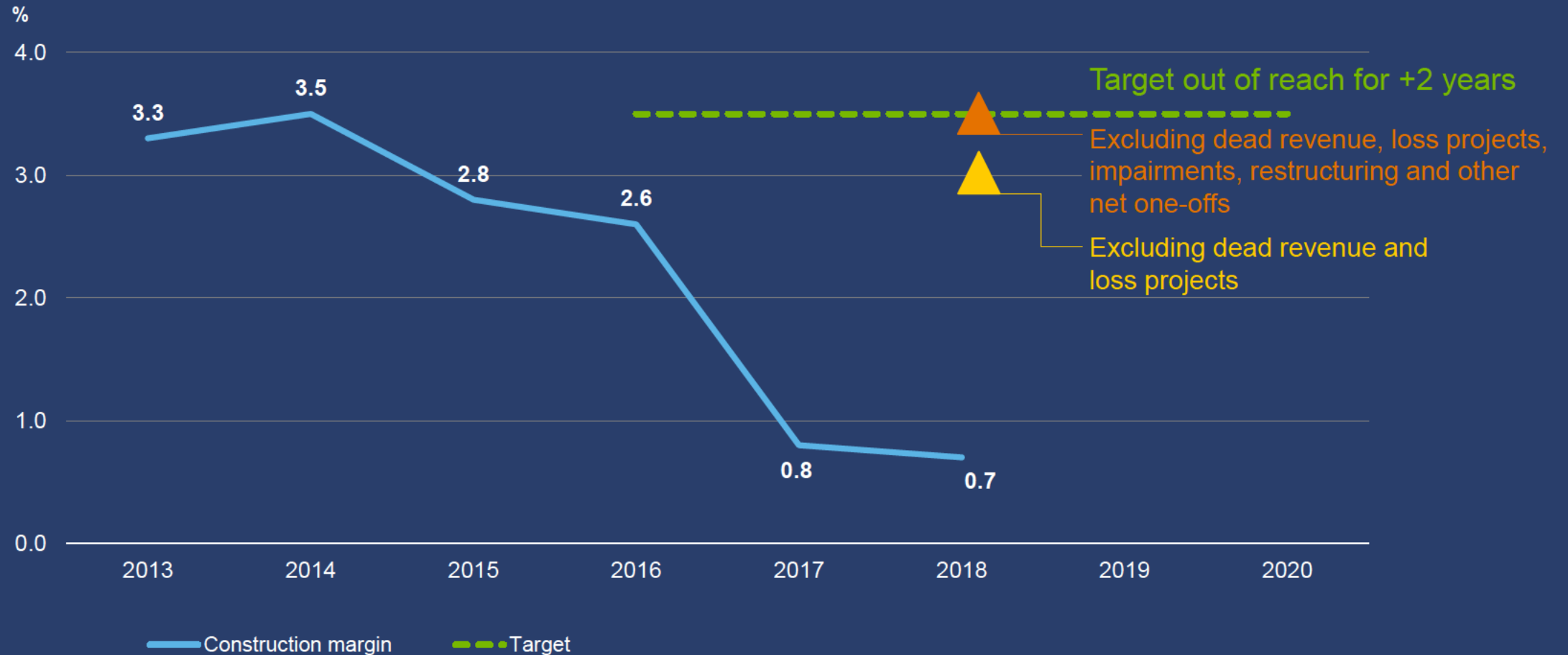


Slussen, Stockholm, Sweden

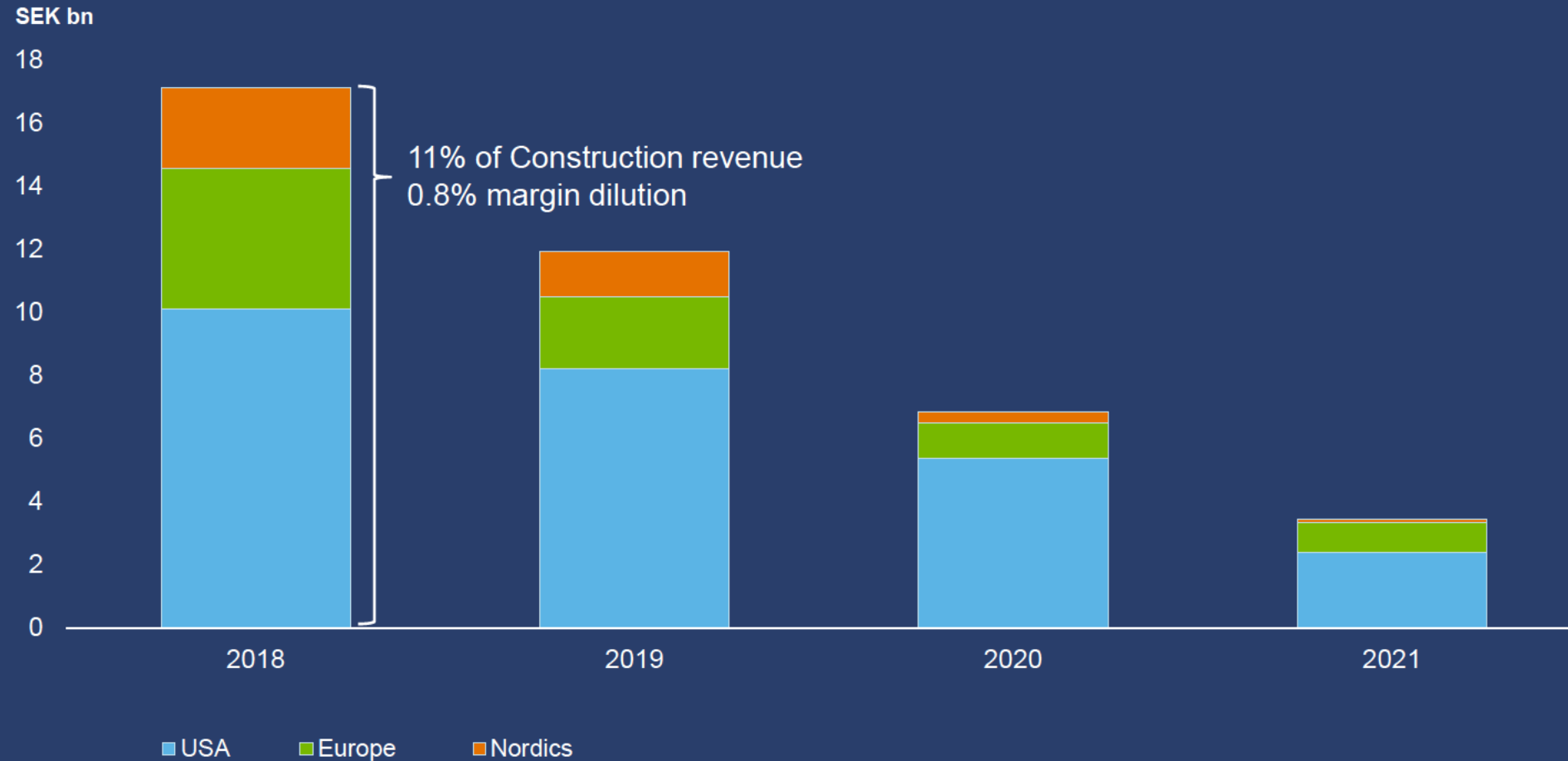
# Construction Revenue



# Construction Operating margin

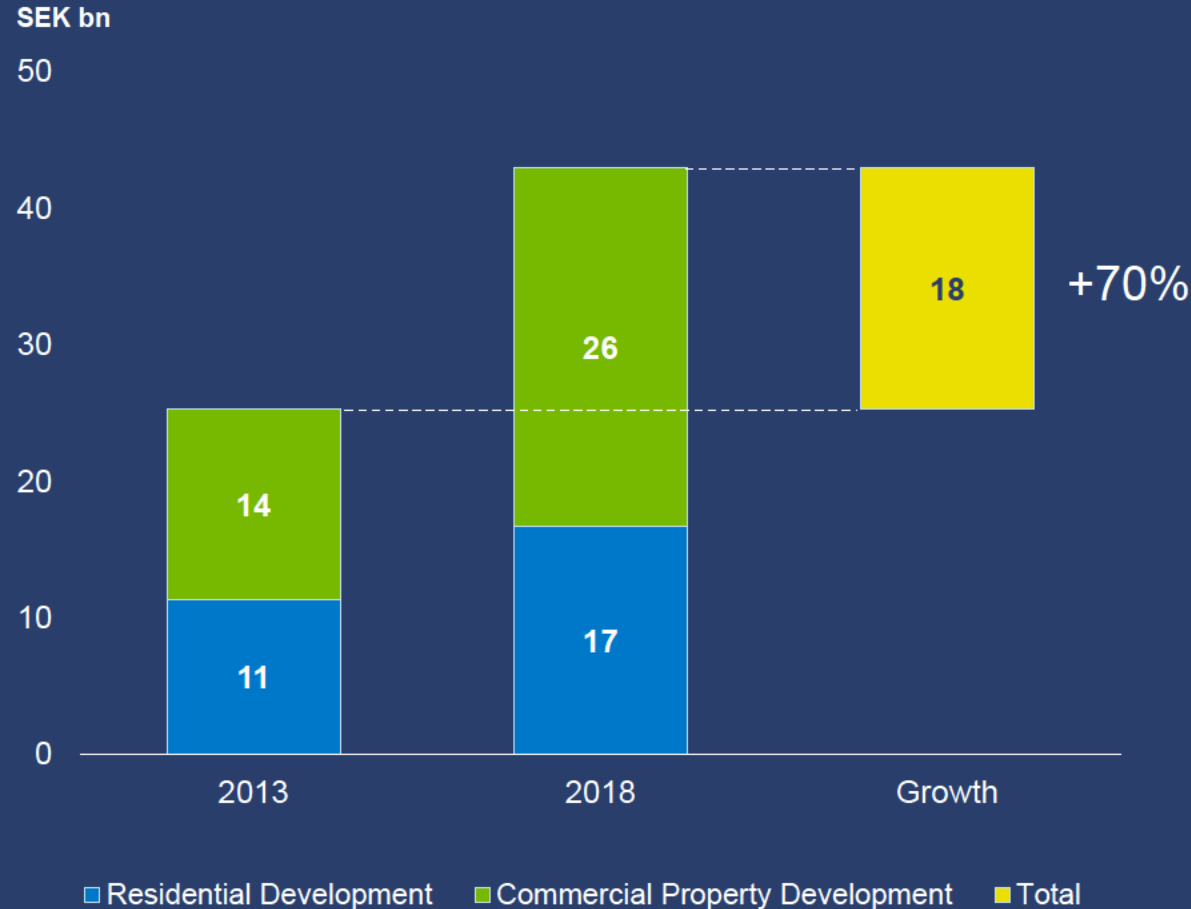


# Construction Dead revenue



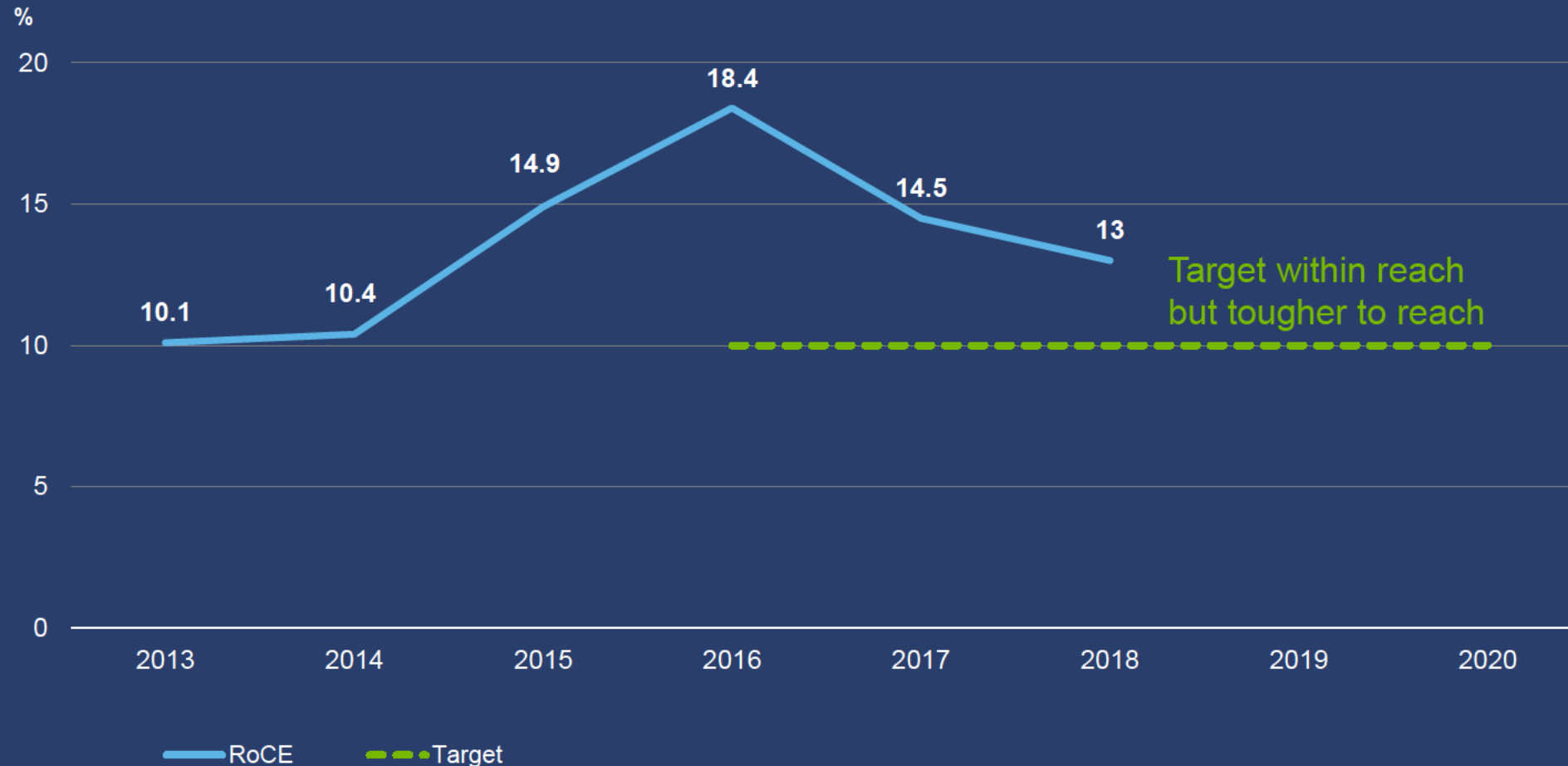


# Project Development Property assets



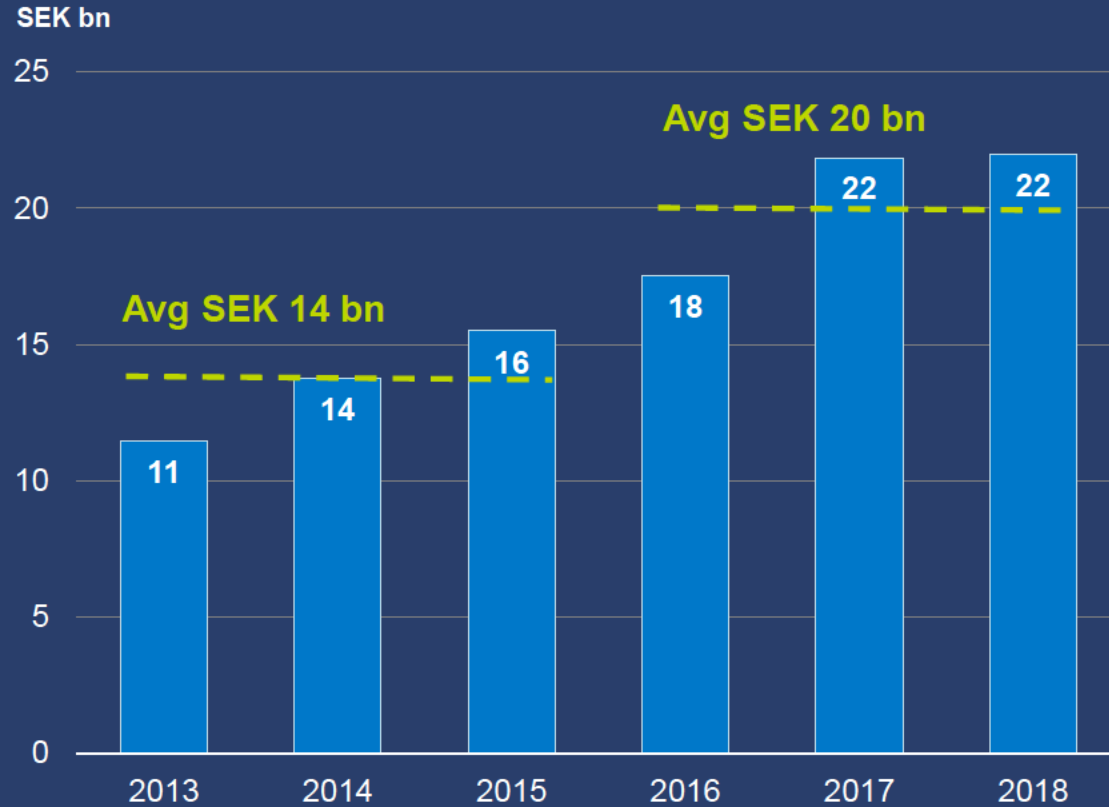
- Expansion in Project Development
- Unrealized surplus values in Project Development +80%
- Strong growth in Commercial Property Development

# Return on Capital Employed in Project Development



# Project Development

## Gross investments



- Continue to grow in Project Development
- Investment pace depends on available opportunities and overall market situation

# Group

## Financing the Project Development expansion

Change, 2013–2018, SEK bn	Assets	Liabilities
Property assets	18	
<b>Total</b>	<b>18</b>	
Net Working Capital		-12
Equity		-8
Net debt and other		+2
<b>Total</b>		<b>-18</b>

# Group Equity requirement

Business streams	SEK bn	Basis
Residential Development	+ A	Assessed debt capacity
Commercial Property Development	+ B	
Construction	+ C	Scope and Risk of operations
Group effects	+/- D	Central items
<b>Equity requirements</b>	<b>= Equity</b>	

# Residential Development

## Equity requirement

SEK bn	Book value	
Land	8	
Ongoing projects	8	
Completed projects	1	
Property assets	+17	o/w SEK 11 bn unsold
Debt capacity	-10	60% loan to book value
Equity requirement	-4	>40% of unsold
Net Working Capital	-3	
Total	-17	

# Commercial Property Development

## Equity requirement

SEK bn	Book value	
Land	7	
Ongoing projects	17	
Completed projects	3	
Property assets	+27	o/w SEK 25 bn unsold
Debt capacity	-17	60% loan to book value
Equity requirement	-10	>40% of unsold
Net Working Capital	0	
Total	-27	

# Construction

## Equity requirement

SEK bn		
Revenue	158	
– Driven by scope and risk in operations		
– Risk is relatively stable over time		
Equity as percent of revenue	10%	
<b>Equity requirement</b>	<b>16</b>	
Capital employed	-6	Incl. SEK 7 bn in financial assets
<b>Cash to be deployed</b>	<b>22</b>	

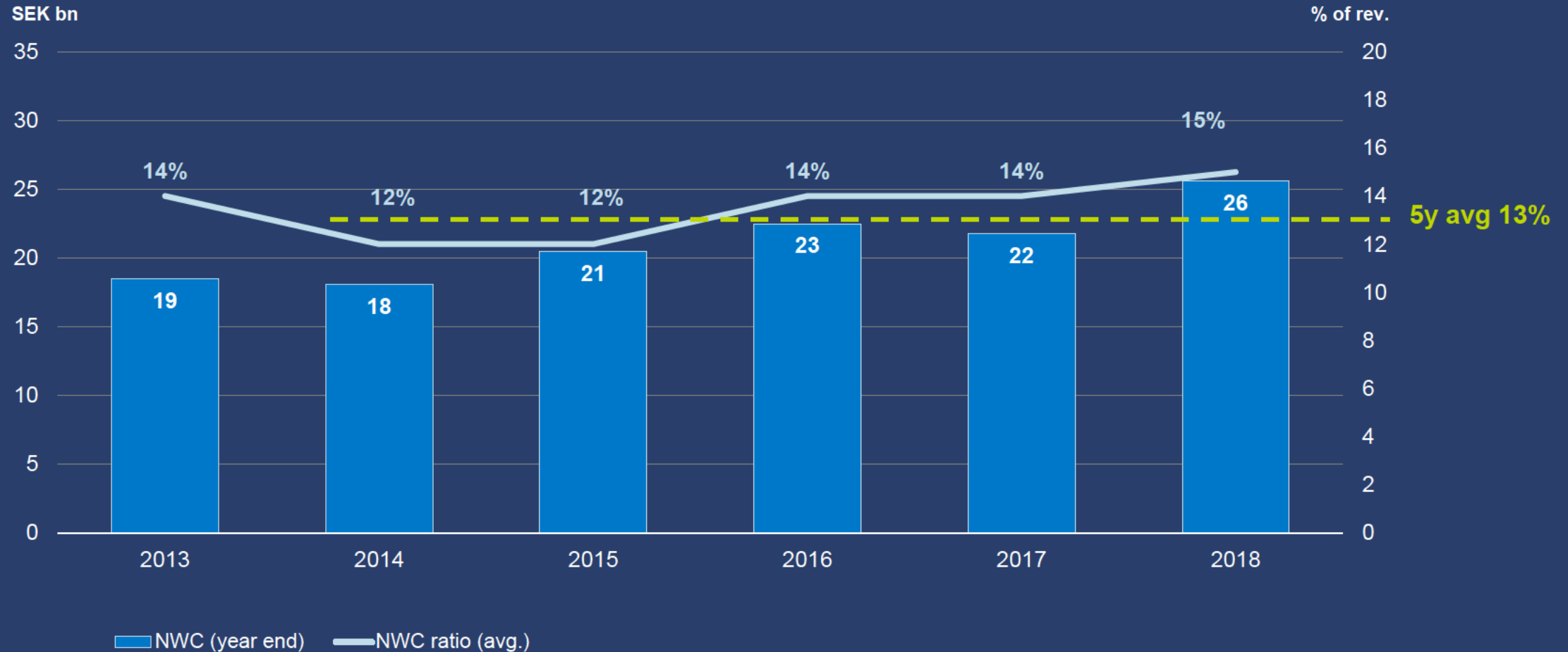


# Group Equity requirement

SEK bn	Equity
Construction	16
Residential development	4
Commercial development	10
<b>Subtotal, operations</b>	<b>30</b>
<b>Group equity requirement</b>	<b>30</b>
<b>Actuals, 2018</b>	<b>29</b>

# Construction

## Net working capital



# Construction

## Net working capital sensitivities

5% volume decrease	~ SEK -1.5 bn
Mean reversion to 13% NWC / revenue	~ SEK -4.0 bn
	<hr/>
	SEK -5-6 bn

# New KPI financial strength – Adjusted net debt

SEK bn	2018	Jan 1 2019, pro forma
Net debt	3.2	-4.3
– Add back net pension liability	+4.8	+4.8
– Add back lease liabilities	0	+7.5
– Less restricted cash	-5.9	-5.9
<b>Adjusted net debt</b>	<b>2.1</b>	<b>2.1</b>

# Net investment capacity

Limit: Adjusted net debt not below SEK -9 bn



# Other changes to reporting and KPIs 2019

- Infrastructure Development reported in Central
- Return on Capital Employed Project Development

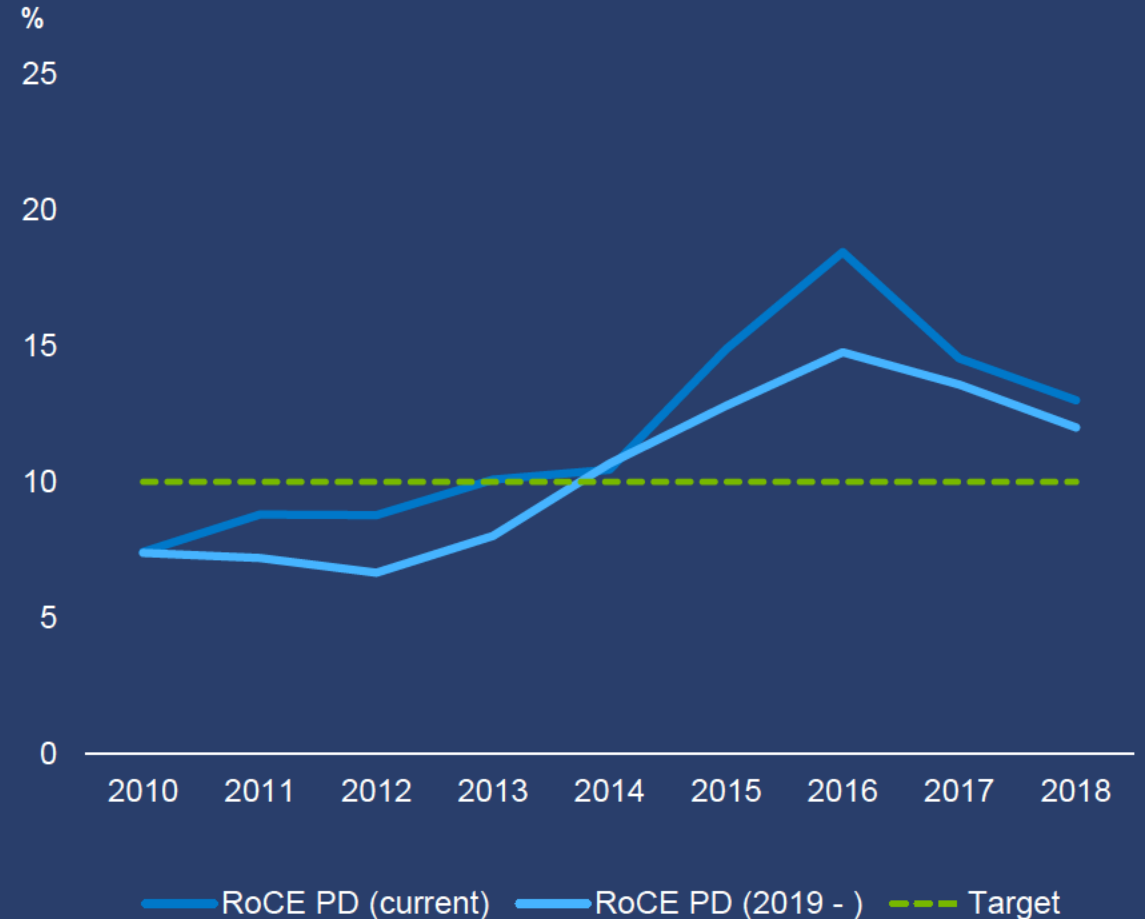


Slussen, Stockholm, Sweden

# Return on Capital Employed in Project Development

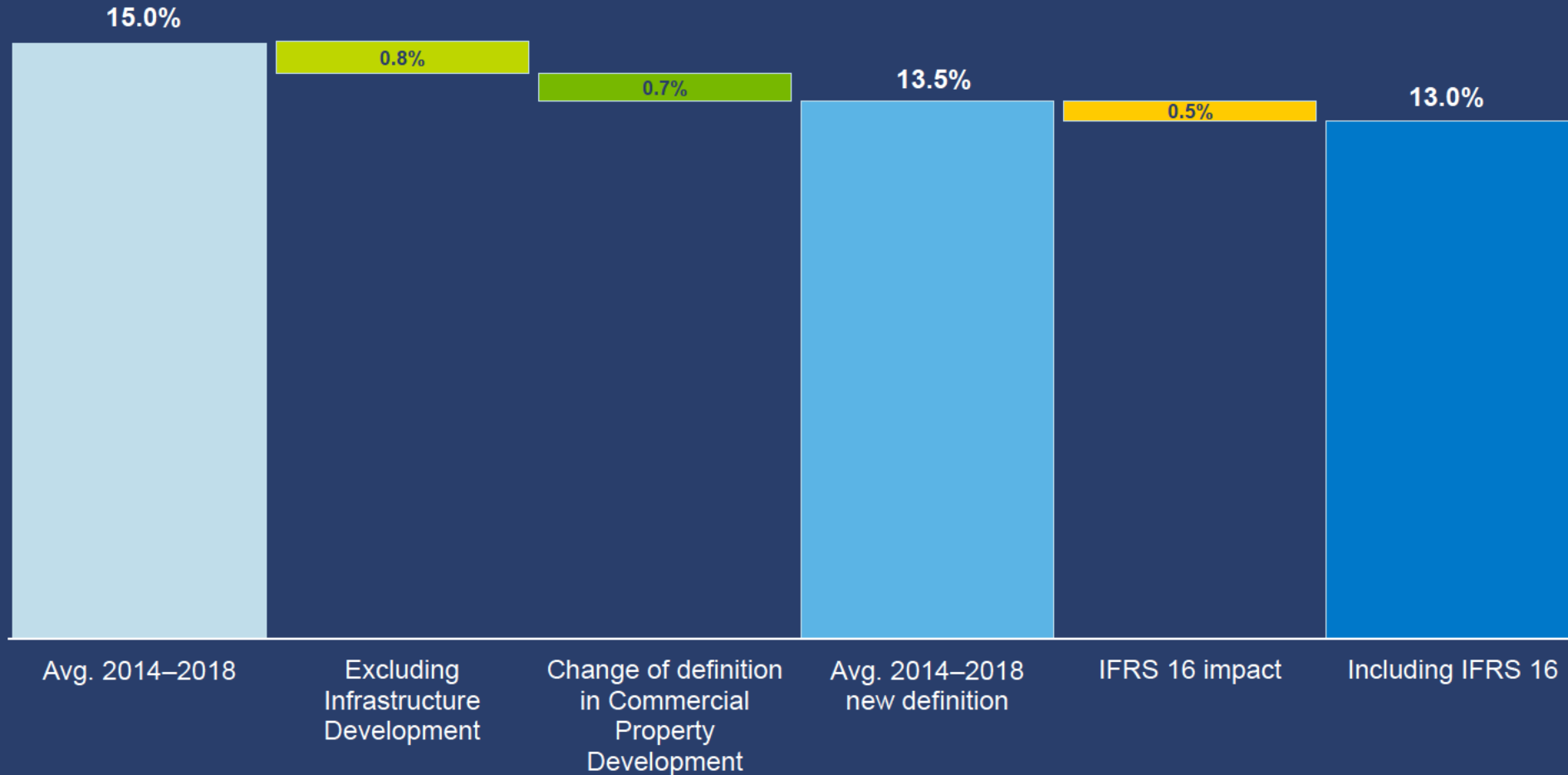
Starting Q1 2019 RoCE target for Project Development

- Will not include Infrastructure Development
- Return in Commercial Property Development will be based on yearly earnings and not on successive value creation



# Return on Capital Employed in Project Development

## 5 year average impact of changes





# Group Financial Targets

## Target

---

### Project Development

Return on Capital Employed  $\geq 10\%$

---

### Construction

Operating margin  $\geq 3.5\%$

---

### Group

Financial strength Adjusted net debt not below SEK -9 bn

---

Return on Equity  $\geq 18\%$

---



**We build for a better society.**  
Slussen, Stockholm, Sweden

# Q&A

## Group Leadership Team



**Anders Danielsson**  
President and  
Chief Executive Officer



**Magnus Persson**  
Executive Vice President,  
Chief Financial Officer



**Caroline Fellenius-Omnell**  
Executive Vice President,  
General Counsel



**Richard Kennedy**  
Executive Vice President



**Claes Larsson**  
Executive Vice President



**Kirsi Mettälä**  
Executive Vice President,  
Human Resources



**We build for a better society.**  
Slussen, Stockholm, Sweden

A strong  
foundation  
with great  
potential


A leaner and more effective company

Great potential to improve profitability  
in Construction

Great potential in Project Development

Great people

Strong values



**We build for a better society.**  
121 Seaport Boulevard, Boston, USA