

SKANSKA

# Annual Report 2017

Sustainability review  
Extract of Annual Report 2017



**We build for a better society.**





Top photo: the 121 Seaport and 101 Seaport office developments. From left in bottom photo: the 121 Seaport and 101 Seaport office developments, and the Watermark Seaport residential development.

## A bold addition to Boston

**121 Seaport Boulevard**, Boston, USA  
Commercial Property Development and Construction

It's a building impossible to miss. In a boxy city, 121 Seaport stands out as a 17-story ellipse.

This bold, curved look was key to attracting the companies now secured as office tenants. It also enabled a highly efficient and flexible design, benefiting both customers and Skanska. During design, data analysis showed that an elliptical building has less direct sun exposure, producing 15 percent energy savings compared to a similarly sized rectangular building.

Also, the elliptical design required 10 percent less cladding, and utilized a lighter structure because of decreased wind loads. These reduced material needs led to lower costs and less carbon emissions.

Skanska speculatively began this building, which is targeting the top LEED Platinum green building rating. The combination of Skanska Commercial Property Development USA, Skanska USA Building and Skanska USA Civil led to innovative solutions for a rapid delivery. In 2017, all 37,000 sq m of office space was leased.

Skanska has led the transformation of this neighborhood. Along with 121 Seaport, Skanska developed 101 Seaport, an office property divested in 2016 for about SEK 3.8 billion, and Watermark Seaport, a residential property that Skanska and an equity partner divested in 2017; the Group's portion of that divestment was about SEK 510 M. A public park will be Skanska's final addition to that row of buildings.

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This document is in all respects a translation of the Swedish original Annual Report. In the event of any differences between this translation and the Swedish original, the latter shall prevail.

Reporting of revenue and earnings in the first part of the Annual Report (pages 1–48) complies with the segment reporting method. The statements of financial position and cash flow are presented in compliance with IFRS in all parts of the Annual Report.

Skanska AB, Swedish corporate identity number 556000-4615.

# Skanska as an investment

Skanska is one of the world's leading construction and project development companies, focused on select home markets in the Nordic region, Europe and USA.

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 the Group's values, Skanska helps create sustainable futures for customers and communities.

In 2017, the Group's 40,000 employees delivered good results while building for a better society.

## Strong global trends

Demographic changes and continued urbanization lead to 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 strong cash flow which puts the Group in a stable financial position.

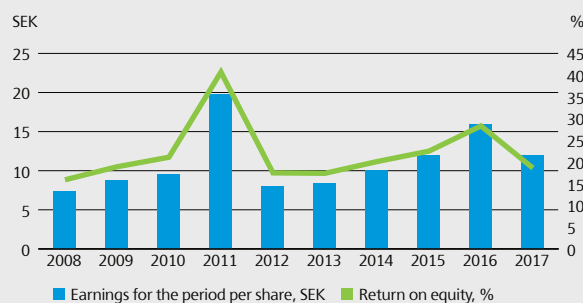
## Financial synergies

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.

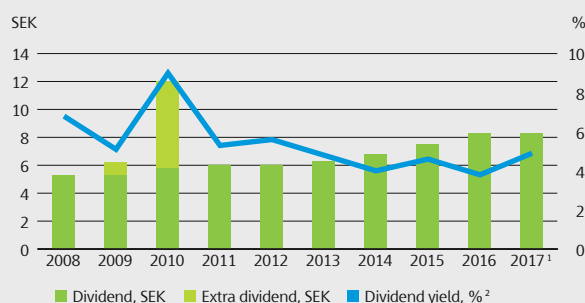
## Attractive total shareholder return

Skanska has a competitive total shareholder return with more than fifteen 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



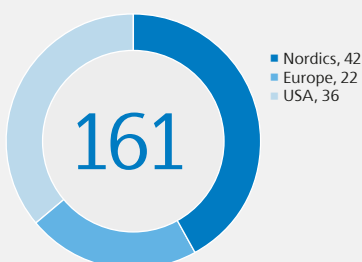
1 Based on the dividend proposed by the Board of Directors.

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

# 2017 in brief

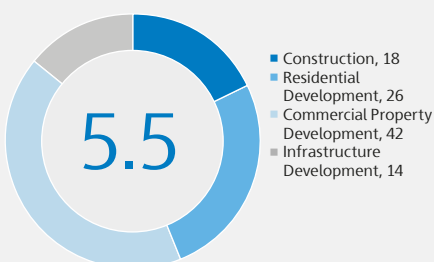
## Revenue, SEK 161 bn

by geography, %<sup>2</sup>



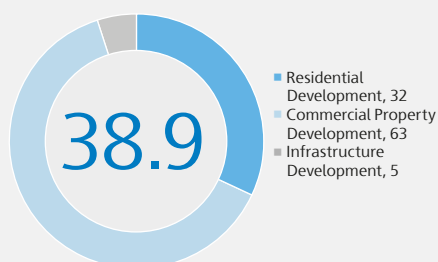
## Operating income, SEK 5.5 bn<sup>1</sup>

by business stream, %<sup>2</sup>



## Capital employed, SEK 38.9 bn

in Project Development, by business stream, %



<sup>1</sup> Operating income in 2017 was negatively affected by impairment charges of SEK 1.0 billion and project write-downs of SEK 1.5 billion.  
<sup>2</sup> Before Central and eliminations.

### Construction

- Order bookings amounted to SEK 151.8 billion. The major contracts included:
  - Farley Post Office in New York, USA
  - George Washington Bridge in New York, USA
- Order backlog amounted to SEK 188.4 billion, corresponding to 15 months of production.
- The operating margin in the stream was 0.8 percent:
  - Strong performance in the Nordics and USA Building
  - Weak performance in Poland, the UK and in USA Civil.
- Operating income was negatively affected by impairment charges of SEK 1.0 billion and project write-downs of SEK 1.5 billion.
- Actions to restore profitability have been initiated and consist of restructuring of the Polish operations, exiting the power sector in USA, focusing on core business in the UK and continuing to adapt to tougher market conditions in the Czech Republic.

### Residential Development

- Continued improved performance with an all-time high in operating income, SEK 1,716 M, and clearly met return targets.

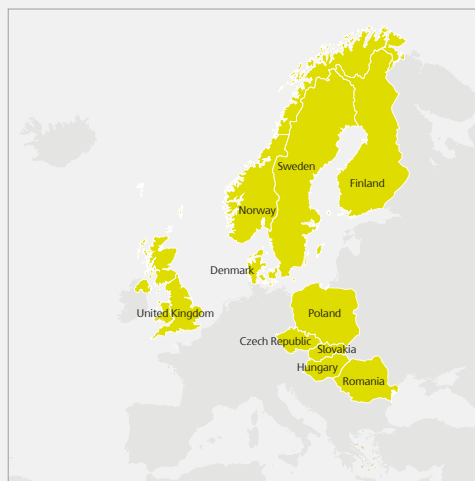
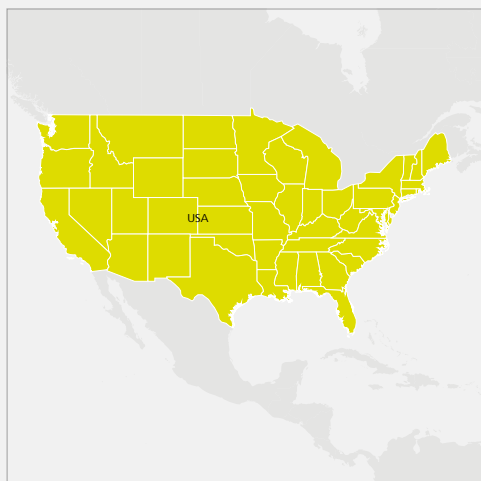
- The number of homes sold and started totaled 4,285 and 4,318, respectively.
- BoKlok, the affordable homes business, continued to deliver great returns and represented almost half the homes Skanska sold in Sweden.

### Commercial Property Development

- A new all-time high in divestment gains of SEK 3.5 billion from divesting 27 projects.
- The number of ongoing property projects was 46 at the end of the year, corresponding to an investment value upon completion of SEK 27.6 billion.
- 24 projects started across all geographies: in the Nordics, Europe and USA.

### Infrastructure Development

- Operating income totaled SEK 925 M.
- The investment in the A1 motorway project in Poland was divested for about SEK 1.4 billion.
- Net present value of the portfolio was SEK 3.0 billion.
- Focusing on the US market.



### 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's financial position remains strong, powered by continued high performances from Project Development. We are taking actions to improve Construction profitability, while our values and sustainability expertise provide competitive advantages. In 2018, we will advance further with our Profit with Purpose Business Plan.

Guiding Skanska until 2020 is our Profit with Purpose Business Plan, which has two core elements: delivering an industry-leading total shareholder return, while building for a better society through the important projects we undertake and our innovative, sustainable solutions. These ambitions arise from what we have long done. We are determined to resume providing an industry-leading return, while increasing our positive contributions to society.

Profit with Purpose is based on Skanska's strengths. We are strong through our business model, which has consistently provided significant financial returns. We are strong from how our 13 Business Units in eleven countries increasingly collaborate and share expertise to provide customers with the best solutions. And we are strong through our values, which more and more customers appreciate. These strengths form our foundation. They position us to create long-term value for Skanska and our shareholders.

Our performance in 2017 consisted of solid accomplishments, but also significant challenges that we are urgently addressing. Overall, Group operating income for the year was lower at SEK 5.5 billion. Our financial position remains strong, so the Board of Directors proposes to maintain the dividend at SEK 8.25 per share.

## Residential Development's top performance

Our Residential Development stream's performance was even stronger than in 2016, with returns significantly above our targets and operating income reaching an all-time-high of SEK 1.7 billion. We started 4,318 homes, and sold 4,285 homes. This stream's geographic breadth provides resiliency to market shifts and local fluctuations in demand. Also, we mainly operate in the affordable and core segments, where demand tends to be durable.

## New Commercial Development records

Commercial Property Development set a new record in 2017 with divestment gains of more than SEK 3.5 billion from divesting 27 projects. At the same time, we continue to increase investments in new commercial developments - starting 24 projects in 2017 - and secure major leases, with leasing also achieving record high levels last year. These actions improve our ability to create value to be realized in future years.

## Significant Infrastructure Development gains

We made significant gains in Infrastructure Development from divesting three public-private partnership (PPP) projects, most notably the A1 highway in Poland. We are selectively pursuing new projects as well as bringing existing projects into a fully operational state, increasing their value.

## Improving profitability in Construction

In Construction, our Nordic units and Skanska USA Building continued to achieve top results, but it was not enough to offset weaknesses in several other units. Consequently, we did not reach our target Construction margin of 3.5 percent - a result that is not acceptable.

To improve profitability across the Group, we are downsizing operations with continuously low profitability or that are no longer strategically important. In the Construction stream, this involves restructuring Polish operations, exiting the power sector in USA, increasing focus on the core business in the UK, and continuing to adapt to tougher market conditions in the Czech Republic. Furthermore, with a thin pipeline of PPPs in Europe, we are focusing Infrastructure Development operations on the US market.

Overall, we are increasing our focus on cost control and risk management. During 2018, we will implement a new Group management structure, including a new Group Leadership Team (GLT). This model is intended to increase organizational effectiveness - including bringing leadership closer to operations - and reduce costs.

## Growing Project Development

Boosting profitability also includes increasing investments in Commercial Property Development and Residential Development. This is key to securing Skanska's strong financial performance into the future. Investments include acquiring additional land and building rights, and bolstering our capabilities. In 2017, Commercial Property Development delivered 42 percent of Skanska's operating income, and Residential Development 26 percent.

## Synergies through collaborations

We continue to drive One Skanska collaborations between and within Business Units, resulting in operational and financial synergies. These synergies enable Skanska to self-finance Project Development activities, while raising efficiencies, lowering risks and strengthening customer offerings. Ultimately, both Profit and Purpose are advanced. Deepening these synergies is a key priority.



“Increasing investments in Project Development will help secure Skanska’s strong financial performance into the future.”

### Values attract employees and customers

Everything we do at Skanska is grounded in our four values: Care for Life, Act Ethically and Transparently, Be Better Together and Commit to Customers. Through our people living the Skanska values in their daily work, we become more attractive as an employer, as people want to work for companies that stand up for larger beliefs. And we become more appealing to customers, as they can trust us.

### Creating a sustainable future

Skanska’s values are essential to creating a sustainable future for our people, customers and communities. Our sustainability agenda consists of five focus areas linked to our values and to our core activities in Construction and Project Development: Safety, Ethics, Green, Community Investment and Diversity and Inclusion.

In 2017, we continued to make important progress with sustainability, including launching a business-focused Green strategy and driving vital conversations about diversity and inclusion. Core to the Green strategy is significantly reducing carbon emissions by 2030 to align with the Paris international climate agreement. Beyond environmental benefits, lowering carbon emissions will help us both lift our operational efficiencies and deliver solutions that help customers meet their own carbon and energy objectives.

Even with those forward steps, the three work-related fatalities on Skanska sites in 2017 make us deeply aware of the importance of continuous focus.

### Supporting global priorities

Our sustainability expertise is a key differentiator in our markets, and an important part of how we contribute to society.

For 17 years, Skanska has actively supported the universal sustainability principles defined by the United Nations Global Compact. More recently, the UN’s member countries adopted 17 Sustainable Development Goals to transform the world by 2030.

In 2017, Skanska began using these goals to measure the performance and contributions of the Group’s sustainability work. The UN goal of sustainable cities and communities – making cities inclusive, safe, resilient and sustainable – is most relevant to Skanska, providing us with the greatest opportunities to effect positive change.

### Ongoing good market conditions

For 2018, we see continued robustness in the world economy, and stable to strong conditions across all home markets. Plentiful opportunities enable Skanska to focus on pursuing projects right for us, while our strong balance sheet allows us to capitalize on development possibilities. At the same time, Skanska will continue to monitor ongoing political uncertainties in our home markets.

### Sweden’s favorable environment

In Sweden, we anticipate strong market conditions continuing for construction and commercial properties. The Swedish residential market, our largest housing market, has returned to a sounder and more stable condition.

Almost half the homes we sell in Sweden are through the BoKlok affordable residential business. We are investing about SEK 250 M to increase production capacity nearly 50 percent at BoKlok’s main plant. That will grow an important part of Skanska, while enabling us to provide even more people with the opportunity of homeownership.

### Benefiting customers and shareholders

I am fortunate to lead a company with deeply embedded values that is guided by Profit and Purpose – for these I thank my predecessor, Johan Karlström.

Together with our great people, my new Group Leadership Team (GLT) and I are committed to improving Construction profitability. We are also dedicated to leveraging Skanska’s extensive Construction and Project Development expertise and strong balance sheet to provide customers with the most compelling solutions. I am confident our actions will benefit shareholders too.

I look forward to earning the trust of Skanska’s shareholders, customers and communities in the years ahead.

Stockholm, February 2018

Anders Danielsson  
President and CEO



# Skanska's values

Fundamental to Skanska's success are four values, which keep the Group moving in the right direction in a fast-changing world. Skanska constantly drives the need for every employee to strongly live these values in all they do. Skanska selects customers and partners that share the Group's values.



Care for Life

## Care for Life

Through Care for Life, Skanska supports health and well-being. Aiding in advancing this priority is the Well Building Standard, an external certification of building features that affect health and well-being. In 2017, Skanska committed to pursuing Well certification for all office development projects in Poland, Czech Republic, Romania and Hungary. This early commitment will help drive the market for healthy buildings in Central and Eastern Europe, and advance Group-wide sustainability efforts. Research shows that green and healthy work environments lead to improved occupant well-being and productivity.



Act Ethically & Transparently

## Act Ethically and Transparently

Living Skanska's value of doing business with a high degree of integrity and transparency depends on the Group's employees, and those working on the Group's behalf. In 2017, Skanska increased due diligence efforts on the broad network of consultants, partners, suppliers and subcontractors essential to delivering projects. This increased scrutiny – done through a risk-based approach – will continue to intensify, further ensuring adherence with Skanska's Supplier Code of Conduct. The Supplier Code, which describes behaviors expected of suppliers, is incorporated into every supplier agreement.



Be Better - Together

## Be Better – Together

The Group wants to move forward together with customers, partners and communities. In the UK, a Skanska consortium is pioneering new ways of analyzing and visualizing data to help local governments more proactively manage infrastructure, such as highways. This starts with public customers sharing large databases – including about emergency vehicle routes and flood zones – with companies such as Skanska during the tender process. The Group rapidly analyzes this information to identify trends of value to the customer, and these are used to create optimized offerings. Data analytics are increasingly forming a central role in how Skanska plans projects.



Commit to Customers

## Commit to Customers

Skanska helps customers be successful, and aims to build partnerships that endure. Since 1962, the Group has partnered with Boeing to build and upgrade facilities, and has established a track record of successfully delivering critical projects while not impacting production. Often, Skanska is engaged early to offer cost and schedule insights. Safety has been another area of collaboration, with Skanska supporting Boeing safety goals. Skanska has been recognized as a Boeing Supplier of the Year, and now actively supports Boeing in three US states.

# Business model

Projects are the core of Skanska's operations. Value is generated through the thousands of projects the Group executes each year. The goal is for every project to be profitable while being executed in line with Skanska's ambition to be an industry leader in sustainability. Internal collaborations produce operational and financial synergies that create further value.

The Business Units within the four business streams collaborate in various ways, creating operational and financial synergies that generate increased value. Going forward, even more will be invested in releasing these synergies.

## Operational synergies

Operational synergies are primarily generated by using the local, specialized expertise found in the various Business Units on a Group-wide scale. Units from different business streams often collaborate on projects, which reinforces their customer focus and creates the necessary conditions for sharing best practices, while ensuring efficient utilization of the Group's collective expertise and financial resources. Units in the same business stream also collaborate to make better

use of expertise or size. Business Units establish geographical clusters to share resources and expertise, with shared activities in procurement and production also boosting efficiency.

## Financial synergies

Skanska's Construction business stream does not tie up capital but instead operates with free working capital. The free working capital combined with the profits generated by the Group, as well as its ability to leverage up its balance sheet to borrow money, enables the financing of investments in Project Development, which generate an excellent return on invested capital. These investments also create new contracts for the Construction stream that generate a profit. This is illustrated in the image below.

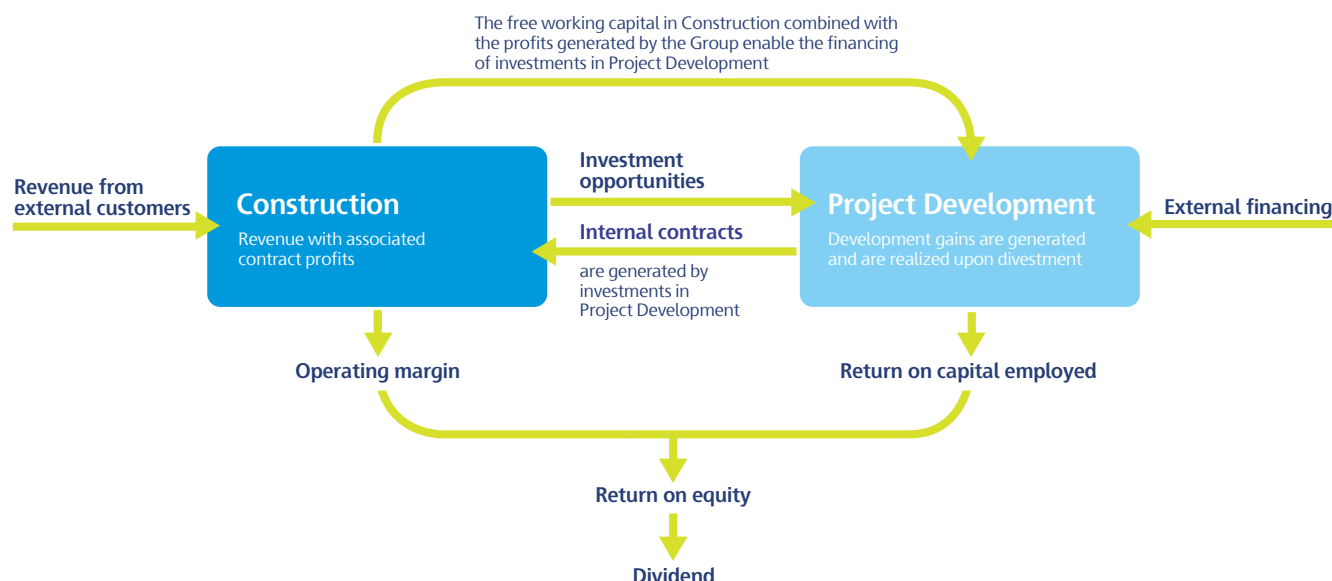
## Size provides competitive advantages

By being a market leader, Skanska is well positioned to meet the highest expectations of customers.

The Group's size and financial strength give Skanska an advantage in the most complex assignments, where collective experience and know-how are used to meet customer needs.

The Group's operations are based on local Business Units with good knowledge of their respective markets, customers and suppliers. Local units are backed by Skanska's brand and financial strength, as well as Group-wide expertise and values. Consequently, Skanska is both a local company with global strength and an international construction and project development business with a strong local presence.

## Skanska's business model





# Business plan 2016–2020

## Profit with Purpose

Guided by this business plan, Skanska is striving to increase shareholder value while building for a better society. Advancing with these interlinked priorities is how Skanska creates Profit with Purpose. Key actions for 2018 include boosting Construction performance while continuing to create value through Project Development.



## Profit with Purpose

The five-year Profit with Purpose Business Plan is based on the strategy that Profit and Purpose are interlinked, with each strengthening the other. Profit is needed to deliver Skanska's purpose of building for a better society, and advancing with that purpose contributes to Skanska's profit. Skanska has high ambitions for both Profit and Purpose, and for leveraging them to create value for the Group's shareholders.

This business plan – lasting until 2020 – supports Skanska's aspiration to deliver an industry-leading total shareholder return. This financial aim includes stable, long-term earnings and the cash flow necessary for an attractive dividend. The plan focuses on three areas, which are described in more detail on pages 12–14:

- Great people
- Market Making
- Operational Excellence

### Strategic actions

Under the Profit with Purpose plan, key actions during 2017 included increasing investments in Project Development; driving collaboration to unlock synergies; establishing digital strategies; enhancing Skanska's customer focus; promoting an inclusive culture; and launching a business-focused Green strategy. Additionally, a primary focus was improving the profitability of the Construction stream.

### Restructuring for profitability

Following a strategic review initiated in fall 2017, at the beginning of 2018 Skanska announced a comprehensive restructuring to increase profitability. This involves downsizing operations with continuously low profitability or that are no longer strategically important, as well as further increasing the Group's focus on cost control and risk management. Also during 2018, a new Group management structure will be implemented to increase organizational effectiveness and reduce costs.

### 2018 priorities

Boosting Construction profitability and continuing to create value through Project Development – both while living Skanska's values – are the Group's fundamental priorities in 2018. Also, the Group will progress with purpose, such as providing customers with solutions based on innovation and sustainability, encompassing Safety, Ethics, Green, Community Investment and Diversity and Inclusion.

### 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 the 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
- 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 the Group's values. Recruiting and developing Great People are key priorities, as is becoming more diverse and inclusive.

Skanska aims to be the most attractive employer in its industry. Progress toward this was measured in 2017 through a first-ever Group-wide employee survey. Out of 32 questions, 27 responses were significantly above the general industry benchmark provided by Korn Ferry Hay Group, which has created one of the world's largest databases of employee opinion.

## Enabling high-performing teams

The Group helps employees do their best. Skanska's culture is based on transparency, trust, values and high performance, with employees collaborating in teams to build for a better society. Employees are provided many opportunities to learn and grow: professional development benefits the entire organization.

Broadening employees' experiences is an important means of development and boost in organizational knowledge sharing and collaboration, thereby driving performance. Employees are provided opportunities to work in different functions, Business Units and geographies. Every management team should have a member with experience from other parts of Skanska.

## Employee ownership shows engagement

Seop, the Skanska employee ownership program, helps build pride and an understanding of creating shareholder value. Seop has nearly 11,500 participants who invested about SEK 350 M in 2017. In combination with the Parent Company's holding of Series B treasury shares securing the future delivery of shares in Seop, they are the

largest Skanska shareholder in terms of capital. That high level of participation demonstrates employees' motivation and commitment, which drives improved performance.

## Strengthening customer connections

The Group is working to achieve a more diverse workforce by attracting, recruiting and retaining employees from more segments of society. This enables Skanska to build better relationships with customers. Also, a more diverse Skanska is able to leverage a greater variety of employee experiences and perspectives, which is key to producing the best customer solutions. Increased diversity is coupled with including all employees in Skanska's culture. Improving diversity and inclusion is a priority at every level of the Group.



In Sweden, there's a great need for engineers. Yet in Sweden, engineers from other countries often have trouble practicing their profession. The Skanska International Leadership Program aims to bridge that divide while increasing Skanska's diversity. This strategic recruitment program starts with training and ends with jobs for many participants. That's how Diana Baghdo from Syria started at Skanska – she's now a crew leader.

## Main risks

Skanska conducts an annual Group-wide risk survey that involves more than 200 managers. This generates a ranking of enterprise risks: for each of the main risks, the appropriateness and effectiveness of management and mitigation measures are assessed and calibrated, as required. Skanska's main risks are:

### Loss or lack 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 is focused on attracting, developing and retaining a skilled, diverse and committed workforce, and providing an inclusive workplace in which people can flourish and everyone can contribute.

### Ethical breach

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 the Group's ethics organization and compliance processes, and has taken many steps to bolster the ethical culture. The Code of Conduct provides employees with expectations for everyday behavior.

### Project or systemic losses

Not every project or investment goes to plan. Skanska has several layers of defense to protect against one-off and Business Unit-wide financial losses. These include the Group's procedures for scrutiny, approval, follow-up, review and reporting, plus the early warning system for all construction projects subject to Group Leadership Team Tender Board approval.

### Macro financial instability

Macro-economic risks cannot be avoided, so Skanska focuses on mitigating their effects and ensuring the Group's business is strong enough to weather economic downturns. Skanska Financial Services plays a lead role in managing the Group's financial exposure and looking ahead at markets. The diversity of Skanska's operations 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. Skanska continually works to improve the Group's 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 has been learned.

### Other risks

Skanska presents sustainability-related risks – along with potential impacts and mitigation strategies – on pages 82-83 of this Annual Report. These risks encompass environment; health and safety; human rights; supply chain management; diversity and inclusion; and anti-corruption and bribery matters. Additionally, financial risks are presented on pages 68-69.







## A complex project, structured for success

**Ordsall Chord, Manchester, UK, Construction**

How Skanska and customers collectively manage risks is an important factor in the financial success of projects. Increasingly, customers are choosing to use contract structures that collaboratively and openly share risks and opportunities.

For Skanska, such contracts – called early contractor involvement, alliances or integrated project delivery – are ways to execute large and challenging projects with a reduced risk profile and the predictable performance desired by shareholders.

Early in the Ordsall Chord project, customer Network Rail, a Skanska joint venture and two other contractors joined together in an alliance. An integrated project culture underpinned by the collaborative contract was key to unlocking innovative approaches.

The alliance delivered this challenging project on budget and two years less than the duration expected with a traditional approach. Furthermore, Skanska and the other alliance companies achieved target financial margins with reduced risk.



# Connected to the UN Sustainable Development Goals

Sustainability at Skanska is grounded in the Group's values, and supports the Profit with Purpose Business Plan. The Group's five sustainability focus areas are strengthened by their connection to the United Nations' Sustainable Development Goals. These goals further guide Skanska's efforts to make the most significant positive contributions to society.

Driven by Skanska's values, the Group helps create sustainable futures for customers, communities and employees. This is integral to Skanska's purpose of building for a better society, as well as delivering profit.

Skanska's sustainability agenda consists of five focus areas that are linked to those values and most relevant to the Group's core Construction and Project Development operations. The focus areas are Safety, Ethics, Green, Community Investment, and Diversity and Inclusion. During 2017, a review was conducted of how the focus areas best fit into an evolving Skanska and society in general.

Skanska recognizes relevance with many of the 17 Sustainable Development Goals (SDGs). During 2017, the Group focused on the SDGs selected in the graphic below, most directly Goal 11, Sustainable Cities and Communities.

## Significant ways to contribute

This review highlighted strong ties between sustainability at Skanska and the United Nations' Sustainable Development Goals (SDGs). The 17 SDGs are essential to the 2030 Agenda for Sustainable Development adopted by the UN's 193 member countries. Achieving the SDGs depends on actions by all of society, including governments and the private sector.

Through the scale and type of Skanska's operations, the Group has significant opportunities to contribute to society's needed solutions while running a profitable business. In 2017, Skanska began using the SDGs as a framework to measure the performance and contributions of the Group's sustainability work. The SDGs have an important role in the future of sustainability at Skanska.

## Increasing positive benefits

Skanska's operations most directly connect with Goal 11: Sustainable Cities and Communities. Goal 11 is about making cities inclusive, safe, resilient and sustainable – areas that Skanska can positively impact. Also, in 2017 Skanska focused on other closely related SDGs – see image below. Through these SDGs, the Group seeks to harness interconnected risks and opportunities.

Skanska recognizes that the built environment produces negative external effects, both during production and operation. Skanska strives to minimize negative impacts and increase positive benefits. Further information is provided in Skanska's Sustainability Report on pages 70-83.



## Sustainability focus areas

### Safety

Skanska is determined to eliminate injuries and support employees' health and well-being. In 2017, Skanska created a health and well-being strategy that focuses on ensuring healthy workplaces, helping employees and workers to be physically and mentally fit so they can perform at their best and live full lives. This includes providing improved practices to reduce long-term health hazards, such as noise and dust. Health and well-being is an important way of furthering Skanska's caring culture, which underpins the Group's safety approach.

Focusing on health and well-being extends Skanska's caring culture.

### Ethics

Acting ethically and transparently is central to Skanska's culture. Following the 2016 launch of a new Code of Conduct, in 2017 all employees were trained on the expected behaviors. Code of Conduct training is consistent across all Group operations, helping align behaviors. To help keep ethics top of mind, employees are encouraged to have ethical dilemma discussions. Inspiration for these discussions can be found in the growing library of value moments videos, which depict real situations faced by Skanska employees.

Ethics is not a silent topic at Skanska. Regular conversations keep it top of mind.

### Green

During the year, Skanska set a new green strategy, which focuses on delivering profitable, resilient and zero/low-carbon solutions to customers. This strategy also involves significantly reducing the Group's carbon footprint by 2030, in alignment with the Paris climate agreement. Such steps support society and customer ambitions, and they reduce energy consumption, carbon, materials and water use – driving Operational Excellence while lowering project costs. In 2017, the environment organization CDP (Carbon Disclosure Project) recognized Skanska for leadership in managing environmental impacts.

A new green strategy will significantly reduce Skanska's carbon footprint by 2030.

### Community Investment

By leveraging the Group's core competencies and business activities, Skanska seeks to address local social challenges, together with customers, partners and communities. The aim is creating shared value that provides long-term benefits to all stakeholders. In 2017, the Group set a new Community Investment Guideline that focuses on three areas: educating youths; increasing employability; and using design to help improve communities. Efforts continue to further integrate Community Investment into Skanska's business.

Shared value is created together with customers, partners and communities.

### Diversity and Inclusion

Skanska continues to make progress toward the Group's vision of mirroring society's diversity at all levels, and having leaders who excel in fostering an inclusive culture. Both employee survey results and headcount statistics demonstrate this advancement. With the 2017 Group-wide employee survey, responses to diversity and inclusion questions were 3 and 6 percentage points higher than the external benchmark. By improving with diversity and inclusion, Skanska can better connect with customers and stakeholders, and has greater capacity for the creative thinking needed to be most competitive.

Skanska's success lies in welcoming people of all types, and enabling them to reach their full potential.

# 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

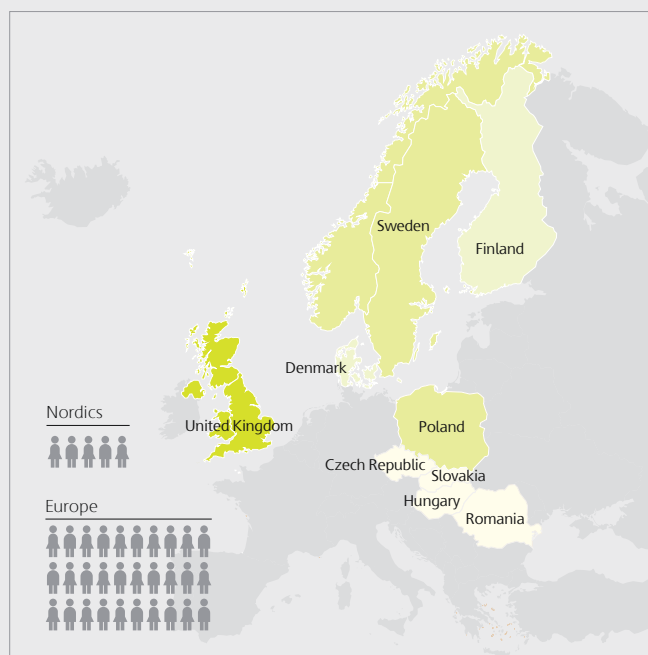
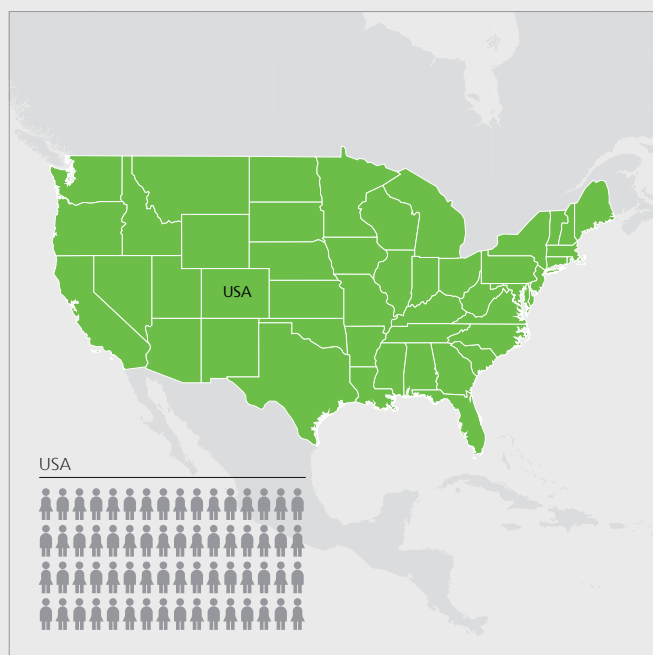
Construction investments 2016

SEK 9,500 billion

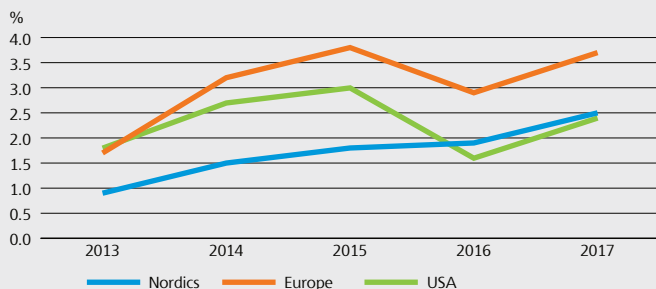
SEK 50 billion

Population

10 million people

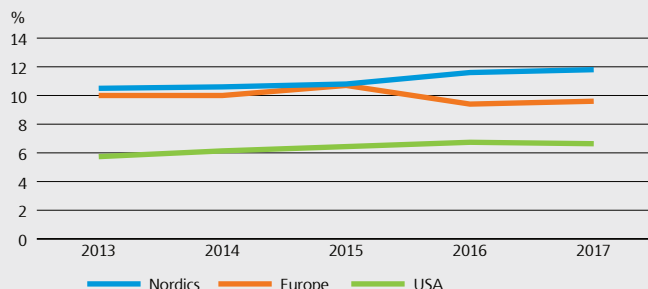


## GDP growth in Skanska's home markets



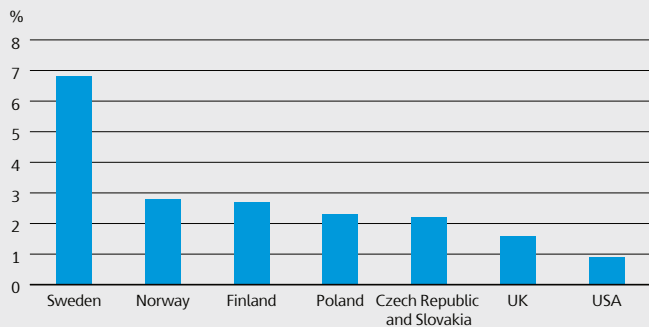
The global upswing in economic activity during 2017 was also noticeable in Skanska's markets. The Central European countries continued to perform strongly, while the Nordics showed synchronized growth. In the USA, the pick-up was driven by the recovery in business investments. The only country reporting slightly slower development was the UK, due to Brexit uncertainty.

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



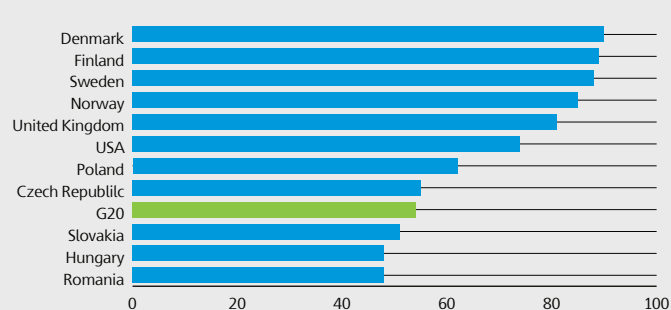
Led by Norway, the Nordics have the highest level of construction investment as a percentage of GDP of Skanska's markets. In the USA, the level is much lower and is far below pre-crisis levels, but is slowly increasing. The weaker intensity of construction investments in other European countries can be primarily explained by temporary lower use of EU funds in Central Europe.

### Market share, Skanska's Construction business stream



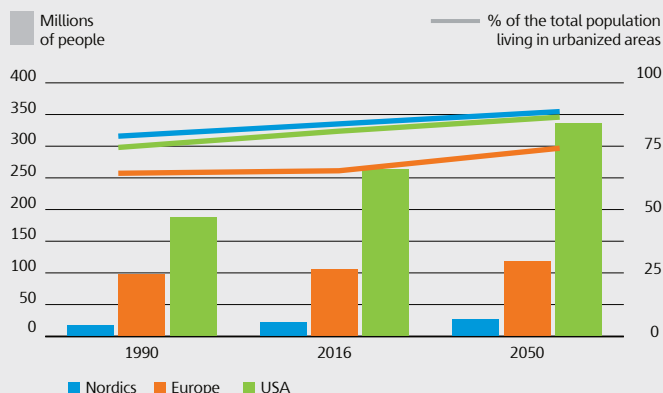
The market share in Sweden is significantly higher than in the rest of Skanska's markets. Despite this Skanska is one of the leading companies in the USA and the UK markets. The low market share in these countries is due to higher market fragmentation and competition.

### Transparency index



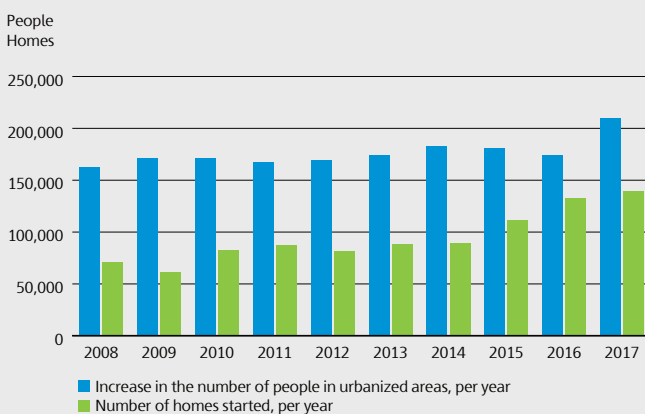
This corruption perception index goes from 0-100. The closer to 100 the better, being less perceived as corrupt. The Central European countries are still struggling with corruption issues, while the environment in the Nordic region is among the best in the world.

### Urbanization in Skanska's home markets



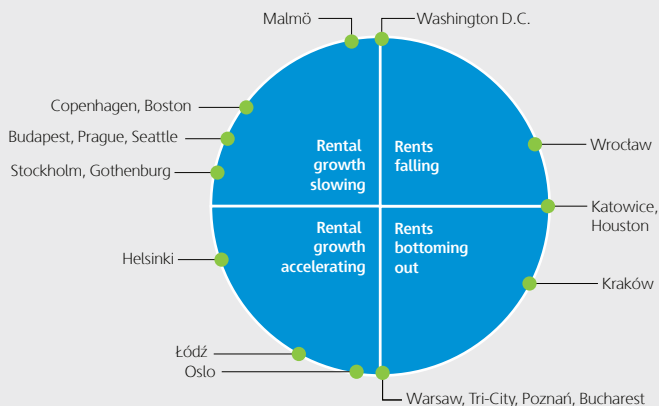
The urban population is increasing all over the world, with an average of 70 percent of the global population living in urban areas by 2050. All of Skanska's markets are above that average and have a higher degree of urban population.

### 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. In 2017, the number of homes started was in line with 2016.

### Property clock



Source: JLL, Q3, Q4 2017

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 2017

## Sustainability report

### Introduction

Skanska is one of the world's leading construction and project development companies, focused on selected home markets in the Nordic region, Europe and USA. Driven by Skanska's values – Care for Life, Act Ethically and Transparently, Be Better Together and Commit to Customers – the Group helps create sustainable futures for customers, communities and employees. This is integral to Skanska's purpose of building for a better society, as well as delivering value for shareholders.

Skanska's sustainability agenda linked to the core values consists of five focus areas: Safety, Ethics, Green, Community Investment, and Diversity and Inclusion. During 2017, a review was commenced of how these focus areas best fit into an evolving Skanska and society. This started with a comprehensive stakeholder dialog and materiality assessment. It led to updated strategies now in place at Group level for all five sustainability focus areas.

This report covers the period January 1, 2017, to December 31, 2017.

### Stakeholder dialogue

Skanska strives for an open and ongoing dialogue with the Group's stakeholders. Engagement with customers, shareholders, employees, partners, suppliers, non-governmental organizations (NGOs) and other stakeholders is a key component in day-to-day operations and long-term planning. This provides important insights regarding needs, expectations and challenges.

Skanska conducts a brand survey bi-annually, which monitors the Group's position and perception in relation to main competitors in home markets. The survey includes external stakeholders, as well as employees. Survey topics include perception of sustainability performance.

Another survey is Skanska's Group-wide employee survey, which was first conducted in 2017. It gives employees an opportunity to provide input to improve Skanska. Strengths and development areas for Skanska's five sustainability focus areas are assessed.

Furthermore, Skanska, together with Columbia University, analyzed sustainability maturity levels across USA. This unique project involved assessing market demand for sustainable buildings and infrastructure projects. Focus areas in the study are green and safety, including health and well-being. The study continues to be used to further guide Skanska's efforts within US markets to enhance sustainability opportunities.

### Materiality analysis

To further cement the Group's understanding of what should be the key focus areas in Skanska's sustainability strategy, structured conversations with a wide range of internal and external stakeholders were conducted in early 2017. These conversations were tailored around 18 relevant topics inspired by the United Nations Sustainable Development Goals, the UN Global Compact and the Global Reporting Initiative, alongside current industry trends and initiatives.

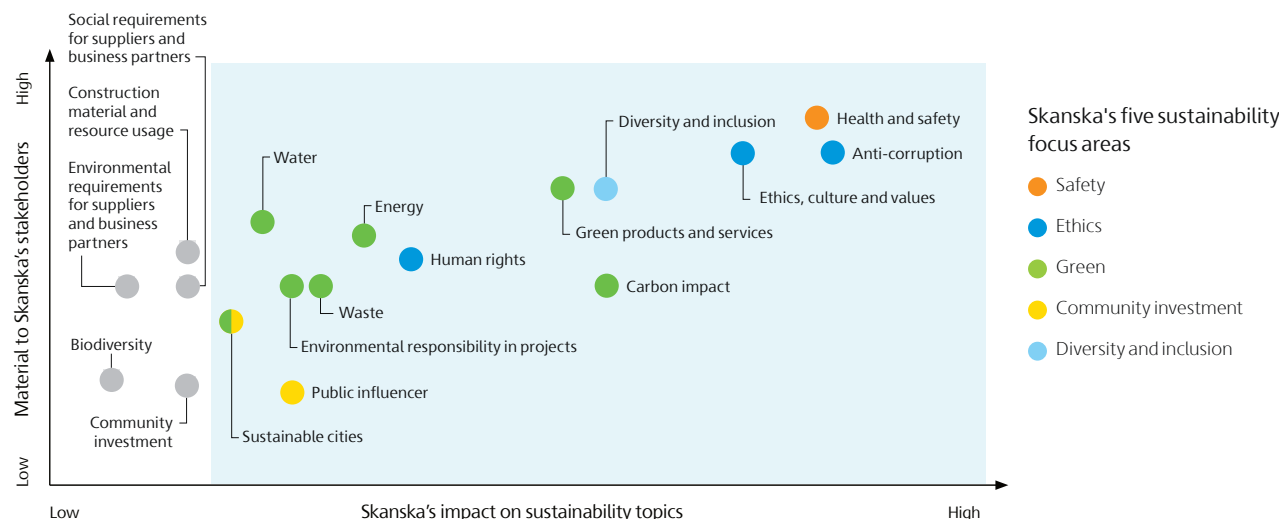
The outcomes of these interviews and an evaluation of Skanska's sustainability impacts enabled a further assessment of sustainability. This identified 13 material sustainability topics that Skanska can positively influence. These have been grouped in accordance with Skanska's five sustainability focus areas: Safety, Ethics, Green, Community Investment and Diversity and Inclusion.

The five sustainability focus areas are strengthened by their connection to the United Nations' Sustainable Development Goals (SDGs). The SDGs further direct Skanska's efforts to make the most significant positive contributions to society.

For the sustainability focus areas, Skanska has been securing a clear governance structure, and establishing appropriate key performance indicators and methods for follow-up. This work will continue during 2018 to ensure all material sustainability topics are covered by a suitable measurement and reporting framework.

### Materiality analysis

Through the materiality analysis, the below sustainability topics were identified as material to Skanska's external and internal stakeholders. The Group is focusing on the 13 topics located in the blue shaded area. Those selected topics are categorized according to Skanska's five sustainability focus areas.



## Skanska's five sustainability focus areas (with selected sustainability topics from materiality analysis)

Safety	Ethics	Green	Community Investment	Diversity and Inclusion
<ul style="list-style-type: none"> <li>Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>Anti-corruption</li> <li>Ethics, culture and values</li> <li>Human rights</li> </ul>	<ul style="list-style-type: none"> <li>Carbon impact</li> <li>Energy</li> <li>Water</li> <li>Waste</li> <li>Environmental responsibility in projects</li> <li>Green products and services</li> <li>Sustainable cities (shared with Community Investment)</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable cities (shared with Green)</li> <li>Public Influencer</li> </ul>	<ul style="list-style-type: none"> <li>Diversity and inclusion</li> </ul>

### Safety

Skanska aspires to have injury-free workplaces, as part of living the Group's Care for Life value. Care for Life was the catalyst for the Group to begin developing a health and well-being strategy for all Business Units. Health issues in construction have not been given the same priority as accident injuries, and Skanska is determined to balance those efforts.

The health and well-being strategy, approved in 2017, is based on ensuring healthy workplaces, helping employees and workers to be physically and mentally fit so they can perform at their best and live full lives. This includes providing improved practices to reduce long-term health hazards, such as noise, dust and poor ergonomics. The intent is to prevent work activities from causing or worsening ill health, both physical and mental.

#### Furthering a caring culture

The health and well-being strategy is founded on a health and well-being matrix that identifies six topics – leadership, knowledge, physical well-being, mental well-being, metrics and communication – around which new and existing programs will be formed. It will also give clear opportunities for Business Units to develop their own plans and identify specific areas for better knowledge sharing. For example, sharing the range of actions, programs and techniques used across Skanska to mitigate harm from musculoskeletal injuries.

#### Raising global safety standards

At Skanska jobsites, everyday workers are carrying out activities that, if uncontrolled, can expose them to unacceptable safety risks. That is why Skanska introduced Global Safety Standards in 2008 and regularly reviews and updates them. These standards are significantly beyond legal requirements to help raise the safety performance of Skanska and the Group's supply chain.

During 2017, the Global Safety Standards were revised and four new ones added. These will all be incorporated into Business Unit safety systems by early 2018. These standards are an important part of how Skanska strives for a more consistent safety performance across all home markets: with injury reduction and also with mindset, attitude and behaviors.



Skanska aspires to have injury-free workplaces, as part of living the Group's Care for Life value. With Skanska's caring culture, everyone is responsible for their own safety, and the safety of those around them.

#### Safety journey

The health and well-being strategy and updated Global Safety Standards represent progress on Skanska's journey to eliminating injuries. Other steps include developing safety culture programs; conducting thorough safety reviews to identify underlying obstacles to safety improvement; and training senior managers to be role models for demonstrating their safety commitment.

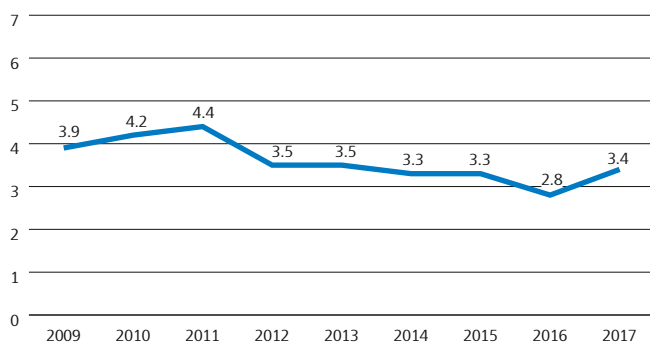
## Safety performance

Skanska's primary lagging indicator for safety is the lost-time accident rate. In 2017, the lost-time accident rate was 3.4 (2.8). Also in 2017, there were 730 (638) lost-time injuries, in which people were not available to work their next shift, and 1,029 (1,058) injuries of all types.

Also during the year, there were three work-related fatalities on Skanska project sites, two in Poland and one in Sweden. Each fatality involved a subcontractor employee. Following each fatality, Skanska held a Global Safety Stand Down at every workplace to share learnings from the accident with colleagues, and to pay respects.

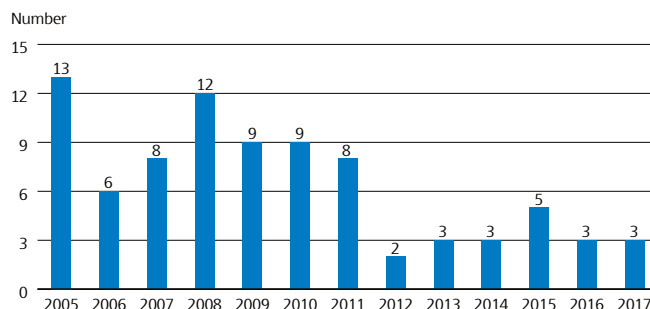
### Lost Time Accident Rate (LTAR) 2009–2017

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



### Fatalities (2005-2017)

Number of fatalities on Skanska project sites, inclusive of Skanska employees and subcontractor employees.



## Ethics

In 2017, Skanska continued to further the Group's strong ethical culture, which is central to living the Act Ethically and Transparently value. An ethical breach continues to be among the Group's top risks, according to the annual Group-wide risk survey.

Skanska's Code of Conduct provides employees with expectations for everyday behavior. As a follow-up to the Group's latest Code of Conduct, which was introduced in September 2016, the focus during 2017 was training on the Code's principles. Code of Conduct training is consistent in all units, helping align behaviors across Skanska.

### Anti-corruption measures

In 2016, a new anti-corruption policy was issued to reinforce Skanska's commitment to anti-corruption, as described in the Code of Conduct. In 2017, the Board of Directors and the senior executives completed anti-corruption training.

### Supporting human rights

In construction and project development, Human rights are a significant issue, partly attributable to the transient nature of the trade workforce. Skanska is proactive as one of the first companies in construction and project development to audit suppliers for ethics. The Supplier Code of Conduct includes Human rights issues such as fair working conditions and equal treatment. The Supplier Code applies to our supply chain and describes the expected behavior of providers of goods and services in their work with Skanska. Skanska is continually working to improve Group Human rights management and reporting.

Skanska's Code of Conduct Hotline – operated by a third-party provider – provides a mechanism for employees and suppliers' employees to anonymously report human rights issues. Skanska diligently investigates every allegation of human rights violations related to Group projects, including improper wages, hours and working conditions.

Furthermore, many projects have controlled access to ensure only verified personnel are on-site.



## Values align with customers

To enable employees to live Skanska's values and abide by the Code of Conduct, the Group only works with customers that do not cause Skanska's values to be compromised.

Increasingly, Skanska is awarded contracts based on alignment between the Group's values and customer values or priorities. An efficient relationship develops when values align because trust is higher and energies from all stakeholders can be focused on delivering the project.



Code of Conduct training is consistent in all units, helping align behaviors across Skanska.

## Supply chain risks and opportunities

Skanska depends upon tens of thousands of suppliers each year to fulfill customer obligations. Suppliers represent both performance and ethical risks. If a supplier has an ethical breach on a Skanska project, then Skanska's brand is jeopardized by association.

The performance risk of suppliers relates to their ability to perform, which depends upon financial resources, access to labor, ability to procure materials, and management skills. For many projects, Skanska pre-qualifies suppliers based on set criteria. For the rest of the projects, Skanska reviews suppliers after they submit a tender, and prior to a contract award.

The Supplier Code of Conduct describes the behaviors expected of suppliers. In 2017, Skanska increased due diligence efforts on the Group's broad network of consultants, partners, suppliers and sub-contractors. This increased scrutiny – done through a risk-based approach – will continue to intensify, further ensuring adherence with the Supplier Code of Conduct.

Suppliers also represent opportunity. By collaborating with the Group's supply chain, Skanska can build for a better society at higher levels. The Group's sustainability goals depend on the entire supply chain, so it is important that expectations are communicated. Skanska's values of Act Ethically and Transparently and Be Better Together are especially relevant in regards to working with suppliers.

## Green

Skanska's environmental commitment relates to impacts of the Group's operations and processes, and the long-term environmental performance of buildings and infrastructure delivered by the Group. In keeping with the Care for Life value, Skanska promotes green solutions and seeks to conduct operations in green ways. Through the Group's Journey to Deep Green™, Skanska aspires to go beyond compliance and to push toward future-proof projects – projects intended to accommodate future environmental demands and conditions.

In 2017, Skanska approved a new green strategy, which will better position the Group to succeed in delivering Profit with Purpose beyond the current 2020 business plan. This strategy focuses on zero/low-carbon solutions, which support the carbon reduction ambitions of many customers and of society. Another part of the strategy is significantly reducing the Group's carbon emissions footprint by 2030, in line with the Paris international climate agreement.

Beyond providing benefits to customers, the environment and society, Skanska's ambition to minimize carbon emissions also drives improved efficiencies in the Group's operations. It reduces usage or emissions of energy, carbon, materials and water, lowering costs and requiring smarter and more collaborative ways of working. To further this strategy, during 2017 Skanska conducted carbon analyses and worked on developing carbon roadmaps and action plans. This work continues in 2018.

## Environmental policy and environmental management system

Skanska's environmental policy and Color Palette™ define the Group's environmental agenda and provide a framework for continually improving the environmental credentials of projects, products and services. Environmental performance is measured and reported quarterly through Green Strategic Indicators (GSI).

The environmental policy is converted to day-to-day practice through an environmental management system, ensuring effective management of environmental risks. This system supports the achievement of Skanska's business objectives and goals. Each office and project site is covered by an environmental management system third-party certified to the ISO 14001 international environmental management standard. Skanska has 26 certificates across the Group. Skanska is recertifying to the ISO 14001:2015 standard; this has been achieved by five Business Units.

In 2017, Skanska received one major non-conformance (MNC) citations from external auditors. It was closed two weeks after the audit. In the previous five years, the Group received zero major non-conformance citations. Skanska actively encourages the Group's auditors to provide suggestions for improvement.

## Green in action

### Sustainability responsible sourcing guide

The process to ensure that Skanska's supply chain is in line with Group sustainability requirements and the Supplier Code of Conduct has differed by country. To align approaches, development of a best practice guide for responsible sourcing was begun in 2017, covering sustainability issues with a comprehensive focus on green. In 2018, the best practice guide will be further developed and implemented. This guide will enable knowledge sharing and will direct the assessment of sustainability risks in procurement.

## Skanska Color Palette™

Since 2009, the Skanska Color Palette has defined the Group's vision of Green and Deep Green projects according to four priority opportunities: energy, carbon, materials and water. These areas provide Skanska with the greatest opportunities to lower project environmental impacts. The Skanska Color Palette sets the strategic green direction for projects, and is used to define goals and develop action plans, driving continuous improvement.

	Vanilla Compliance	Green Beyond Compliance	Deep Green Future Proof
Energy			Net zero Primary Energy
Carbon			Near Zero Carbon Construction
Materials			Zero Unsustainable Materials Zero Hazardous Materials Zero Waste
Water			Net Zero Water

The Skanska Color Palette is a tool to measure and strategically guide green activities.

On the Color Palette, the Vanilla zone is the starting point, where construction processes and/or building and infrastructure performance are compliant with laws, regulations, codes and standards. In the Green zone, they are beyond compliance, but do not have a near-zero environmental impact. In the Deep Green zone, they have a near-zero impact on the environment, ensuring that the project is future-proof.

## Measuring green performance

Skanska uses Green Strategic Indicators to measure green performance. These cover three areas: increasing the level of green business; management support and training employees on green subjects; and supporting teams to deliver projects with improved green profiles. In late 2016, Skanska implemented a database for Business Units to report Green Strategic Indicators and chart follow-up performance. In 2017, that database was further developed.

## 2017 green results

Green products and services as defined in the Skanska Color Palette, Green refers to when construction processes and/or building and infrastructure performance are beyond compliance, but do not have a near-zero environmental impact. By 2020, the Group aims to have all project developments be 100 percent Green, as defined by the Skanska Color Palette. Internally, Skanska measures Green revenue for Construction Business Units and Green value for Project Development units.

## Greenhouse gas reporting

Skanska's greenhouse gas reporting covers all Business Units. We measure carbon emissions in accordance with the Greenhouse Gas Protocol. Activity data is based on invoiced data, real-time meters, models and estimates or data as reported by suppliers. Energy conversions are done using publicly available conversion factors and emission factors are sourced from open databases like International Energy Agency (IEA) and Reliable Disclosure Systems for Europe (RE-DISS). Greenhouse gases included in the reported carbon

inventory are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). Skanska applies the financial control approach. Emissions data is subject to inherent uncertainties due to incomplete scientific knowledge used to determine emission factors and resulting effects on measurements and estimations. A limited assurance engagement of the Skanska carbon emission inventory is undertaken by Skanska's auditors EY; see more information on page 187. For further details and data, see <https://group.skanska.com/sustainability/green/carbon/how-we-report-greenhouse-gases>.

## Direct (scope 1) and indirect (scope 2) emissions expressed in tons carbon dioxide equivalent (CO<sub>2</sub>e)

Tonnes CO <sub>2</sub> e		2017	2016	2015	2014	2013
Scope 1		275,537	312,800	330,758	367,791	386,154
Scope 2	Location-based method	55,464	52,704	49,207	60,494	51,305
	Market-based method	71,389	73,300	–	–	–

## Carbon emission categories

Scope 1 emissions include direct emissions that occur from sources owned or controlled by Skanska, such as boilers, furnaces and vehicles. Scope 2 includes indirect emissions from the generation of electricity, heating and cooling purchased and consumed by Skanska. Scope 2 emissions physically occur at the facility where the electricity, heat and cooling is generated.

## Recognition for environmental leadership

In 2017, Skanska achieved Leadership level (A-) in the CDP (Carbon Disclosure Project) climate change, water and forest/timber rating. This indicates Skanska has implemented actions to manage environmental impacts related to climate change, water, and forest and timber.

## Green in action

### Advancing toward carbon neutrality

Skanska Sweden in 2015 set the ambitious goal of making its operations, including its value chain, carbon neutral by 2050. This target includes emissions from the whole value chain, including production and transportation of construction materials, construction processes and customers' end-use operations.

To advance toward this goal, Skanska Sweden has worked intensely to conduct analyses and prepare strategies on how to significantly reduce carbon emissions. This knowledge will be used by the Group when all Business Units in 2018 work on setting carbon reduction targets aligned with the Paris climate agreement. Skanska's Group-wide goal is to significantly reduce carbon emissions by 2030.

## Energy

Skanska's approach to energy is focused on what the Group can directly control and influence. Skanska aims to boost energy efficiency in construction operations and in the end use of buildings and infrastructure; substitute fossil fuels with renewable energy where economic conditions are favorable; and prioritize net zero primary energy buildings – buildings that produce as much energy as they consume, on average.

### Total energy usage (MWh)

	2017	2016	2015	2014
<b>Fuel usage (non-renewable)</b>	<b>1,023,242</b>	<b>1,121,646</b>	<b>1,278,787</b>	<b>1,398,823</b>
Diesel/Gas oil	502,832	557,122	658,394	843,483
Residual fuel oil	152,078	196,159	204,464	145,996
Liquefied petroleum gas (LPG)	88,277	59,560	82,609	91,718
Liquefied Natural Gas (LNG)	105,687	97,708	124,475	121,878
Motor gasoline	84,258	112,032	108,876	83,312
Kerosene	0	0	0	0
Other: Pulverized coal	90,110	99,065	99,969	112,436
<b>Fuel usage (renewable)</b>	<b>68,094</b>	<b>54,482</b>	<b>271</b>	<b>1,257</b>
Biogasoline	23	124	271	1,257
Biodiesel	68,071	54,358	0	0
<b>Electricity usage</b>	<b>272,979</b>	<b>263,246</b>	<b>259,479</b>	<b>365,087</b>
Non-renewable	154,363	143,037	104,502	365,087
Renewable	118,616	120,209	154,977	0
<b>District heating usage</b>	<b>11,740</b>	<b>3,721</b>	<b>573</b>	<b>3,851</b>
<b>District cooling usage</b>	<b>1,499</b>	<b>2,597</b>	<b>196</b>	<b>195</b>
<b>Total energy usage (MWh)</b>	<b>1,377,555</b>	<b>1,445,692</b>	<b>1,539,306</b>	<b>1,769,213</b>

## Water

As a construction and project development company, Skanska has a great impact on water usage, both during the construction phase and with the end use of buildings and infrastructure. Water is recognized as a priority area on the Skanska Color Palette.

In 2016, Skanska for the first time collected water data on a Group level. In 2017, Skanska scored Leadership level (A-) in the CDP water questionnaire. Skanska is continually working to improve Group water management and reporting.

### Green in action

#### Innovative water efficiency solutions

Skanska integrates water efficient solutions into projects. For example, the Botanica K Residential Development project in the Czech Republic uses an innovative water solution for grey water management. Treated water from washbasins, bathtubs and showers – along with collected rainwater – is used for flushing toilets. This, combined with other water efficiency solutions, reduces potable water consumption by about 40 percent.



At Botanica K, treated water from washbasins, bathtubs and showers is used for flushing toilets, helping save water and energy.

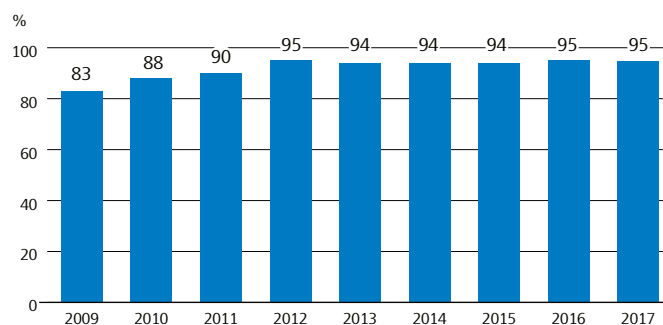
## Waste

The Skanska Color Palette focuses on increased material efficiency: reuse and recycling of materials and products. It challenges projects to produce zero self-generated construction waste.

Striving to reduce construction waste benefits the environment while enhancing operational efficiency and cost performance. The Group's goal for self-generated waste diverted from landfill exceeds 95 percent.

In some markets, it is common industry practice to exclude waste from subcontractor operations when compiling waste data. That approach does not meet Skanska's expectations, and efforts have been undertaken in the relevant Business Units. The Group is improving by incorporating more subcontractor waste data.

### Total amount of self-generated waste diverted from landfill from Construction units, 2009-2017 (percent)



### Green in action

#### Re-using waste material

At the D4 Skalka – junction II/118 highway project in Czech Republic, Skanska re-used waste material from the nearby uranium mines as aggregate in the construction process. The aggregates had excellent mechanical properties, and were tested and approved for safe use. This approach provided a new use for waste materials while minimizing transportation costs and carbon emissions. This demonstrates how Skanska contributes to society by reusing existing materials to minimize environmental impacts and reduce costs.

### Green loans and bonds

In 2017, Skanska Financial Services collaborated with four banks to establish a Green credit line of about SEK 2 billion. This Green revolving credit facility – the first in the corporate sector – is a backup for Skanska's Green bond, which invests primarily in Green Commercial Property Development projects. Skanska's Green Bond Framework is endorsed by the Center for International Climate and Environmental Research, an independent research center associated with the University of Oslo, Norway. By the end of 2017, Skanska's central funding amounted to SEK 4.6 billion, of which approximately half consisted of Green financing, including Green bonds.

### Sustainable cities

More than half of the Earth's population lives in urban environments, making high-performing urban settings necessary to enable people to thrive. Skanska has an important role in this.

In cooperation with citizens, local communities, authorities and other stakeholders, the Group identifies how to address some of society's most important social and environmental challenges. Through design, Skanska helps improve neighborhoods, and by focusing on resilient and low-carbon solutions, the Group creates resource-efficient cities. Some examples are:

- Developing offices and residential areas with good access to public transportation, and facilitating bicycle and electric car sharing pools
- Utilizing Skanska's patented Deep Green Cooling technology – cooling buildings through ground storage – on Commercial Property Development projects in the Nordics and Europe
- Supporting environmental certification systems for building and infrastructure projects – including Living Building Challenge, LEED, Envision and CEEQUAL – to increase efficient uses of resources
- Establishing integrated movement patterns in residential projects to promote an inclusive society
- Creating public spaces that enhance trust and promote safety.

### Community Investment

In 2017, a new Community Investment Guideline was approved by the Group. The guideline outlines a new direction to enhance the impact of Community Investment activities, and to further embed Community Investment into Skanska.

This approach will help better connect Community Investment efforts to core operations; strategically identify opportunities for creating shared value among communities, customers and Skanska; and effectively deliver social value within three focus areas: education, employability and design for social impact. The three areas are where Skanska has the greatest possibilities to make positive impacts.

### Education

In supporting education, Skanska partners with schools and other organizations to provide younger generations with role models. This is to inspire further study and promote STEM (science, technology, engineering and math) learning, along with encouraging greater diversity in construction and project development.

#### Community Investment in action

##### Award-winning partnership

In Finland, the construction industry has many aging workers and vocational schools have a high dropout rate. Skanska, together with partners, developed a program called 2+1 that helps solve both issues. It provides young adults with a yearlong paid apprenticeship under the guidance of an experienced mentor, along with two years of study. This opens opportunities for the younger generation while providing older workers with a special opportunity to share their knowledge. By the end of 2017, 15 young adults had completed the program, and Skanska hired all of them.

In 2017, the program received an award for its innovative approach from the Finland Ministry of Economic Affairs and Employment and Sitra, Finland's national innovation fund. The awards jury described the program as a practical model replicable in other industries.





In Finland, the 2+1 program matches the expertise of older workers with students needing training to build a career. It provides employment and builds a source of skilled construction workers.

### Employability

By focusing on employability, Skanska seeks to increase local employment by supporting diverse groups in gaining the skills necessary to enter or advance in the job market. This also helps create a diverse pool of potential employees for Skanska.

#### Community Investment in action

##### Pathways to active participation in society

In Östersund, Sweden, the local housing authority wanted to reduce unemployment among young adults and provide opportunities for people newly arrived to Sweden. To help create a sustainable solution to those issues, the authority included this social sustainability criteria in the procurement for a construction partner for a housing project.

After Skanska was awarded the project, the Group collaborated with the authority and other partners to create a program called the Inclusion Academy. The Inclusion Academy provides language lessons, social activities, coaching sessions and valuable on-the-job experiences to skilled migrants and the young unemployed.

In 2017, 41 out of 54 participants, 76 percent, secured employment or educational placements, providing a big boost to them becoming active participants in the local society and workforce.



Skanska played a key role in creating the Inclusion Academy, which provides opportunities on projects like this for those newly arrived to Sweden.

### Design for social impact

Skanska uses design to help improve communities and bring them together. This can involve creating integrated movement patterns to reduce segregation; opening shared spaces to enhance trust, health and safety; producing murals that inspire and explain; and generating inclusiveness by improving accessibility for people with disabilities.

#### Community Investment in action

##### Creating buildings accessible to all

In Poland, Skanska has created a partnership with the Integration Foundation, which works to ensure that buildings are accessible to people with different needs, including the disabled and elderly. Skanska has committed to certifying all new Commercial Property Development projects in Poland with the Building without Barriers certification, which the foundation established to recognize highly accessible buildings.

The partnership enables Skanska to set the standard for accessibility with holistic and modern design solutions integrated early into the design phase. This partnership also provides value to office tenants, as those customers appreciate how the Buildings without Barriers certification supports the diverse workforces they need to thrive.



Office tenants value the Building without Barriers certificate, as it supports the diverse workforces they need to be successful.

### Public influencer

Skanska engages with the public to raise awareness of various social matters, including workforce development and planning for inclusive and safe communities.

A great platform for doing this is Almedalen Week, a prominent Swedish event at which many thousands of people from political parties, companies and organizations meet to share perspectives. At Almedalen in 2017, Skanska organized various seminars, including a session on the importance of making the right demands in public procurement regarding social and environmental aspects of sustainability. Another Skanska-organized session was about creating more integrated cities and safer societies. Ministers of the Swedish Government and members of the Swedish Parliament participated in Skanska's seminars.

### Diversity and Inclusion

Skanska has set a vision of mirroring society's diversity at all levels, and encouraging leaders to be excellent in fostering an inclusive culture. In 2017, Skanska continued strategically working to achieve this diversity and inclusion vision, which is integrated into the 2020 Profit with Purpose Business Plan. Skanska sees having a high level of focus on diversity and inclusion as a competitive advantage that also supports society.

The Group-wide Diversity and Inclusion vision and strategy are common to all Business Units. Each Business Unit is responsible for adapting the overall strategy into action plans appropriate for them, and then cascading these plans. Since Business Units are organized differently and there are differences between geographic markets, the specifics of the action plans and process of integrating the actions varies.

The two Construction Business Units furthest ahead with diversity and inclusion are Skanska Sweden and Skanska UK. For several years, Skanska Sweden, organized by regions, has had regional diversity and inclusion scorecards and targets. In 2018, regional diversity and inclusion action plans are compulsory and will be integrated into the business planning process. Skanska UK expects all major projects to have diversity and inclusion action plans. Both implementation methods include workshops and assessments.

### Diversity and Inclusion in action

#### Innovative recruitment programs

Skanska Sweden and Skanska UK have developed innovative approaches for recruiting from groups not traditionally prioritized by the construction industry.

Skanska Sweden's International Leadership Program provides a path and resources for highly skilled immigrant engineers to have fulfilling Skanska careers. Through the program, which began in 2014, Skanska Sweden hired 36 immigrant engineers - 66 percent of participants - to take on leadership roles.

Skanska UK's Return to Work program recruits people who have taken career breaks of two years or more from any industry, including those who paused their careers to care for children. It includes a 12-week internship. Through 2017, Skanska has hired 15 people through Return to Work, 10 as permanent hires. Four of those people have been promoted.

### Outperforming industry benchmarks

With the 2017 Group-wide employee survey, responses to diversity and inclusion questions were 3 to 6 percentage points higher than the external benchmarks. The survey also established a strong internal correlation between inclusive leadership, retention and effectiveness: managers who lead inclusively are also more likely to retain key people and run effective teams.

### Diversity progress

At the Group level, headcount statistics show continued positive progress with diversity, though the degree of advancement varies between Business Units. One of the more successful units is Skanska Sweden, which increased the share of women in senior line positions from 10.3 percent in 2015 to 18.1 percent in 2017. In terms of ethnic diversity, Skanska Sweden continues to improve in mirroring society's diversity, such as through the International Leadership Program.

### Employees by gender

Category	2017, %		2016, %		2015, %	
	Men	Women	Men	Women	Men	Women
All employees	83	17	83	17	85	15
Senior executives	67	33	78	22	78	22
Skanska AB Board of Directors	71	29	77	23	79	21

## Governance for sustainability

Skanska has a Group-wide sustainability governance structure. Group Leadership Team members have responsibility for the five sustainability focus areas, with each area backed by a Group-level support unit led by Senior Vice Presidents or Global Managers. The heads of each sustainability area meet regularly in the Sustainability Umbrella Group to drive and coordinate actions within sustainability across Business Units.

The Group support units have regular meetings with representatives from all Business Units to share best practices and knowledge. Sustainability is also prominent on the agenda at Skanska's biennial Management Meetings, reaching 750 senior managers.

### Code of Conduct

Skanska's Code of Conduct is key to bringing the Group's values to life. The Code of Conduct describes the expected behavior of every employee in interactions with fellow employees, customers, local communities and other stakeholders. All Skanska employees must adhere to the principles and requirements contained in the Code of Conduct; this includes part-time, contract and temporary employees.

The current Code of Conduct was introduced in 2016, and during 2017 Group-wide training has been conducted covering all employees in all regions of operations. All employees receive Code of Conduct training every two years, and new employees are trained within one month of starting with Skanska.

The Code of Conduct is supplemented by the Supplier Code of Conduct, which must be adhered to by all subcontractors, suppliers, consultants, intermediaries and agents. The Supplier Code of Conduct is included in agreements with these parties as guidance on expectations of them and on what they can expect from Skanska. The Supplier Code covers topics such as fair working conditions; discrimination and harassment; anti-corruption and anti-bribery; and fair competition.

### Code of Conduct Hotline

Skanska's Code of Conduct Hotline provides a mechanism for employees, suppliers' employees and other third parties to anonymously report on breaches or suspected breaches of the Group's Code of Conduct. The hotline is managed by an independent third-party service provider.

### Global commitments

Skanska became a signatory of the United Nations Global Compact in 2001, and continues to support the Global Compact's Ten Principles. This sustainability report constitutes Skanska's Communication on Progress (COP) and shows how the Group has continued to implement the Ten Principles during 2017.

Skanska supports the rights of all people as described in the Universal Declaration of Human Rights adopted by the UN, and in the conventions of the International Labor Organization. Skanska is also committed to the World Economic Forum's Partnering Against Corruption Initiative, of which Skanska is a founding member.

Skanska is an active participant in international sustainability initiatives, including United Nations Global Compact Network; the International Chambers of Commerce; World Green Building Council; World Business Council for Sustainable Development; ChemSec, which works to reduce hazardous chemicals; and Catalyst, which promotes women in the workplace.

### Awards and recognition

Sustainability-related awards and recognition received by Skanska during 2017 include:

- Skanska topped the Sustainable Brand Index, which ranks perceived performance with environmental and social sustainability among large business-to-business companies in the Nordics.
- The Brock Environmental Center, Virginia Beach, USA, was recognized at the Green Solutions Awards 2017 in the Health and Comfort category. This award was presented during the United Nations Climate Change Conference in Bonn, Germany.
- Skanska UK achieved six external awards for Diversity and Inclusion work. These included ranking in the top 20 of the UK's most inclusive employers in the 2017 Excellence in Diversity Awards.











## Sustainable Development Goals

Skanska recognizes the United Nations' 17 Sustainable Development Goals, which demonstrate the scale and ambition of the worldwide 2030 Agenda for Sustainable Development. Skanska's sustainability review commenced during 2017 highlighted strong ties between sustainability at Skanska and the United Nations' Sustainable Development Goals (SDGs). During 2017, the Group identified the eight SDGs most relevant to Skanska, shown below.

As a project development and construction company, Skanska has a significant ability to influence Goal 11, Sustainable Cities and Communities – this directly relates to the Group's core business. In 2017, Skanska also focused on seven other closely related SDGs. Through these eight SDGs, the Group seeks to harness interconnected opportunities and risks.

### Sustainable Development Goals index

Sustainable Development Goal	Strategic approach	Examples	Skanska's sustainability focus areas
 <p>Achieve gender equality and empower all women and girls</p>	<p>Skanska's Diversity and Inclusion vision, strategy, change journey map and Business Unit action plans provide a framework for continuous progress with diversity and inclusion. Recruiting and developing women is an important focus area, along with reinforcing a fair and inclusive workplace culture. Results are tracked via employee statistics, and specific questions on the annual Group-wide employee engagement survey.</p>	<p>Skanska is steadily increasing the number of women in senior positions. All Project Development Business Units and the Construction units in the Nordics and the UK have women in line positions on their management teams. Across Skanska, there is zero tolerance for any form of discrimination and harassment. The importance of an inclusive and fair workplace is strongly emphasized in the Code of Conduct. With Skanska Sweden, gender equality is an important aspect of the regional diversity and inclusion scorecard.</p>	Diversity and Inclusion
 <p>Ensure access to water and sanitation for all</p>	<p>Skanska works with water use during the construction of buildings and infrastructure, and through design choices often influences water usage during the full lifecycle of those assets. The Skanska Color Palette, a tool to measure and strategically guide green activities, defines the Group's ambition for efficient water use.</p>	<p>In San Francisco, USA, Skanska designed and built a two-station extension of the Bay Area Rapid Transit light-rail transit system. Ninety percent of water used during construction was from non-potable sources, a reduction made possible by innovative methods. Also, the stations are designed to use around 38 percent less water than standard solutions, annually saving more than 20,000 liters.</p>	Green
 <p>Ensure access to affordable, reliable, sustainable and modern energy for all</p>	<p>Energy efficiency provides significant value to customers as it reduces their carbon footprints while lowering operational costs. Energy efficiency is a focus area in the Skanska Color Palette.</p>	<p>Skanska has focused on energy efficiency for many years. Over the last 15 years, energy consumption fell by an average of 60 percent in Skanska-developed office buildings in the Nordics.</p>	Green
 <p>Promote inclusive and sustainable economic growth, employment and decent work for all</p>	<p>Skanska's Code of Conduct guides employees in how to act in appropriate and ethical ways. The Group's Supplier Code of Conduct explains expected behaviors to supply chain partners.</p> <p>Skanska is committed to achieving injury-free and transparent workplaces. Skanska applies the Group's Global Safety Standards at all project sites and does not tolerate behaviors that fall below Group requirements.</p>	<p>Skanska has strengthened the Group's culture of reporting alleged breaches of the Code of Conduct and Supplier Code of Conduct. Skanska remains vigilant to detect and act on any form of human rights violation and other alleged breaches.</p> <p>To help raise industry safety standards, Skanska works to improve the supply chain's understanding and application of safety requirements. Skanska Safety Week, one of the world's biggest safety events, includes industry partners in several markets. The Group continually looks to improve employees' knowledge and skills regarding safety.</p>	<p>Ethics</p> <p>Safety</p>

Sustainable Development Goal	Strategic approach	Examples	Skanska's sustainability focus areas
 <p>Build resilient infrastructure, promote sustainable industrialization and foster innovation</p>	<p>Skanska seeks to minimize negative environmental impacts, with energy as an important area. The Group collaborates with partners to create improved solutions that lower negative environmental impacts throughout the life cycle of buildings and infrastructure.</p> <p>The public-private partnership (PPP) business model uses lifecycle cost analyses to guide decision making – it determines what provides the greatest long-term value. This approach future-proofs the investments, and also helps minimize environmental impacts.</p>	<p>Skanska is a partner in Powerhouse, a Norwegian consortium that produces pioneering buildings in Norway that generate more energy than consumed throughout a 60-year life cycle, including construction and building operation. This is done by applying existing technologies in innovative ways.</p> <p>For the I-4 Ultimate public-private partnership highway project in Orlando, USA, Skanska's consortium has a 40-year concession that includes operations and maintenance. A life cycle cost approach to asphalt pavement rehabilitation strategies is estimated to save USD 38 M over the concession. Also, to help ensure the highway's resilience to extreme weather, the road base will be about 1 meter above seasonable high water levels.</p>	Green
 <p>Make cities inclusive, safe, resilient and sustainable</p>	<p>Reaching high levels of external certification – such as LEED, BREEAM, CEEQUAL and Envision – has for years been an important way for Skanska to verify that buildings and infrastructure delivered to customers and society achieve a high sustainability standard. Also, through the Skanska Color Palette, the Group focuses on environmental areas of importance for society.</p> <p>Skanska aims to improve communities through holistic design solutions. This can involve creating integrated movement patterns to reduce segregation, opening shared spaces to enhance trust, promoting health and safety in the built environment, and by improving inclusiveness through increased accessibility for people with different needs.</p>	<p>Skanska had a leading role in guiding the development of the Envision sustainability rating system for civil infrastructure, a system increasingly used in the USA. Skanska designed and built the first rail transit project certified under Envision, the Expo Line Phase II light rail in Los Angeles, USA.</p> <p>In Poland, Skanska, together with partner Integration Foundation, is setting a higher bar for making buildings that are accessible to people with different needs, such as the disabled and elderly. Skanska is certifying all new Commercial Property Development projects in Poland to the Building Without Barriers certification, which recognizes highly accessible buildings.</p>	Green  Community investment
 <p>Ensure sustainable consumption and production patterns</p>	<p>Efficient use of resources is important for Skanska to lower negative environmental impacts while lowering project costs – benefiting the environment and customers. Minimizing waste and responsible use of resources are Skanska Color Palette focus areas.</p>	<p>Skanska is designing and constructing the European Spallation Source in Lund, Sweden. There are high green ambitions for this research facility, including zero waste to landfill. Achieving this target is requiring new ways of working with materials and suppliers.</p>	Green
 <p>Take urgent action to combat climate change and its impacts</p>	<p>With climate change, the construction industry is part of the problem and part of the solution. Skanska contributes to building a better society by striving to reduce carbon emissions from the Group's operations, as well as providing customers with resilient and low-carbon solutions. The aim is reduced carbon footprints, both for Skanska and customers.</p>	<p>In Solna, Sweden, New Karolinska Solna is a hospital public-private partnership (PPP) with a Skanska consortium handling financing, design, construction and maintenance. To achieve a low environmental impact, it will produce only minor carbon dioxide emissions from energy consumption. Partly due to using geothermal heating and cooling installations, the energy consumption will be 45 percent less than the Swedish energy code. All electricity will be 100 percent renewable electricity generated off site.</p>	Green



## Sustainability risks

Skanska prioritizes understanding the Group's main sustainability opportunities and risks. For each sustainability risk, comprehensive management and mitigation measures are implemented and regularly updated.

Risk area and description	Potential Impacts	Mitigation	Skanska's sustainability focus area
<b>Health and safety</b> Injuries and ill health regarding people at Skanska sites, or people affected by Skanska work activities.	Multiple fatalities, life-changing injuries, and injuries and long-term ill health that reduce life expectancy or the quality of life.	<p>Skanska's safety policy describes the expected roles of all industry participants to help achieve injury-free environments.</p> <p>Skanska's Global Safety Standards provide minimum expected behaviors for all Skanska workplaces.</p> <p>Construction Business Units have safety management systems that comply with the OHSAS 18001 international occupational health and safety management system standard. This provides control over operational safety risks.</p>	Safety
<b>Anti-corruption and bribery matters</b> Bribery, corruption, money laundering and breach of Skanska's values and ethics. Bribery and corruption are among Skanska's top risks.	Fines, penalties and criminal and civil charges. Delisting from public procurement in some markets. Damaged reputation and lost trust as a responsible company.	<p>The Code of Conduct, anti-corruption policy and other policies provide clear directions to employees, and related training provides instruction on appropriate behaviors.</p> <p>Skanska encourages employees to have everyday discussions around the Group's values. Short videos depicting situations encountered by employees support this activity.</p> <p>Due diligence deepens Skanska's knowledge of suppliers, subcontractors and other partners. Particular attention is given to those representing Skanska as intermediaries. Sellers and buyers of land and real property are also scrutinized, including identifying funding sources.</p>	Ethics
<b>Environment</b> Major environmental incident in operations or supply chain.  Pollution or negative impact on the environment.  Inefficient uses of energy, materials, waste and water.  Physical risks caused by extreme weather due to climate change.	<p>Damaged reputation and loss of license to operate.</p> <p>Operational inefficiency, increasing costs and decreasing profits.</p> <p>Operational costs or delays due to extreme weather conditions.</p>	<p>Skanska's Code of Conduct and Environmental Policy, enabled by the Group's environmental management system, guide actions relating to environmental risks and secure legal compliance. Environmental specialists at Group and Business Unit levels support line management with their responsibility for securing compliance and achieving Group environmental expectations, which go beyond compliance, and retaining ISO 14001 certification. Also, Skanska engages with suppliers to reduce risks of supply chain environmental breaches.</p> <p>Employees are trained on proper environmental practices and are immersed in activities that lift Skanska's Care for Life value.</p> <p>The Skanska Color Palette secures a strategic approach to future-proofing projects regarding resource efficiency (energy, carbon, materials and water).</p>	Green

Risk area and description	Potential Impacts	Mitigation	Skanska's sustainability focus area
<p><b>Diversity and inclusion</b> Low diversity among employees and subcontractors – similar backgrounds in terms of gender, age, ethnicity, family situation, educational background, work experience and personality.</p> <p>Non-inclusive, even explicitly excluding, workplace culture, resulting in exclusionary experiences and cases of discrimination and harassment.</p>	<p>Difficulties attracting, recruiting and/or retaining employees with needed competencies.</p> <p>Inability to meet customer and community expectations regarding diversity and inclusion, reducing Skanska's ability to secure project assignments.</p> <p>Damaged reputation from harassment and discrimination cases.</p> <p>Decreased employee engagement and productivity due to non-inclusive behaviors and experiences.</p>	<p>Diversity and inclusion is integrated in Skanska's 2020 Profit with Purpose Business Plan, and the Group's values, sustainability agenda and Code of Conduct.</p> <p>The Group-wide diversity and inclusion vision and strategy are activated through a Group-wide network with local action groups and action plans.</p> <p>Diversity and inclusion is integrated into employee attraction and recruitment initiatives, and employee performance review processes. Also, it is addressed in employee onboarding programs and leadership development programs.</p> <p>Skanska's new Community Investment Guideline is well aligned with the Group's Diversity and Inclusion vision and strategy. Supplier diversity programs support both Community Investment and Diversity and Inclusion.</p>	Diversity and Inclusion
<p><b>Human rights</b> Human rights violations, such as unfair working conditions, modern-day slavery and discrimination. Also harassment, both at Skanska sites and by any of Skanska's subcontractors or suppliers.</p>	<p>Damaged reputation and lost trust as a responsible company. Also, financial fines and penalties, civil lawsuits and criminal charges.</p>	<p>Skanska Code of Conduct training and the Supplier Code of Conduct guide employees and those working on behalf of Skanska to act appropriately regarding human rights. Other control measures include knowing the background of suppliers and regulating project site access.</p> <p>The Code of Conduct Hotline provides an anonymous way for employees and external parties to report suspected misconduct. Every allegation is diligently investigated.</p>	Ethics
<p><b>Supply chain management</b> Suppliers not compliant with Skanska's requirement to follow Supply Chain Code of Conduct.</p> <p>Performance risks associated with each supplier's financial condition and ability to procure material and labor.</p>	<p>Damaged reputation if suppliers and subcontractors act in ways not consistent with Skanska's values.</p> <p>Failure by a supplier could result in Skanska facing a financial loss, damaged reputation and inability to meet project schedule.</p>	<p>Skanska is increasing due diligence of suppliers and subcontractors. Actions include prequalifying suppliers based on set criteria; having the Supplier Code of Conduct as a contract attachment; and auditing suppliers. Particular attention is given to those representing Skanska as intermediaries.</p> <p>Prequalification or qualification prior to award of a contract reduces performance risk.</p>	Ethics

## Employees

The average number of employees in 2017 was 40,759 (42,903), of whom 9,304 (10,158) were in Sweden. Skanska prioritizes attracting, recruiting and orientation of new employees to the organization.

The Skanska employee ownership program (Seop) is aimed at attracting employees and retaining them within the Group, and creating greater affinity and dedication. All permanent employees of the Skanska Group are entitled to participate in the program. Currently 29 percent (30) of those eligible are participants.

The Group uses annual employee surveys to obtain an understanding of job satisfaction, morale and professional development needs from the employees' perspective. In 2017 a new Group-wide employee survey was launched to follow up and support the Profit with Purpose business plan. The survey was conducted within all Business Units for the first time in April 2017. One of the most important factors in attracting and retaining employees is the opportunity for continued professional development within the company. The Group thus strongly emphasizes creating a culture in which managers and other employees provide each other with mutual feedback, where employees can undertake new, challenging assignments, and where proficiency-raising initiatives are offered. At the Group level, the Skanska Top Executive Program (STEP) is run in collaboration with IMD business school in Switzerland and Ivey Business School in Canada.

Skanska also has a global talent program called Skanska Stretch. It is aimed at key talents who are at an early stage in their career and on their way into a management role. The program has a clear international emphasis and all participants have an opportunity to work abroad after completing the program. In addition, all business units have training programs that match the needs of the respective unit, targeting employees at all levels.

The annual Talent Review process provides the basis for succession planning and professional development for employees. It is uniformly implemented in all of the Group's Business Units in order to obtain a Group-wide picture of competencies and development needs at both the individual and Business Unit level.

Skanska uses a Group-wide skills profile – Skanska Leadership Profile – for the purpose of clarifying the expectations the Group has for all employees and to provide opportunities for continuous development.

Work on Skanska Unlimited – a program aimed at increasing talent exchange within the Group – continued in 2017. Employees are given an opportunity to try a 3–6 month assignment at a different Business Unit, internationally or in the same market.

For Skanska, diversity is about embracing and utilizing the abilities of every individual. Skanska's actions are based on the conviction that the company's competitiveness is enhanced when its employees are satisfied with their work situation and have the opportunity for professional development regardless of gender, ethnicity or educational background. Currently, a significant number of women are active at the project level within the Group, but the percentage of women in management positions is still too low. Efforts to increase diversity are under way, both at the Group level and at every Business Unit. The Group works continuously to set diversity targets for its Business Units, for example to increase the percentage of new female recruits or to raise the level of knowledge and awareness about diversity within the organization.

## Remuneration to senior executives

For information about the most recently approved guidelines for determining salaries and other remuneration for the President and CEO and other senior executives, see Note 37 Remuneration to senior executives and Board members.

In April 2018 the Board will present a proposal to the Annual General Meeting to retain the current guidelines for salaries and other remuneration of senior executives.

### The Board's proposal for salaries and other remuneration to senior executives for approval by the 2018 Annual General Meeting

Remuneration for senior executives of Skanska AB is to consist of a fixed salary, possible variable remuneration, other customary benefits, and pension. The senior executives include the President and CEO and the other members of the Group Leadership Team. The combined remuneration for each executive must be market-based and competitive in the job market in which the executive is located, and outstanding performance is to be reflected in the total remuneration package.

Fixed salary and variable remuneration are to be linked to the level of responsibility and authority of the executive. The variable remuneration is to be payable in cash and/or shares, and it is to have a ceiling and be related to the fixed salary. To receive shares a three-year vesting period is required and the shares are to be part of a long-term incentive program. Variable remuneration is to be based on performance in relation to established targets and designed to achieve better alignment between the interests of the executive and of the company's shareholders. The terms of variable remuneration should be designed so that if exceptional economic conditions exist, the Board has the ability to limit or refrain from paying variable remuneration if such payment is deemed unreasonable and incompatible with the company's general responsibility to shareholders, employees and other stakeholders. With respect to the annual bonus, the Board has the ability to limit or refrain from paying this variable remuneration if it deems such action reasonable based on other factors.

If a member of the Board performs work on behalf of the company in addition to his or her assignment on the Board, a consultant fee and other compensation for such work may be payable.

In case of termination or resignation, the normal notice period is six months combined with severance pay equivalent to a maximum of 18 months of fixed salary or, alternatively, a notice period of a maximum of 24 months.

Pension benefits are to be in the form of either defined-benefit or defined-contribution plans, or a combination of both, and entitle the executive to receive a pension from the age of 65. In individual cases, however, the retirement age may be as low as 60. To earn full defined-benefit pension, the individual is required to have been employed for as long a period as is required under the company's general pension plan in each respective country. Variable remuneration is not pensionable except in cases where this is stipulated in the rules for a general pension plan (e.g. Sweden's ITP occupational pension plan.)

The Board of Directors may deviate from these guidelines if there are special reasons to do so in an individual case.

A proposal for the President and CEO's salary and other remuneration is prepared by the Compensation Committee and a decision is taken by the Board. The salaries and other remuneration for other senior executives are determined by the Compensation Committee.

### Skanska employee ownership program (Seop)

The purpose of the Seop is to strengthen the Group's ability to retain and recruit qualified personnel and to align employees more closely to the company and its shareholders.

The program provides employees with the opportunity to invest in Skanska shares while receiving incentives in the form of possible allotment of additional shares.

This allotment is predominantly performance-based. Shares are only allotted after a three-year vesting period. To be able to earn matching shares and performance shares, a person must be employed during the entire lock-up period and have retained the shares purchased within the framework of the program. Under Seop 3, which ran during the period 2014–2016, matching shares and performance shares were allotted in 2017 for the shares in which employees had invested in 2014 and which they had retained for the three-year lock-up period.

In 2017 Seop 4 continued, running for the period 2017–2019. Seop 4 is essentially identical to Seop 3.

The accounting principles applied for the employee ownership programs can be found in Note 1 IFRS 2 Share-based Payment.

#### Employee-related expenses for

#### Skanska employee ownership program (Seop)

SEK M	Seop 3	Seop 4	Total for programs
<b>Employee-related costs For share-award Programs<sup>1</sup></b>			
Investment years	2014–2016	2017–2019	
Total estimated cost for the programs <sup>2</sup>	862	311	1,173
Expensed at beginning of period	–420	0	–420
Cost for the period	–234	–63	–297
Total expensed at end of period	–654	–63	–717
<b>Remaining to be expensed</b>	<b>208</b>	<b>248</b>	<b>456</b>
Of which expensed in:			
2018	155	103	258
2019	53	102	155
2020 or later	0	43	43
<b>Total</b>	<b>208</b>	<b>248</b>	<b>456</b>
<b>Share awards earned through December 2017</b>			
Number of shares	2,146,781	287,989	2,434,770
Dilution through December 2017, %	0,52	0,07	0,59
Maximum dilution at end of programs, %	0,79	0,36	1,15
Share awards earned at end of programs			
Number of shares	5,008,327	1,473,955	6,482,282
Series B shares allotted	1,754,616	0	1,754,616
<b>Total unallocated shares</b>	<b>3,253,711</b>	<b>1,473,955</b>	<b>4,727,666</b>
<b>Series B treasury shares</b>			<b>11,190,028</b>

<sup>1</sup> Excluding social insurance contributions.

<sup>2</sup> For investments made up to now and until December 2017.

### Information on shares

In order to ensure allotment of shares to the participants in Skanska's employee ownership programs, the 2017 Annual General Meeting authorized the Board of Directors to repurchase treasury shares. According to this decision the company may buy a maximum of 3,000,000 Series B shares to ensure allotment of shares to participants in Seop 4.

During the year, Skanska repurchased a total of 2,350,000 shares at an average price of SEK 187.25. The average price of all repurchased shares is SEK 137.31. The quota value of the repurchased shares is SEK 3.00 per share, totaling SEK 7.0 M, and the shares represent 0.6 percent of the total share capital. The cost of acquiring these shares amounted to SEK 440 M. During the year 1,754,616 shares were allotted to the employees participating in the employee ownership program. The quota value of the repurchased shares is SEK 3.00 per share, totaling SEK 5.3 M, and the shares represent 0.4 percent of the total share capital. The number of treasury shares held as of December 31, 2017 amounted to 11,190,028. The quota value of these shares is SEK 3.00 per share, totaling SEK 33.6 M, and the shares represent 2.7 percent of the total share capital. The cost of acquiring the shares amounted to SEK 1.5 billion.

### Proposed dividend

The Board of Directors proposes a regular dividend of SEK 8.25 (8.25) per share. The proposal is equivalent to a regular dividend totaling SEK 3,372 M (3,380). The Board proposes April 17 as the record date for the dividend. The Board has determined that the Group's financial position, the outlook for the coming year and investment opportunities, as well as circumstances in general, warrant retaining a dividend of SEK 8.25 per share.

No dividend is paid for the Parent Company's holding of Series B treasury shares. The total dividend amount may change by the record date, depending on repurchases of shares and the transfer of shares to participants in long-term employee ownership programs.

### The Board's justification for its proposed dividend

The nature and scale of Skanska's operations are described in the Articles of Association and this Annual Report. The operations carried out within the Group do not pose any risks beyond those that occur or can be assumed to occur in the industry, or the risks that are otherwise associated with conducting business activities. The Group's dependence on the general economic situation does not deviate from what is otherwise the case in the industry.

The Group's equity/assets ratio amounts to 24.8 percent (25.8). The proposed dividend does not jeopardize the investments that are considered necessary or investments to support the Group's continued development. The Group's financial position does not give rise to any conclusion other than that the Group can continue to develop its operations and that the company can be expected to meet its short-term and long-term obligations.

With reference to the above and what has otherwise come to the Board's attention, the Board has concluded that the dividend is justified based on what is required in terms of the size of the company's and the Group's equity and the Group's consolidation requirements, liquidity and position in general, based on the nature and scale of the Group's operations. Future profits are expected to cover both the growth of business operations and the growth of the regular dividend.

# Independent practitioner's review report on Skanska AB's greenhouse gas reporting

**This is a translation from the Swedish original**

## To Skanska AB

We have undertaken a limited assurance engagement of the accompanying Greenhouse gas reporting of Skanska AB for the year ended December 31, 2017, comprising the emissions inventory and the explanatory notes on page 69 of the Skanska Annual Report 2017.

## Skanska AB's Responsibility for the Greenhouse gas reporting

Skanska AB is responsible for the preparation of the Greenhouse gas reporting in accordance with the Greenhouse Gas Protocol (published by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)), applied as explained in the Greenhouse gas reporting section of the Sustainability report section on pages 65-79 of the Skanska Annual Report 2017. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a greenhouse gas reporting that is free from material misstatement, whether due to fraud or error.

As discussed in the Greenhouse gas reporting section of the Sustainability report, greenhouse gas quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

## Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1, ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Greenhouse gas reporting based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3410, Assurance Engagements on Greenhouse Gas Statements ("ISAE 3410"), issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Greenhouse gas reporting is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of Skanska's use of the Greenhouse Gas Protocol as the basis for the preparation of the Greenhouse gas reporting, assessing the risks of material misstatement of the Greenhouse gas reporting whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Greenhouse gas reporting. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether Skanska's Greenhouse gas reporting has been prepared, in all material respects, in accordance with the Greenhouse Gas Protocol applied as explained in the Greenhouse gas reporting section of the Sustainability report.

## Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Skanska's Greenhouse gas reporting for the year ended December 31, 2017 is not prepared, in all material respects, in accordance with the Greenhouse Gas Protocol applied as explained in Greenhouse gas reporting section of the Sustainability report.

Stockholm March 8, 2018

Ernst & Young AB

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Homes that make good –  
and green – neighbors







**U Cukrovaru and Botanica K, Prague, Czech Republic**  
Residential Development and Construction

When buying a home, the location, price and layout are important basics. Skanska develops apartment houses with distinctive benefits that offer even more.

For U Cukrovaru, shown here, Skanska engaged with neighbors to determine what could benefit both them and future residents. It turned out to be a public park for relaxing and dog walking, and this was incorporated into the project. This participation process has set a new path for local Residential Development projects.

Botanica K uses treated water from sinks, bathtubs and showers for flushing toilets. Combined with other water efficiency solutions, this approach reduces potable water consumption by about 40 percent, helping lower both environmental impacts and utility bills.

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