SKANSKA

Annual and Sustainability Report 2019

We build for a better society.

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● Refer to segment reporting

● Report of the Directors

Segment and IFRS reporting

Skanska's business streams – Construction, Residential Development and Commercial Property Development – represent the Group's operating segments. The point at which revenue is recognized differs between segment and IFRS reporting for Residential Development and Commercial Property Development. In this report, revenues and earnings for these business streams on pages 4–36, 66, 86–93 refer to segment reporting, unless stated otherwise. The financial eports, including the statement of financial position and cash fl , have been prepared in accordance with IFRS.

About this report

The 2019 Annual and Sustainability Report is submitted by the Board of Directors and the President of Skanska AB (publ) to describe the operations of both the Company and the Group. The formal annual report consists of the Report of the Directors and financial eports on pages 37–192 and has been audited by Skanska's external auditors. Pages 56–85 include Skanska's statutory sustainability report, according to the Swedish Annual Accounts Act. Skanska is reporting in accordance with the GRI Standards Core sustainability reporting guidelines. Skanska aims to ensure that all information and data is relevant, transparent, consistent, accurate and complete and that it provides an objective picture of the Group's operations. Further information about Skanska's sustainability efforts can be found at: group.skanska.com/sustainability.

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

Skanska AB, Swedish corporate identity number 556000-4615.

Penn Station | New York City | USA

We build for a better society

With more than 130 years in construction and project development, we enrich cities and communities in selected home markets in the Nordic region, Europe and the USA where we create buildings and civil infrastructure including schools, hospitals, homes and offices as well as highways and mass-transit.

Skanska is accountable to future generations, which is why we promote green solutions and conduct our operations in a sustainable way. We aim to be a leader within sustainability. This includes prioritizing safety and fostering a working climate where everyone can speak their mind as well as an inclusive culture where we are open and fair, showing trust and respect for each other. We leverage diversity to deliver the best solutions.

These expected behaviors are anchored in our values and guide Skanska in setting priorities that deliver on our purpose of building for a better society.

In New York City, USA, Skanska is transforming the landmark Farley Post Office Building into the Moynihan Train Hall, a new portal for accessing trains serving the adjacent Penn Station, one of the busiest train hubs in the USA.

Read more on page 14.

Skanska's operations

Skanska is one of the world's leading construction and project development companies, focused on selected home markets in the Nordic region, Europe and the USA. Skanska's diversification across various business streams strengthens the Group's competitive standing and ensures a balanced and diversified risk profile.

Construction
Skanska constructs and renovates buildings, infrastructure and homes, and also provides facilities management and other related services.

Read more on page 24.

Residential Development
Skanska develops new residential buildings, including single and multi-family housing, built by the Construction business stream.

Read more on page 28.

Commercial Property Development
Skanska develops customer-focused office buildings and logistics properties built by the Construction business stream.

Read more on page 32.

Skanska's purpose and values

Skanska's purpose – We build for a better society – reflects the Group's role in society, a position that enables Skanska to create value. Fundamental to fulfilling its Purpose are Skanska's four values: Care for Life, Act Ethically and Transparently, Be Better – Together, and Commit to Customers.

Skanska's Values

Care for Life | **Act Ethically & Transparently** | **Be Better – Together** | **Commit to Customers**

Sustainable future

Striving to be in the forefront of sustainability, Skanska helps create a sustainable future for customers and communities.

Carbon emissions

-28%

Reduction of carbon emissions since 2015.

Certified commercial buildings share of total divestments

90%

Share of total value, corresponding to SEK 15.4 billion, of divested offices in the Commercial Property Development business stream, certified with WELL, LEED (Platinum or Gold) or BREEAM (Excellent).

Energy reduction in new office buildings

-37%

Annual energy reduction in divested office buildings developed by Commercial Development Nordics, Europe and USA compared to average.

2019 in brief

Construction margin of 2.4%

Underlying profitability is improving. With more selective bidding, improved commercial focus and increased cost efficiency, profitability has the potential to grow further.

Los Angeles launch

Skanska enters the commercial development market in Los Angeles, USA, its fifth US city, with the acquisition of a site in Beverly Hills dedicated to the office project 9000 Wilshire with the goal to achieve LEED Platinum.

BO KLOK®
SKANSKA & IKEA

BoKlok launch in the UK

Skanska expands its Residential Development offering to the UK market with the low-cost homes concept BoKlok.

Ranked #20 on Fortune's Change the World List 2019

FORTUNE®
CHANGE THE WORLD
2019

2045

Net-zero carbon emissions 2045

In 2019, Skanska set the target to achieve net-zero carbon emissions, throughout the value chain. Establishing and fostering innovative partnerships within the value chain will be critical to achieving the climate target.

17

Sold properties in Commercial Property Development business stream according to segment reporting.

177

SEK billion in total revenues.

15

SEK billion in unrealized gains in Project Development including the PPP-portfolio.

Comments by the President and CEO

Skanska continued its path of improving Construction performance and generating strong value from Project Development. During the year, Construction profitability improved, Commercial Development profits reached a record high, with the expansion to Los Angeles in the USA and BoKlok expanded into the UK. The Group's guiding principles – our values and purpose – provides a considerable competitive advantage for the years ahead.

Earnings per share

15.46

SEK, Earnings per share increased by 62 percent.

Operating margin – Construction

2.4%

Successive performance improvement in Construction.

Capital gains – Commercial Property Development

4.4

SEK billion in gain on sale, including joint ventures, reached an new all-time-high.

In 2019, our performance improved as we continued to execute our strategic plan. Within our Construction business stream, this involves prioritizing profit ahead of revenue and improving project execution. With Project Development, we are concentrating on creating and realizing value, now and in the coming years.

Overall for the year, operating income was SEK 7.8 billion (4.8). In our Construction stream, we raised the operating margin to 2.4 percent, still below our target of at least 3.5 percent. Return on capital employed in Project Development was 10.3 percent, above our target of at least 10 percent. Also, our return on equity was 21.4 percent (14.1), above our target of at least 18 percent. Our shareholders experienced a price return of 50 percent for the year. Based on our robust financial position, Skanska's Board of Directors proposes a dividend of SEK 6.25 (6.00).

Focused on Construction "sweet spots"

In Construction, our underlying profitability has improved. A significant recovery in Europe and the US and a continued high level of activity in the Nordics were the main drivers. This is a result of our strategy that includes improving the performance of current projects through more proactive risk management, a stronger commercial focus, increased cost efficiency and more discipline in the projects we pursue. Central to this is only targeting projects within our "sweet spots" – the sectors, geographies and contract types in which we have a track record of success and see the most future potential. We continually review the performance of all our operations and we take action where needed. With this, Construction profitability should continue to rise.

Controlled expansion of Project Development

In Residential Development, Skanska is benefitting from our broad offering spanning countries and housing segments. This enables us to shift investments to maximize opportunities. Most notably during the year, we expanded BoKlok – the low-cost homes concept owned by Skanska and IKEA – into the UK, a country in which we foresee good opportunities for BoKlok. This expansion is representative of how we grow our Project Development operations in controlled, thoroughly planned ways. Furthermore, with Skanska's robust balance sheet we are well-positioned as Swedish homebuyers shift to making their purchases closer to the move-in date. During the year, Residential Development's operating margin was 9.6 (14.0).

Commercial Property Development recorded yet another excellent year, with favorable demand from tenants and investors. In this positive environment, we utilized Skanska's financial strength to step up investments across all regions: Nordics, Europe and the USA and we and realized about SEK 4 billion in value during the year. In 2019, we expanded this business stream to a fifth US city: Los Angeles, a dynamic global gateway with much potential for Skanska's property developments.

Benefitting from a strong foundation

Skanska's performance is built on the solid foundation we have in our clear values, strong balance sheet, integrated business model and trusted brand. Furthermore, our purpose of building for a better society inspires our great people and attracts other talented individuals to join Skanska. This is a strong competitive advantage, as for what companies stand for matters more than ever.

In 2019, we made significant progress in implementing an updated Group governance framework that reduces risk and increases effectivity. This framework provides business units with more flexibility to serve customers while ensuring proper oversight over critical business processes. The governance framework connects well with Skanska's values and Code of Conduct to provide the basis for delivering stable long-term value to shareholders.

Supporting the Sustainable Development Goals

Skanska is committed to ensuring a sustainable future for our business and society. Our sustainability work links with the United Nations (UN) Sustainable Development Goals, which helps us continuously maintain our support for the universal sustainability principles defined by the UN Global Compact.

In 2019, Skanska set a target of achieving net-zero carbon emissions by 2045, including our value chain. This is essential for supporting the Paris Agreement and for innovating climate-smart customer solutions.

Tragically, three fatalities occurred on Skanska project sites in 2019. Our aim is an injury-free environment and no fatality should be acceptable. We must – and we will – close the gap between actions and truly living our Care for Life value. Increasing our focus on Health and Safety is a top priority for Skanska. Working safely requires operational discipline, which is also essential to achieving high performance overall on our projects.

Ready for the future

For 2020, Skanska will advance even further through our strategic actions to become more effective and better performing. We will continue to focus on raising Construction profitability and enhancing value creation through Project Development.

We expect high activity to continue in many of our markets. However, we will closely watch conditions, particularly given ongoing political and macroeconomic uncertainties. We are well prepared for future conditions, as we have strengthened risk management processes and continually protect our balance sheet.

By the end of 2020, Skanska will publicly share the next business plan that will take effect on January 1, 2021. This plan will build on Skanska's strengths, our values and purpose to build for a better society, with the ambition to deliver an industry leading total shareholder return.

Skanska has many accomplishments to be proud of and many opportunities ahead of us. I thank our customers, business partners, shareholders and employees for enabling Skanska's success.

Stockholm, February 2020

Anders Danielsson
President and CEO

Business, meet pleasure

Leveraging the power of proximity, 2+U is a 38-story, lifted office tower in the heart of Seattle's Central Business District. 100 percent leased prior to the completed construction, global office tenants include Indeed.com, Dropbox, Qualtrics and Spaces. 2+U offers 64,000 square meters of flexible office space with unobstructed views of the Puget Sound river from a private tenant rooftop deck. Skanska began construction in February 2017 and completed 2+U in the fourth quarter of 2019. Seeking LEED Platinum certification, the project has not yet been divested.

Beneath the 25 meters off the ground tower lies the Urban Village – nearly 2,000 square meters of covered, outdoor space open to the public. The design gathers and connects the local community of tenants, neighbors and visitors. In partnership with arts organization Shunpike and the Downtown Seattle Association (DSA), 2+U will also host Seattle's first-ever free arts space, The Studio, as well as a year-round, arts and cultural program in a designated space called The Square.

Skanska as an investment

Skanska is one of the world's leading construction and project development companies, with a compelling offering and a solid business model that creates value for shareholders.

Skanska is a leader in its selected home markets

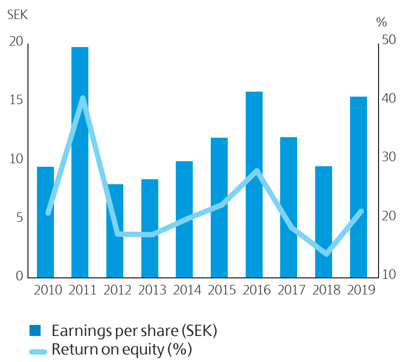
Supported by strong trends in demographics, urbanization and sustainability, the need for new and more sustainable solutions increases and is driving investments in infrastructure, healthcare, housing, offices and education. This brings opportunities for Skanska to create value while building for a better society.

→ A compelling offering
With its financial strength, combined with deep expertise, and by aiming to be in the forefront of sustainability, Skanska offers competitive solutions for both simple and complex assignments.

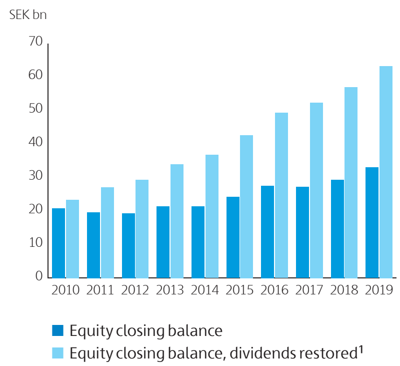
→ A solid business model
Through an integrated business model, Skanska generates significant positive cash flow from Construction that is continuously invested in Project Development for enhanced returns.

→ Value for shareholders
Driven by Skanska's values and business model, Skanska helps create sustainable futures for customers and communities as well as create value for shareholders. Skanska has a long track record of good financial returns generating attractive shareholder value long-term.

Earnings for the period per share and Return on equity

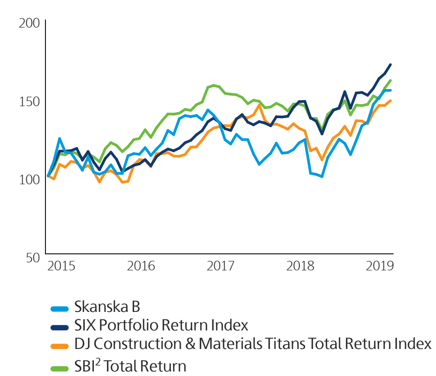


Growth in equity including dividends



1 Compound Annual Growth Rate 12 percent.

Total return on the Skanska share compared to indices



2 Strategic Benchmark Index consists of listed companies that, taken together, reflects Skanska's operations.

Skanska share history

	2019	2018	2017	2016	2015	2014
Year-end market price, SEK	211.70	141.00	170.00	215.10	164.80	167.90
Year-end market capitalization, SEK bn	87.1	57.8	69.5	88.0	67.7	69.0
Average number of shares for the year, million[1]	411.5	409.7	408.9	409.3	411.0	410.8
Highest share price during the year, SEK	216.00	179.70	226.60	218.70	208.40	170.00
Lowest share price during the year, SEK	140.85	134.85	170.00	149.20	151.40	126.70
Yield, %[2]	3.0	4.3	4.9	3.8	4.6	4.0
Earnings per share, SEK[3]	15.46	9.55	12.01	15.89	11.96	9.98
Regular dividend per share, SEK	6.25[4]	6.00	8.25	8.25	7.50	6.75
Dividend pay-out ratio, %[5]	40	63	69	52	63	68

1 Number of shares outstanding at year-end.
2 Dividend as a percentage of respective year-end share price.
3 Earning per share according to segment reporting divided by the number of shares outstanding.
4 Based on the dividend proposed by the Board.
5 Dividend as a percentage of earnings per share.

Share data and funding

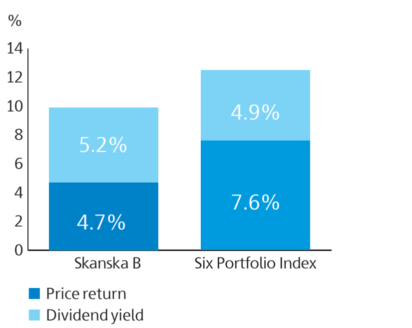
Skanska's Series B shares are listed on Nasdaq Stockholm in the Large Cap segment. On December 31, 2019, the total share return was 56 percent and the market capitalization was SEK 89 billion.

Skanska's diversification across various business streams with operations in several geographical markets and segments strengthens the Group's competitive standing and has contributed to Skanska's track record of good financial returns generating attractive shareholder value long-term.

Share performance and total return

At the end of 2019, Skanska's share (SKAB)[1] closed at SEK 211.70, an increase of 50 percent during the year, compare with the Nasdaq Stockholm exchange, which was up 29 percent in 2019. The

Total annual shareholder return, 5 years



1 Bloomberg ticker SKAB:SS, Reuters quote SKAb.ST

Skanska share's total return rose 56 percent during the year, compared with 35 percent increase for the SIX Portfolio Return Index.

Share price and turnover

In 2019, total trading in the Skanska share amounted to 465 million shares (553) at a total value of SEK 88.9 billion (57.8), which corresponds to an average daily turnover of 1.9 million shares (2.2) or SEK 46.8 billion per trading day. The highest price paid in 2019 was SEK 216.00 on November 26 and the lowest was SEK 140.85 on January 3.

Share capital and ownership structure

Skanska's share capital amounted to SEK 1,259,709,216 at year-end 2019, consisting of a total of 419,903,072 shares, of which 19,704,715 are Series A shares and 400,198,357 are Series B shares. At December 31, 2019, the number of shareholders was 99,134. Most of Skanska's shareholders are financial and institutional organizations in Sweden. The largest shareholder is Industrivärden AB, with voting power of 24.3 percent, followed by Lundberg Group with voting power of 12.8 percent. At year-end, the Parent Company's (Skanska AB) holdings of Series B treasury shares amounted to 8.4 million shares, corresponding to 2.0 percent of capital stock.

Dividend

Skanska's dividend policy is to pay out 40–70 percent of the profit for the year as dividend to shareholders, provided that the company's overall financial condition is stable and satisfactory. For the 2019 financial year, the Board proposes a dividend of SEK 6.25 (6.00) per share. This proposal represents a total dividend of SEK 2,572 M (2,462), corresponding to 40 percent (63) of the profit for the year. No dividend is paid for the Parent Company's holdings 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 Skanska's long-term employee ownership program, Seop.

Analysts

For a current list of the analysts who regularly monitor Skanska, visit group.skanska.com/investors/skanska-share/analysts/.

The largest shareholders in Skanska AB, ranked by voting power, December 31, 2019

Shareholders, excluding Skanska's own holdings	% of votes	% of capital
Industrivärden AB	24.3	7.4
Lundberg Group	12.8	5.3
Skanska employees through Seop[1]	3.3	4.7
AMF Insurance & Funds	3.3	4.6
Swedbank Robur Funds	2.8	4.0
Alecta	2.7	3.8
BlackRock	1.9	2.7
Vanguard	1.7	2.5
Norges bank	1.3	1.9
SHB Funds & Life Insurance	1.2	1.7
10 largest shareholders in Skanska	55.3	38.6
other shareholders in Skanska	44.7	61.4
Total	100.0	100.0
of which shareholders in Sweden	76.8	67.0
of which shareholders abroad	23.2	33.0

1 Not treated as a unified ownership group and includes earned matching and performance shares to be delivered to the participants in the future.
Source: Modular Finance Holdings

Funding

Skanska has several funding programs – both committed bank credit facilities and market funding programs – which provide good flexibility for temporary fluctuations in the Group's short-term liquidity and help ensure long-term funding. At the end of the year, the central debt portfolio amounted to SEK 3.5 billion. Unutilized credit facilities of SEK 8.8 billion combined with available liquidity amounting to SEK 8.7 billion ensure that the Group has enough financial capacity.

Skanska has increasingly focused on green financing for many years. Since the issue of its first green bond in 2014, Skanska has strived to keep a majority of the Group's central funding eligible for green instruments. By the end of 2019, 82 percent of Skanska's central debt consisted of bilateral loans or green bonds earmarked for green projects in accordance with the Skanska Green Bond Framework. The framework is third-party verified and deemed strong and trustworthy by the CICERO (Center for International Climate Research), internationally recognized as a leading provider of independent reviews of green bond frameworks.

Through green financing, such as green bonds and loans, Skanska leverages the Group's extensive green expertise and portfolio while diversifying its investor base.

At the end of the year, all outstanding corporate bonds (MTN) – amounting to SEK 1.0 billion – were in the form of green bonds. Bilateral loans of USD 200 M are also used to finance Skanska's green projects. A revolving credit facility amounting to EUR 200 M is primarily designed to safe-guard financing of the Group's green projects. A EUR 600 M revolving credit facility maturing in 2024 constitutes a back-up facility for Skanska's funding needs.

Green bonds

Skanska issued its first green bond in 2014. A second round, amounting to SEK 1 billion, was issued in 2018 to provide financing for eligible green commercial and residential development projects. All projects funded within Skanska Green Bond Framework must be aiming for upper levels of certification under any of the third party systems; LEED, BREEAM, DGNB or the Nordic Swan Ecolabel (Svanen). The three commercial development projects currently funded by green bonds and aiming to exceed those green requirements by targeting the highest LEED levels, Platinum or Gold, are: 2+U, Seattle, USA; Epic, Malmö, Sweden; and Centrum Południe 2, Warsaw, Poland.

Fully funded by green bonds, office development Epic in Malmö, Sweden is targeting WELL certification – an internationally recognized building standard that puts the health and wellbeing of its tenants first.

Green financing

82%

Percentage of total central debt that is Green according to the Skanska Green Bond Framework, or other green requirements demands.


Exit

Global trends impacting the construction and project development sector

Global trends such as urbanization and the focus on sustainability are driving investment in resilient infrastructure and increasing demand for sustainable facilities such as offices, homes, hospitals and schools. For Skanska, these global trends create an opportunity to build for a better society.

Skanska's ability to create value in the Group's home markets is affected by external factors. Understanding the global trends affecting the construction and project development sector is important, as this allows Skanska to adjust its offering to meet demands from customers. The global trends Skanska has identified pinpoint the ever-increasing need for new and more responsible solutions in Construction and Project Development.

Key market drivers for Construction and Project Development

→ Urbanization and demographic changes

Growing urbanization is re-shaping cities around the world. By 2050, an average of 70 percent of the global population is expected to live and work in cities. All of Skanska's markets are above that average, with the strongest development taking place in the USA and the Nordics.

Increasing densification and changes in demography drives the need for efficient and flexible transport and mobility solutions, affordable housing and engagement with communities to create inclusive urban areas. Comprehensive investments are being made in mass transit, energy and water systems and other infrastructure, as well as in offices, homes, schools and hospitals.

These trends can also cause challenges in urban areas, such as risk of limited access to welfare and decreasing quality of life.

→ Climate impact and resource scarcity

To meet the goals set out in the Paris Agreement, global greenhouse gas emissions need to be radically reduced to limit global warming. The construction and project development industry faces the challenge of reducing energy use and emissions, improving resource procurement and increasing the re-use of materials.

Resource scarcity challenges humanity to think and act in new ways to create a high quality of life without jeopardizing resources and the environment. Water shortages are a threat to many of the world's biggest cities. Demand for reduced climate impact is driving a need to develop sustainable solutions in construction and project development, and customers increasingly demand more sustainable buildings. Efficiently designed and produced buildings and infrastructure provide some of the most effective means to achieve sustainability goals. Improving the environmental performance of existing buildings is essential for meeting climate goals and is increasingly prescribed in national and regional regulation, creating business opportunities where Skanska can contribute to climate adaptation.

→ Digitalization

New technologies are increasingly available at an affordable costs, making new ways of working possible and increasing efficiency and cut costs. Digitalization is not only influencing the business models of most companies, but is also influencing consumers as digital services disrupt traditional processes. As a result, purchasing power is growing and increasingly well-informed customers expect greater transparency from the companies they interact with.

Today, demand for connectivity is growing. New technologies and improved products are playing an increasingly important role, with growing demand for connected solutions and increased demand for quality, functionality and design, impacting the urban spaces and buildings that Skanska produces.

→ Economic development and a changing geopolitical landscape

Economic growth and public spending creates a growing demand for construction solutions. In the Nordics as well as in central Europe, growth in the construction sector has been positive in recent years. Growth is expected to remain positive in most markets, but some markets will be affected by an undersupply of labor.

Over the last years, increased public spending has supported growth in the USA and the level of construction investment in central Europe has improved due to greater use of European Union funds. However, this could be affected by a slowdown in economic growth.

Increasing protectionism demonstrated in the political landscape, including Brexit and trade protection measures, risk resulting in restrictions on trade and cross-border flows. Increased tariffs as a consequence can impact supply of materials and supply of labor.

→ Partnership is key

The success of sustainable urban development requires a combination of governance, cross-sectoral cooperation and dialogue with representatives from the entire value chain, ranging from public entities, business partners and suppliers to private individuals. The above trends are driving important initiatives in the construction and project development sector on topics such as affordable housing, sustainable growth, and city planning, battling corruption and creating safe work environments at construction sites.

The Moynihan Train Hall | New York City | USA

Improving mass transit in New York City

The Moynihan Train Hall is an essential node in New York City's infrastructure. Every day 650,000 people pass through Penn Station.

Skanska's ongoing project to transform the landmark James A. Farley Post Office Building into The Moynihan Train Hall, a new portal for accessing trains serving the adjacent Penn Station, will expand Penn Station's total floor space by more than 50 percent. Skanska is constructing a new 21,000 square meter train hall, an important step in making the Farley building fit for the needs of the future. The Moynihan Train Hall will house passenger facilities, including waiting areas, ticketing areas for the Long Island Rail Road and Amtrak, security and retail spaces, as well as expanded access to nine platforms and 17 tracks serving the Long Island Rail Road and Amtrak.

The centerpiece of the building will be a 28-meter high barrel-vaulted skylight above the former post office's historic steel trusses.

Farley Building's Moynihan Train Hall is critical to the New York Governor's comprehensive plan to transform the iconic Penn Station and its surrounding buildings into an outstanding transit hub. Skanska's contributions have a direct impact on revitalizing regional transit, relieving pressure on the overcrowded Penn Station and providing access to much needed amenities for passengers and tourists.

In 2016, Skanska completed the first phase of the project: expanding the West End Concourse at Penn Station to link with the historic James A. Farley Post Office Building and opening up the building on street level to improve pedestrian access. This improved passenger circulation and capacity for nine of the station's 12 train platforms.

Skanska also performed historic restorations to the original façade. Besides being an important node in the mass transit system, Penn station's Farley building is also an important landmark. Maintenance and retrofitting is an important part of a building's life and of keeping the urban environment appealing and safe.

Financial targets 2016–2020

Skanska's business plan for the 2016 to 2020 period sets financial targets that best reflect the profitability of operations and show the Group's financial capacity for investments and growth.

Operating margin – Construction

Target

≥3.5%

Outcome 2019

2.4%

Return on capital employed[1, 2] – Project Development

Target

≥10%

Outcome 2019

10.3%

Return on equity[2]

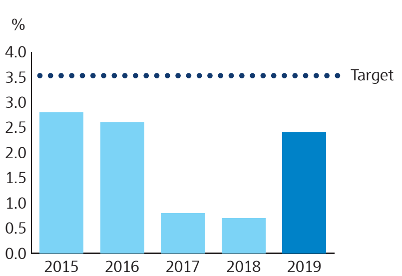
Target

≥18%

Outcome 2019

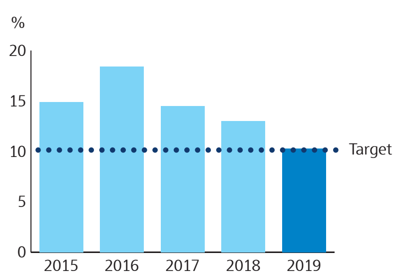
21.4%

Operating margin Construction



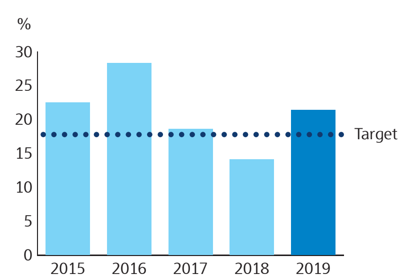
Operating margin in the Construction business stream amounted to 2.4 percent for 2019. Underlying profitability has improved, as a result of a strategy that include improving the performance of current projects through more proactive risk management, a stronger commercial focus and increased cost efficiency.

Return on capital employed Project Development



The Project Development operations continued to perform on a high level, topping the target of at least 10 percent. Commercial Property Development had yet another strong year, with a new all-time-high in gain of sales from divestments of SEK 4.2 billion.

Return on equity



In 2019, return on equity amounted to 21.4 percent, and was above target of at least 18 percent.

Adjusted net debt[3]
Skanska's financial position remains strong. As of January 1, 2019, Skanska has a new target measuring financial strength by comparing to limits set by the Board of Directors.

Limit

-9.0

SEK billion in adjusted interestbearing net receivables (+) / net debt (–)

Outcome 2019

+3.2

SEK billion

1 New definition of return in Commercial Property Development business stream, effective as of January 1, 2019.
2 According to segment reporting.
3 Interest-bearing net receivables/net debt excluding restricted cash, lease liabilities and interest-bearing net pension liabilities.

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Business plan 2016–2020

Profit with Purpose –Skanska's Business Plan 2016–2020 aims to increase shareholder value through building for a better society.

The Skanska Business Plan 2016–2020 has three focus areas key to the aspirations set for 2020, with actions centering on developing the Group's people; advancing market-making abilities to improve service to customers; and increasing the performance of operations and support functions.

Aspirations 2020

- Industry-leading total shareholder return
- Recognized as a preferred partner when it comes to creating solutions that meet customers' needs
- Living Skanska's 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
- A company fostering One Skanska and high-performing teams
- Improved operational efficiency
- Balanced value creation between Construction and Project Development

Generating value for shareholders

Skanska must create shareholder value in a responsible way and contribute to society at large. Given the business that Skanska is in and the size of its operations, Skanska can have a considerable and positive impact on society as part of its profitable business.

The five-year business plan is based on the view 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.

Aiming to create sustainable solutions and future

Sustainability is grounded in Skanska values and integrated into Skanska's way of working, which enables Skanska to deliver better solutions for customers, drive operational efficiency, manage risks and support society in key ways. Skanska's ambition to be a leader within sustainability helps create a sustainable future for customers, communities and employees, as well as delivers value for shareholders. Skanska's most material sustainability topics can be summarized in five sustainability areas: Health and Safety, Ethics, Green, Community Investment, and Diversity and Inclusion. Further information is provided in the Sustainability Report on pages 56-85.

Restore Construction profitability and maintain high activity in Project Development

The main focus in 2019, has been to improve profitability in Construction and continuing to create value through Project Development. In Construction, the strategy includes a focusing of operations, a simplified and decentralized structure and reduced risk through more selective bidding. In 2019 results improved – demonstrating that Skanska is on track to improve profitability in Construction. In Project Development, Skanska not only delivered strong results by realizing gains from the portfolio during the year, but is also creating additional value in excess of what is being divested that will be realized over the coming years.

2020 priorities

Increased commercial focus, cost efficiency and a continuous review of all operations in Construction to further improve profitability and for continued value creation in Project Development are among the Group's priorities for 2020. Commercial Property Development will continue to grow its operations in Los Angeles, USA, and BoKlok will also continue to grow its operations in the UK. Driving a proactive safety culture will also be a the top priority for 2020.

The work to develop Skanska's next business plan, to take effect in January 2021, is underway. The plan will build on Skanska's long-term foundation: Skanska's values and purpose of building for a better society.

Great People

Skanska wants to be acknowledged as the most attractive employer in the industry, offering an inclusive place to work with dedicated colleagues in an open and high performing environment with strong values.

Skanska must continuously attract new talent and skills, and must fully leverage the diversity of the Group's people to provide sophisticated solutions for customers and society.

Attracting, developing and retaining talented people is key to Skanska's long-term success. Skanska continues to make positive progress with this. Skanska's employees confirm in the annual survey that they have good opportunities to develop and learn. Important advantages for Skanska are the Group's deeply embedded values, many professional development opportunities and strong purpose – all factors increasingly sought by job seekers and employees.

An organization fostering inclusion

For many years, Skanska has had a clear focus on becoming a more inclusive organization as it is essential to ensure that talented employees remain and develop their skills within the company. This focus enables the Group to better attract and develop a more diverse workforce and make the most of team diversity to achieve stronger performance together.

Broadening skillsets and experiences improves performance

Employees are given opportunities to undertake new, challenging assignments in different functions, business units and geographies. Both long- and short-term assignments are important to increase knowledge-sharing and collaboration.

Securing value-driven leaders

Skanska has for many years a well implemented and solid process for performance and talent management, including a robust and fact-based succession planning, structured resource planning and employee development and career planning, starting at business unit level all the way to review meetings with Skanska's Group Leadership Team.

Skanska has two Group flagship programs to develop the value-driven leaders needed to steer the organization and create an inclusive culture with a high level of engagement, now and in the future. The Skanska Top Executive Program is run in collaboration with IMD in Switzerland. In 2019, Skanska invested further in the Group's senior leaders by re-launching this program, improving it in such ways as incorporating more external perspectives. For Skanska employees earlier in their careers and ready for management roles, the Skanska Stretch program aims to build knowledge and the ability to lead in an international environment.

Employee ownership shows engagement

Seop, the Skanska employee ownership program, increases the Group's attractiveness and improves its ability to recruit and retain people. The program provides employees with the opportunity to invest in Skanska and encourages interest in what drives the share performance. Seop also creates incentives to contribute to Skanska's performance through matching shares and shares based on business unit performance.

2019 employee survey

80%

of employees recommend Skanska as a good place to work, surpassing the industry average of 70 percent.

77%

of employees recognize that Skanska provides good opportunities for learning and development.

Source: 2019 Skanska Group-wide employee survey

Operational Excellence

By bringing the best of Skanska's skills and experience, and by investing in continuous improvements, Skanska can deliver the right solutions for its customers and the best value for its shareholders.

Skanska is focused on continuously improving all aspects of the Group's operations. This means ensuring that the right systems and efficient processes are in place, along with relevant resources. Equally important is that all employees have the proper skills. Increased work on digital methods, data and sustainability is supporting further gains in operational efficiency while providing better customer solutions.

Improved planning, procurement, design and execution of projects

Skanska has a continuous focus on improving construction project execution. Based on "sweet spot" analysis, business units are pursue projects in sectors and geographies in which the Group has proven strengths and records of success. A stricter bid strategy and further risk management efforts, including continual risk monitoring throughout the execution of the project, allow problems to be solved earlier, improvements to be made and project costs to be reduced. More broadly, greater attention is being paid to management of the design process, commercial terms and changes in project scope, while increased employee training creates teams with the expertise needed to make the right decisions in project planning, procurement, design and execution.

Increased accountability and efficiency

Digital collaboration is increasingly important for developing innovative solutions, and new technology is required to create more efficient construction operations. Digital capabilities are being enhanced to increase accountability and efficiency, and to strengthen collaboration and knowledge sharing. It is key to have teams with diversified skills to fully capitalize on the expertise, innovations, R&D and best practices across the company.

Focus on innovation and sustainability

Building Information Modeling (BIM) is becoming an increasingly important tool for encouraging innovation and increasing productivity. Construction robots, drones, 3D printing and other automation will increasingly improve construction process efficiency. Digital focus areas include data-driven production optimization, proactive risk management and improved project progress monitoring, while democratized production data and provides business insights for better decision-making. A digital approach can also help Skanska advance further in sustainability, including improvements in safety and reduced carbon emissions.

New technology enabling collaboration throughout the value chain

The Computer Automatic Virtual Environment (CAVE) room at Skanska Finland's Helsinki office enables detailed levels of visual collaboration through a virtual reality system that displays images on walls and the floor. Interactive touch screens allow Skanska's project teams to collaborate with customers, authorities and designers, solving problems together in order to improve project delivery.

Market Making

Skanska seeks to be a trusted partner that contributes to customers' success. The Group takes the initiative to provide customers with solutions that leverage Skanska's sustainability leadership and combined resources and expertise.

Skanska aspires to be recognized as the preferred partner when it comes to creating solutions that meet customers' needs. Knowledge about its customers is a prerequisite for becoming a proactive market maker, and Skanska engages in structured and enhanced long-term collaboration with customers as well as suppliers and subcontractors.

Early Contractor Involvement

Collaboration based on a close dialogue, a common vision and trust is essential in understanding customers' evolving needs and challenges, including market trends and government priorities.

Skanska achieves this through early and ongoing customer engagement or partnering and by taking part in larger societal conversations. Public customers represent more than 50 percent of Skanska's Construction revenue, and influencing these customers to increasingly demand sustainable solutions and seek added value in procurement provides great business opportunities for Skanska.

Customer collaboration and sustainability initiatives

Customers and society face increasingly complex challenges which are driving demand for Skanska's expertise in designing functional and cost-saving solutions to meet their evolving needs. Intensified customer collaboration and a clear focus on responsibility for sustainability is becoming even more important in providing the innovative solutions needed to go beyond Skanska's actual construction commitments and to improve society. To Skanska, helping customer's achieve sustainability goals is a priority and a powerful opportunity to provide customers with new resilient and low-carbon solutions that help them advance in their climate ambitions. This is also an important aspect in reducing Skanska's own carbon footprint, and becoming more attractive to partner with.

Taking part in the public debate

In all of its home markets, Skanska engages with local and national governments and stakeholders from the entire value chain to advance solutions that benefit society in important ways. The construction sector represents 40 percent of global energy-related carbon emissions and therefore, Skanska is engaged in how to improve solutions to reduce carbon emissions. In conversations with customers and partners, Skanska can push them towards taking a more ambitious stance on sustainability issues.

In the Swedish political on housing, Skanska pursues changes through its expertise and insights along with policy solutions that will help creating a more accessible market.

For example, during Climate Week NYC 2019, Skanska joined with the World Green Building Council to host a dialogue regarding the need to limit carbon emissions.

Sthlm 01 | Stockholm | Sweden

Helping customers achieve climate goals

Skanska initiated and co-developed a carbon calculator, EC3, enabling Microsoft's headquarters to achieve new levels of carbon reductions. Now an open-acceess tool, Skanska's innovation has enabled more informed design decisions that reduce the carbon embodied in construction.

» Through EC3, we aim to reduce embodied carbon emissions from the redevelopment of our headquarters by 30 percent. «

Katie Ross, Senior Sustainability Manager at Microsoft

Microsoft's global office portfolio consists of more than 3 million square meters of space. Among Microsoft's top priorities is reducing the carbon emissions of buildings to support the company's carbon reduction targets.

With Microsoft and other initial partners, Skanska developed a solution for calculating and reducing carbon emissions embodied in construction – the Embodied Carbon in Construction Calculator (EC3).

"The construction sector hasn't focused so much on sustainability, and the necessary data hasn't been available in an easy-to-consume way. When Skanska presented EC3, we thought EC3 was perfect for our needs. We wanted to help fund its development and pilot it to help improve this tool so it benefits the entire industry," says Katie Ross, Senior Sustainability Manager at Microsoft.

EC3 measures the carbon footprint of materials and compares materials in order to identify the most sustainable solutions for a project. Using this tool, Skanska can help companies achieve ambitious climate goals and advance the Group's own efforts to reduce climate impact further. For Skanska, who decided alongside Microsoft and other initial partners to make the tool publicly available, this tool is a means to drive sustainability across the construction sector by increasing transparency in carbon reporting and reduction.

"Through EC3, Microsoft aims to reduce embodied carbon emissions from the redevelopment of our headquarters by 30 percent. With some materials, we've been able to reduce emissions with no cost premiums," says Katie.

Partnering to meet the most complicated challenges has proven to be a very successful way of working and it creates value both for customers and for Skanska as a company.

"For us, sustainability is a core principle – In our building projects, sustainability has the same priority as the traditional focus areas of cost and schedule. We rely on trusted partners to help us create amazing and highly sustainable workplaces for our employees. We want to be working with partners who can push us as much as we push them – that makes us all better and lets us all move faster", Katie concludes.

Embodied Carbon in Construction Calculator (EC3)
The extraction, manufacturing and transport of building materials represent major sources of carbon emissions. EC3 is a groundbreaking database-driven tool that calculates and compares the carbon footprint of materials based on the environmental product declarations (EPDs) available from suppliers. Skanska conceived of EC3, which it co-created with support from Microsoft and other partners. Skanska then turned to University of washington Carbon Leadership Forum to lead development of EC3 as a public, open-access tool, with support from over 50 industy partners. Publicly available for use in the USA from fall 2019. Skanska will utilize EC3 in all further commercial development projects. The Group is also piloting EC3 in multiple construction projects, supporting both Skanska and the Group's customers in achieving respective carbon targets.

Business model

Skanska generates value through the thousands of projects executed each year, in line with Skanska's ambition to deliver an industry-leading total shareholder return. The scale and diversity of the Group's operations produce operational and financial synergies that create further value.

Skanska's operations are based in business units that have extensive knowledge of their respective markets, customers and suppliers. These local units are backed by Skanska's brand and financial strength, as well as Group-wide expertise and the Skanska values.

Operational and financial synergies

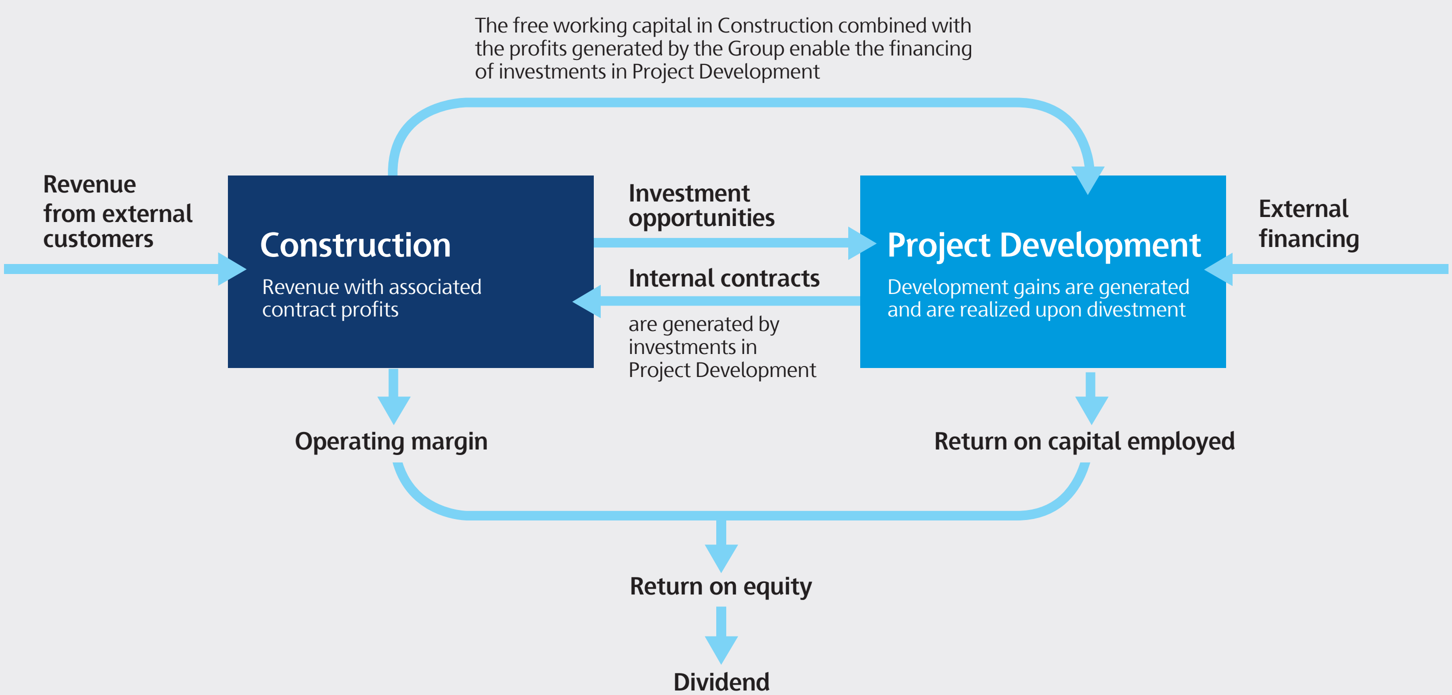
Operational synergies are primarily generated through the local, specialized expertise contained in the business units. Units in the same business stream often collaborate to leverage resources and capabilities, and to share best practices. In addition, development projects bring together construction and project development units at an early stage, which reinforces a strong customer focus while optimizing use of the Group's collective technical and financial resources.

Skanska's Construction business stream does not tie up capital as it operates with free working capital. The free working capital combined with profits generated by the Group, along with the Group's ability to leverage its balance sheet to borrow money, enable the financing of project development, which generates a return on invested capital. These investments also create new contracts for the Construction stream, generating further profits.

Synergies provide competitive advantages

These operational and financial synergies strengthen Skanska's ability to deliver for customers and enhance opportunities for generating greater value. This type of collaborations improves the ability to create innovative solutions, to maximize market opportunities, to improve cost control, to strengthen the Group's financial position and to enhance returns.

Business model



Business streams

Skanska's operations consist of Construction, Residential Development and Commercial Property Development. The business units within these streams collaborate in various ways, creating operational and financial synergies that generate increased value.

→ Construction

Market drivers and key trends

GDP growth – Strong correlation with growth in the Construction business stream.

Public investment – Infrastructure investments are largely driven by the public sector.

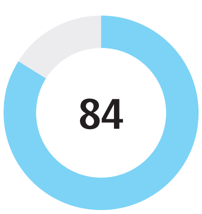
Urbanization – Urbanization is a major driver of infrastructure investments in areas such as highways, bridges, mass transit airports and water treatment works.

Countries

Sweden, Norway, Finland, Poland, Czech Republic, Slovakia, UK, USA

Revenue

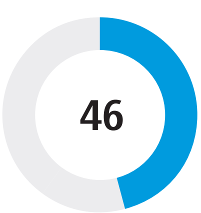
share of Group, %



159.6
SEK bn

Operating income

share of Group, %



3.8
SEK bn

→ Residential Development

Market drivers and key trends

Household confidence indicator – Potential customers' views on future pay raises, housing costs, interest rates and credit supply affect decisions on whether to buy.

Urbanization – Leading to increased demand for homes.

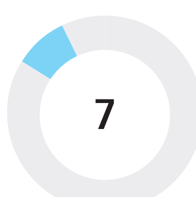
Shortage of housing – Housing production has lagged behind population growth, resulting in an undersupply – more homes need to be built.

Countries

Sweden, Norway, Finland, Poland, Czech Republic, UK

Revenue

share of Group, %



12.5
SEK bn

Operating income

share of Group, %

1.2
SEK bn

→ Commercial Property Development

Market drivers and key trends

Economic growth – Economic growth increases companies' recruitment needs, which drives activity in the leasing market.

Urbanization – Increases demand for offices and logistics centers close to cities.

Cost-efficient location – Energy-efficient, green premises in attractive areas are in demand and are contributing to relocation.

Attractive investment – Long-term tenants in high-quality properties offer attractive returns for investors.

Countries

Sweden, Norway, Finland, Denmark, Poland, Czech Republic, Hungary, Romania, USA

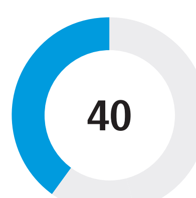
Revenue

share of Group, %

17.9
SEK bn

Operating income

share of Group, %



3.3
SEK bn

Construction

Modern hospitals, bridges, schools, mass-transit and other key facilities are necessary for society to thrive. Construction – the largest business stream in terms of revenue and people, leverages Skanska's local and Group-wide expertise and resources to enhance communities.

Targets and actions – Business Plan 2016–2020

- Enhanced risk management
- Operational efficiency
- Operating margin ≥3.5%
- Early Contractor Involvement (ECI) and enhanced focus on market making
- Continued focus on free working capital

Sample of competitors

- Balfour Beatty
- Ferrovial
- Granite
- Grupo ACS
- Hochtief
- NCC
- Peab
- Strabag
- Veidekke
- Vinci

With a stronger focus on risk management, cost control and project execution, underlying profitability improved in Construction leading to a substantially improved operating margin reaching 2.4 percent for the year.

Major events 2019

A significant performance recovery in Europe and the USA and a continued high level of performance in the Nordics were the main drivers to the improvement of the underlying profitability in Construction. These are the results of the strategy that include improved performance of current projects through more proactive risk management, stronger commercial focus and increased cost efficiency.

Operating income amounted to SEK 3.8 billion (1.1), with a corresponding operating margin of 2.4 percent (0.7). The operating income include proceeds of SEK 196 M related to awarded damages by the Court of Appeal in the legal case Follo EPC Oslo S. A goodwill impairment charge of SEK –367 M in a part of the UK operations impacted negatively. The operating income in Sweden was in relation to the comparable period negatively impacted by fewer project completions with high profitability and by weaker performance in the residential construction operations in Stockholm and in the asphalt operations. The comparable period includes restructuring charges and project write-downs in Poland and the USA, goodwill impairment charge in the USA, but also positive claims resolutions in the USA and the effects from pension curtailments in the UK affected operating income. Total net impact of SEK –2.3 billion.

Market outlook for 2020

In Construction, the overall market activity is still high but with fierce competition.

In Sweden, the civil market and the non-residential market is strong, although the landscape is competitive. The Swedish residential building market is slow. In Norway, the outlook for the civil market remains positive, but with significant competition in new bids. The non-residential market also benefits from increased public investments, while investments in the residential building market are slightly lower. The overall market situation in Finland is stable except for a slowdown in the residential building market.

In the UK, Brexit is still limiting investments in the non-residential building market and civil market to a certain degree. In Central Europe there is a high activity level in general and construction related inflation is high, causing postponement of new projects coming to the market in especially Poland.

In USA the overall market is strong. The civil construction market remains good, although competition is intense, and the building construction market is strong in sectors such as aviation, education, data centers and healthcare.

Business operations in 2020

Continuous review of all operations includes the following main priorities for Construction business stream in 2020:

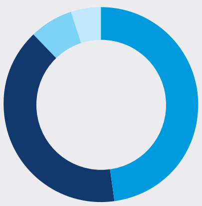
- Improve work site safety
- Enhance and improve project valuation and controls
- Improve contract management
- Focus on cost control and continuously review the performance in all parts of the operations and act where needed.

Construction

SEK M	2019	2018	2017	2016	2015
Revenue	159,579	157,894	150,050	138,001	140,648
Operating income	3,772	1,099	1,205	3,546	3,874
Operating margin, %	2.4	0.7	0.8	2.6	2.8
Free working capital, SEK bn	26.4	25.6	21.8	22.5	20.5
Operating cash flow	4,849	3,275	2,136	4,562	6,803
Order bookings, SEK bn	145.8	151.7	151.8	170.2	122.1
Order backlog, SEK bn	185.4	192.0	188.4	196.3	158.2
Number of employees	33,225	37,006	39,002	40,991	42,193

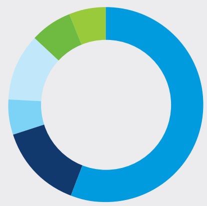
Construction

Order backlog, total SEK 185 bn



Type of product
- Building construction, 48%
- Civil construction, 40%
- Residential, 7%
- Service[1], 5%

Customer structure



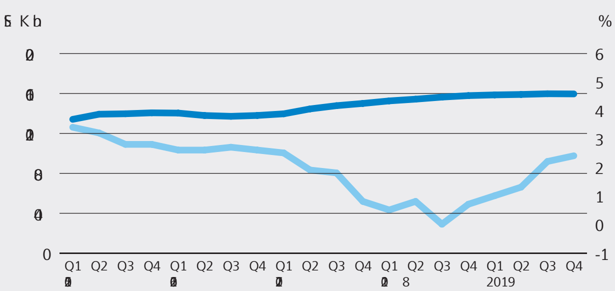
- Government, 56%
- Institutional[2], 14%
- Corp. Industrial, 6%
- Commercial Development, 11%
- Residential Development, 7%
- Other, 6%

Revenue, total SEK 160 bn

Geographic area
- Nordics,37%
- Europe, 20%
- USA, 43%

1 Facilities management or maintenance contract.
2 Mainly private healthcare and educational institutions.

Revenue and operating margin



- Revenue, rolling 12 months
- Operating margin, rolling 12 months

185

SEK billion, order backlog.

Value creation in Construction

Skanska's Construction business stream builds and renovates buildings, industrial facilities, infrastructure and homes. It also executes service-related assignments, in areas such as facility operations and maintenance.

In keeping with Skanska's business model, contracting assignments are also executed for Skanska's Project Development operations. This collaboration generates synergies for the Group.

Project and synergy opportunities are also generated thanks to the financial expertise and resources within the Group. A combination of financial strength and global expertise in Construction and Project Development enables Skanska to take on projects for international customers with high expectations for quality and execution.

With a strong risk-assessment focus during the tender stage, Skanska concentrates on securing the right projects where there is a balance between risk levels and expected margins. Skanska is increasing the share of contracts in which customers value service, capability and project approach – in addition to price – when evaluating tenders. Skanska's clear focus on sustainability – including Safety, Ethics, Green, Community Investment, and Diversity and Inclusion – is also a factor that strengthens Skanska's offering to customers.

→ Construction

Enabling global trade to reach new heights

At the gateway to the largest cargo seaport on the US East Coast stands the Bayonne Bridge, a grand steel arch over the Kill Van Kull waterway that was the world's longest of its kind when it opened in 1931.

With the recent debut of an expanded Panama Canal, this landmark bridge was at risk of becoming a bottleneck to global commerce. The new class of enormous container ships, called Post-Panamax vessels, designed to maximize the canal's increased capacity would not be able to pass below the bridge. A bold solution was developed: raise the roadway within the existing arch by an additional 19.5 meters, or 42 percent, allowing these larger ships for the first time to reach Maher Terminals, Port Newark Container Terminal, Global Container Terminals New York, and APM Terminals.

Skanska, along with a joint venture partner, made this highly technical plan a reality. Adding to the challenge was maintaining the safe traffic over the bridge throughout the six years of construction. Meticulous planning and careful execution were integral to the project.

Cargo volumes through the Port of New York and New Jersey have increased by about 8 percent and vessel sizes have grown since the elevated Bayonne Bridge opened.

Residential Development

To help make people's lives better and easier, Skanska develops homes that are well-designed, responsibly produced, reasonably priced and in good locations. Residential Development together with the Construction business stream delivers these homes in optimal ways.

Targets and actions – Business Plan 2016–2020

- More selective in project starts
- Reviewing cost structure
- Design to cost
- Increased capital efficiency

Sample of competitors

- Bonava
- DOM Development
- Finep
- JW Construction
- JM
- Peab
- YIT

Underlying operating margin for Residential Development business stream remained at a solid 10 percent for 2019 as a result of strong execution and a well-diversified portfolio in various segments and geographies.

Major events in 2019

Profitability within Residential Development remained on a good level. The Swedish residential new-built market gradually improved as activity and confidence in the market picked-up. During the year, 3,407 (4,480) homes were started and 3,853 (3,653) were sold. Operations were adapted to a new normal in the Swedish market in which customers make their purchase decisions closer to project completion.

Operating income amounted to SEK 1.2 billion (1.5) and includes a negative impact of SEK –101 M in a goodwill impairment charge in Norway due to lower volumes than previously expected.

The operating margin amounted to 9.6 percent (14.0), where the comparable period includes a larger positive effect from land divestment gains and release of provisions related to completion of projects in the Nordics. The underlying operating margin remained at a solid 10 percent thanks to strong execution and a well-diversified portfolio.

During 2019, Skanska expanded BoKlok, Skanska's low-cost homes concept, to the UK market, supporting the diversification of the portfolio.

Market outlook for 2020

The Swedish residential market for new developments is improving slightly as confidence regarding housing prices is recovering and transaction activity is increasing. In Norway the market situation is stable, while the Finnish market is slower. The Central European market is stable. Common for all markets is the challenge with high construction costs and long zoning processes.

Business operations in 2020

Skanska will continue to adapt its Residential Development operations to current market environment in which customers make their purchase decisions closer to project completion. This include activities to improve capital efficiency. In addition, BoKlok will continue to grow its operations in the UK market.

7,130

homes under construction

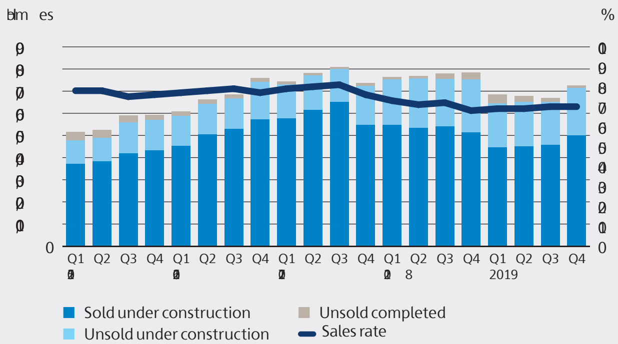
Residential Development

SEK M	2019	2017	2016	2015
Revenue	12,483	13,237	13,264	12,298
Operating income	1,195	1,716	1,605	1,174
Operating margin, %	9.6	13.0	12.1	9.5
Investments	-9,437	-11,093	-9,148	-6,675
Divestments	11,793	11,773	7,517	8,630
Operating cash flow from business operations[1]	2,702	1,154	-1,210	1,509
Capital employed, average, SEK bn	13.0	12.7	11.6	9.3
Return on capital employed, %[2]	9.8	15.4	17.1	14.4
Number of employees	551	482	434	389

1 Before taxes, financing activities and dividends.
2 A definition is provided in Note 43.

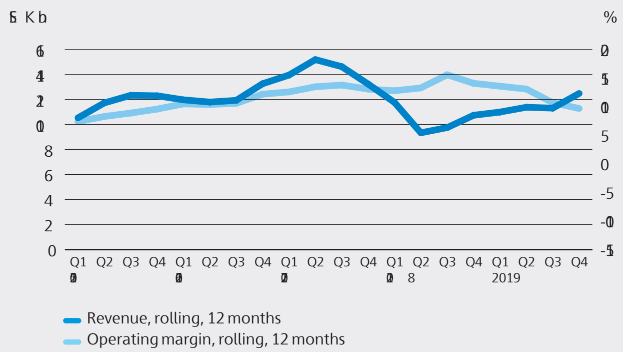
Residential Development

Homes under construction and unsold completed

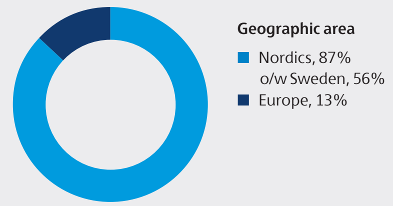


Homes sold and started

Revenue and operating margin



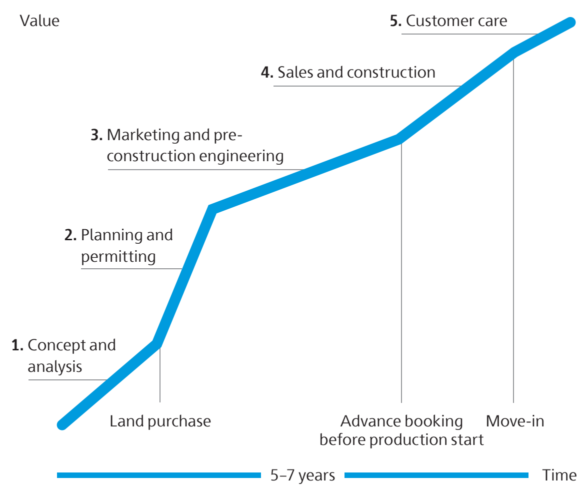
Operating income, total SEK 1.2 bn



Value creation in Residential Development

Generating value in Residential Development begins with an analysis of macroeconomic and demographic trends. Where is the growth, who are the target groups and what do they need and want?

Before making land purchases, Skanska analyzes local conditions in detail. Then begins a step-by-step process aimed at ultimately offering customers the best possible value. During the planning stage, Skanska establishes a framework in close collaboration with the municipal authorities. Based on the potential offered by the site's surroundings, an attractive neighborhood is designed and built in close collaboration between Development and Construction units on the basis of the residents' needs and environmental and community considerations. Skanska's own sales organization then markets the new homes to the right target groups.



→ **Residential Development**

Expanding the concept of sustainable, quality homes for all

BoKlok, jointly owned by Skanska and IKEA, provides space-saving, functional quality housing at a price that enables more people to afford a comfortable home. The use of standardized designs and large-volume industrialized production result in cost-effectiveness and high-quality control. Sustainability is at heart of the BoKlok concept, which is why the homes are made of timber – the most climate-smart building material.

The pre-fabricated modules are built indoors in dry and safe conditions, enabling high quality, low and predictable costs and minimum waste, before being transported to the construction site for assembly. In 2019, BoKlok began equipping all of its new apartment projects in Sweden with solar panels, which will help people reduce their energy costs and carbon emissions while providing an easy way to live more sustainably.

Since its launch in 1996, BoKlok – "live smart" in Swedish – has developed almost 12,000 homes in Sweden, Norway and Finland.

In 2019, BoKlok expanded into the UK, having identified this as a market with high demand for quality homes for people with an average income. The initial focus is on the South Coast, Southampton to Brighton and the West, North Cheltenham to North Somerset. These areas have people in need of low-cost home ownership as well as affordable land. BoKlok UK is in dialogue with both municipalities and private land owners. Most of the homes will be for market sale while a portion will be sold to municipalities and housing associations to be part of their social housing schemes.


Glasörten Boklok | Limhamn | Sweden

Commercial Property Development

Skanska develops environmentally efficient offices and properties that are flexible and support tentants' well-being and creativity. Collaborating with the Construction business stream helps produce the best solutions for customers and the greatest value for Skanska.

Targets and actions – Business Plan 2016–2020

- Increase project activity
- Increase landbank
- Drive cost efficiency
- Controlled expansion

Sample of competitors

- Boston Properties
- Echo investment
- Fabege
- Ghelamco
- Hines
- NCC
- Trammell Crow
- Vasakronan

Gains from property divestments reached a new all-time high, reaching more than SEK 4.4 billion, including joint ventures. In 2019, Skanska expanded its US operations to a fifth city, Los Angeles.

Major events in 2019

The high level of investments, leasing and divestments continued during 2019 supported by favorable market conditions, strong leasing momentum and very strong executions. By the end of the year Skanska had 42 ongoing projects. Gains from divesting 17 property projects reached an all-time high of SEK 4.4 billion including joint ventures, with all three geographies contributing to this success. For example:

- Skanska sold a 90 percent interest in the Bank of America Tower office property in Houston, Texas, USA for USD 373 M, about SEK 3.5 billion
- In Poland, Skanska sold a portfolio of three office buildings located in Wroclaw and Krakow for EUR 214 M, about SEK 2.3 billion
- Skanska sold the office property Workplace Oo in Oslo, Norway for NOK 1.3 billion, about SEK 1.5 billion.

In 2019, a total of 15 projects were started, spread across all geographies. Leasing activity remained at a high level with 421,000 square meters leased during the year. Unrealized gains, excluding properties divested according to segment reporting, totaled SEK 8.2 billion by the end of the year.

Market outlook for 2020

Vacancy rates for office space in most of the Nordic and Central European cities where Skanska has operations are stable. In Sweden vacancy rates are low and rents are high. Demand for office space is strong in Poland and in other parts of Central Europe as well. In USA, demand from tenants is good in Boston and Seattle, while somewhat weaker in Washington, D.C. and Houston's Energy Corridor. Modern properties with high quality tenants are in demand from property investors, resulting in attractive valuations for these properties. Investor appetite remains strong in USA, Central Europe and the Nordics, especially Sweden, but the number of shortlisted investors in transactions are fewer and more selective regarding investment objects. Yield levels in Sweden and in USA have likely bottomed out. Common for all markets is the challenge with increasing construction costs.

Business operations in 2020

Skanska will continue the high activity in Commercial Property Development, which include priorities such as to improve capital efficiency and secure future pipeline of projects. In 2020, Commercial Property Development will also continue to grow its operations in Los Angeles, USA.

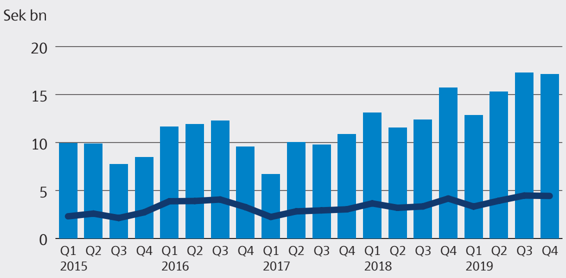
Commercial Property Development

SEK M	2019	2018	2017	2016	2015
Revenue	17,850	16,271	11,440	10,226	9,034
Operating income	3,287	3,069	2,714	2,336	1,947
of which gain from divestments of properties[1]	4,275	4,005	2,879	3,111	2,564
Investments	-12,946	-11,452	-10,716	-8,364	-8,826
Divestments	13,713	15,275	9,341	9,043	9,914
Operating cash flow from business operations[2]	-1,063	3,984	-3,119	-687	917
Capital employed, SEK bn	34.5	26.7	25	19.9	17
Return on capital employed, %[3]	10.5	12.3	15.5	14.8	15.6
Number of employees	427	414	389	364	344
1 Additional gain included in eliminations was	240	321	197	173	190

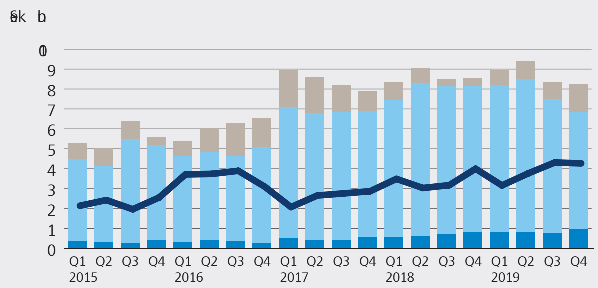
2 Before taxes, financial activities and dividends.
3 As of January 1, 2019, return will be based on yearly earnings and not on successive value creation. A definition is provided in Note 43.

Commercial Property Development

Revenue and operating income from property divestments



Unrealized and realized gains



Capital employed, total SEK 34.5 bn

Leasing, total 421,000 sq m

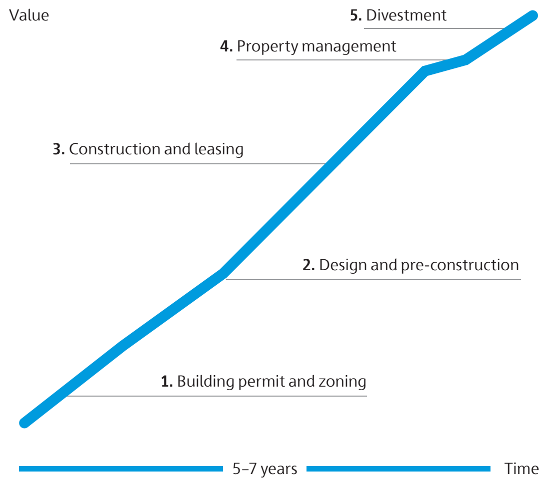
8.2

SEK billion, unrealized gains, excluding properties divested according to segment reporting.

Value creation in Commercial Property Development

The development of commercial projects is a continuous process with clearly defined phases. The average development cycle from project conception to completion is five to seven years.

All acquisitions of land are preceded by macroeconomic and local market analyses. A major step in value creation is taken when the zoning plan is approved for undeveloped land. The design is based on previous Skanska experience and adjusted to local market demands, aimed at creating compelling premises for tenants and property investors as well as enabling efficient construction execution in a close collaboration between Development and Construction units. A successful leasing process usually begins in connection with the start of construction, with most leases signed before construction is completed. The construction projects are carried out by Skanska's local construction units. Property management can add further value to the property. All projects are developed with divestment as the ultimate goal. Divestment occurs when Skanska has added maximum value to the project within the Group's competency areas.



Bank of America Tower | Houston | USA

→ Commercial Property Development

Houston's green community hub

To maximize its prime downtown location, Bank of America Tower has a two-story atrium that uniquely links the street level with Houston's underground pedestrian network. Home to a culinary market, this vibrant community hub brings people together through culture and cuisine.

The Bank of America Tower offers 72,500 square meters of contemporary office space in Houston's Central Business District. Tenants include Bank of America, Waste Management, Winston and Strawn, Quantum Energy Partners and Skanska. The property features an open-air community hub that includes a full-service restaurant and a culinary market with seven chef-driven concepts and a cocktail bar. Tenants also have access to The Assembly, a state-of-the-art conference and private events center that features three meeting venues.

In 2019, Skanska divested a 90 percent interest in the Bank of America Tower office property in Houston, Texas, USA, for USD 373 M, about SEK 3.5 billion, to an affiliate of Beacon Capital Partners. This is Skanska's largest ever divestment in terms of square meters. The building will use 25 percent less energy than typical facilities and is one of the world's largest buildings certified to LEED Platinum v4.

Construction of the Bank of America Tower began in the second quarter of 2017 and was completed in the second quarter of 2019. Ownership of the property was transferred in the fourth quarter 2019.

A trusted long-term partner for investors

Niam and Skanska have built a partnership that encompasses 14 buildings in six cities. When Niam decided to enter Poland, this relationship was vital as the company could depend on Skanska's strong record in the Nordic market.

Johan Berfenstam
Head of Acquisitions, Niam

Niam has been a business partner of Skanska for many years. The company manages real estate funds with investments in Sweden, Norway, Finland, Denmark and Poland, with a total of over EUR 3.6 billion in assets under management. Niam has invested over EUR 10 billion through its own funds since 2000.

In 2014, Niam acquired their first property from Skanska in Sweden. Johan Berfenstam, Niam's Head of Acquisitions, comments on their relationship with Skanska.

"We have a long-term relationship with Skanska. Skanska has a tradition of thinking like a building owner, really understanding what is important to building managers and investors. Their commercial development teams are thinking about the next step in a building's life cycle and they design the building for a long-term perspective. Not all of Skanska's competitors have this holistic view on property development. This is an important part of why we have chosen to acquire properties from Skanska,"says Johan.

Over the years, Niam has acquired 14 properties from Skanska. Following years of investment in the Nordics, Niam decided to enter the Polish market in 2015. The partnership with Skanska was vital in this strategic decision.

"Our experience with Skanska in Poland really highlights our partnership. Poland is Niam's only market in which we do not have people based locally. Because of this, we need a local partner we can really trust. When looking at Polish office developments, we know from Skanska's strong record in the Nordics that we can depend on Skanska's diligence when selecting building sites and writing lease contracts, which form a big part of a building's value. Also, I know the pride Skanska takes in delivering the best properties to the market. We have not been disappointed. Niam has acquired eight buildings from Skanska in four Polish cities, and we still own many of those buildings," Johan concludes.

Corporate governance report

Good corporate governance ensures that Skanska is managed sustainably, responsibly and efficiently on behalf of all shareholders. The overall goal is to increase value for shareholders, and in doing so meet their expectations for invested capital. The purpose of corporate governance is also to ensure oversight by the Board of Directors (the "Board") and management. By having a clearly defined governance structure as well as proper rules and processes, the Board can ensure that management and employees are focused on developing the business and thereby generating value for shareholders.

This corporate governance report for 2019 has been reviewed by Skanska's external auditors in accordance with Chapter 9, Section 31 of the Swedish Companies Act. The report contains information as required by Chapter 6, Section 6 of the Annual Accounts Act.

Corporate governance principles

Skanska is one of the world's leading construction and project development companies, focused on selected home markets in the Nordic region, Europe and the 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 Skanska values, Skanska helps create sustainable futures for customers and communities. The parent company of the Group is Skanska AB (the "Company"), with a registered office in Stockholm, Sweden.

As a Swedish public limited company with shares listed on Nasdaq Stockholm, Skanska is subject to a variety of external rules that affect its corporate governance. In addition, to ensure compliance with legal and regulatory requirements and the high standards that Skanska sets for itself, Skanska has adopted internal rules to govern the Group as well as processes for monitoring compliance with the external and internal rules by all business units and functions in the Group. Skanska's ethical and sustainability endeavors are an integral part of the business, and the Board discusses these issues on a regular basis.

Skanska has no deviations from the Swedish Corporate Governance Code (the "Code") to report for the 2019 financial year. Nor has Skanska been subject to any rulings by Nasdaq Stockholm's Disciplinary Committee or decisions on breach of good practices in the stock market by the Swedish Securities Council in 2019.

For more information, go to: group.skanska.com/corporate-governance/.

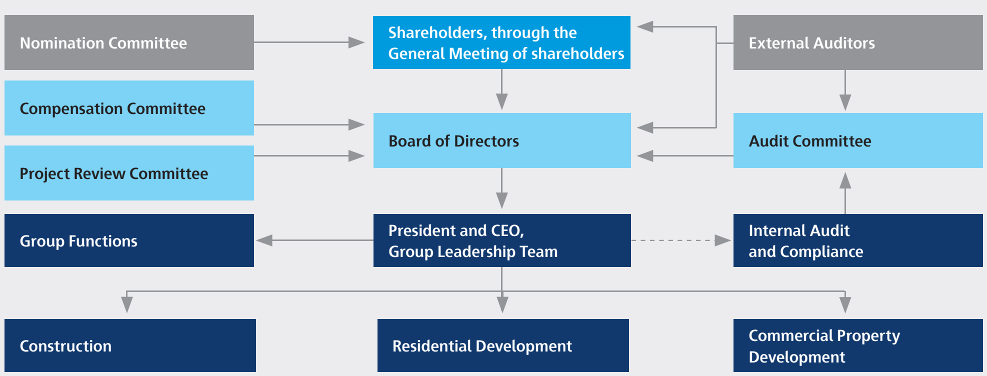
Key external governing documents

- Swedish Companies Act
- Nasdaq Stockholm Rule Book for Issuers
- Swedish Corporate Governance Code
- Annual Accounts Act
- Securities Market Act
- International Financial Reporting Standards (IFRS) and other accounting rules
- Global Reporting Initiative (GRI) Standards

Key internal governing documents

- Articles of Association
- Procedural Rules for the Board and its Committees
- Instructions for the CEO and President
- Group steering documents, including Group policies, standards and procedures, guidelines and business processes for approval, control and risk management
- Skanska's Code of Conduct, which is available on the Group's website: group.skanska.com/about-us/our-code-of-conduct/

Governance structure



Shares and shareholders

Skanska's Series B shares are listed on Nasdaq Stockholm in the Large Cap segment. The share capital at the end of 2019 amounted to SEK 1,259,709,216 consisting of a total of 419,903,072 shares, of which 19,704,715 were Series A shares and 400,198,357 were Series B shares. Series A shares entitle the holders to ten votes per share and Series B shares entitle the holders to one vote per share. Series A and Series B shares carry the same right to share in the Company's assets and entitle the holder to the same dividend. There are no restrictions in the Articles of Association on the number of votes each shareholder may cast at a general shareholders' meeting.

At the end of 2019, Skanska had a total of 99,134 shareholders, according to statistics from Euroclear Sweden AB. The ten largest shareholders held 55.3 percent of the votes and 38.6 percent of the capital. AB Industrivärden's holding amounted to 24.3 percent of the votes and L E Lundbergföretagen AB's holding to 12.8 percent.

More information about the Skanska share and shareholders is available on page 10.

General Meetings of shareholders

The general shareholders' meeting is Skanska's highest decision-making body and it is where shareholders exercise their decision-making rights. At the Annual General Meeting ("AGM"), the shareholders decide on key issues, such as adoption of income statements and balance sheets; the dividend; the composition of the Board; discharging the members of the Board and the President and CEO from liability; election of external auditors; and guidelines for salary and other remuneration to senior executives. Skanska's financial year is from January 1 to December 31, and the AGM is to be held within six months of the end of the financial year. The date and venue for the AGM is communicated no later than the publishing of the third quarter interim report on the Group's website. The notice convening the meeting is published in Post- och Inrikes Tidningar (the Official Swedish Gazette) and on the Group's website. An announcement of the notice convening the meeting is published in Dagens Nyheter and in at least one more Swedish daily newspaper. All documents relating to the AGM are published on the Group's website in both Swedish and English. Shareholders listed in the register of shareholders on the record date and who notify the Company of their intention to participate in the meeting are entitled to attend it either personally or by proxy through a representative. Shareholders have the right to have matters addressed at the AGM if they have submitted a request to the Board no later than seven weeks before the AGM.

Annual General Meeting 2019

The 2019 AGM was held on March 28, 2019, in Stockholm. A total of 844 shareholders, representing around 57.8 percent of the total number of votes, were represented at the AGM. Among other matters, the meeting voted to re-elect Hans Biörck, Pär Boman, Fredrik Lundberg, Catherine Marcus, Jayne McGivern and Charlotte Strömberg as members of the Board and to elect

Annual General Meeting 2020
The next AGM of shareholders of Skanska AB will be held at 10:00 a.m. CET on March 26, 2020 at Stockholm Waterfront Congress Centre in Stockholm, Sweden.

Jan Gurander as new member of the Board. Hans Biörck was re-elected as Chairman of the Board. The employees were represented on the Board by Ola Fält, Richard Hörstedt and Yvonne Stenman as members, with Pär-Olow Johansson and Anders Rättgård as deputy members. All members and deputy members of the Board, as well as Skanska's external auditors and the members of the Group Leadership Team, were present at the AGM. The AGM re-elected Ernst & Young AB as external auditor. The AGM also decided to approve a dividend to the shareholders of SEK 6.00 per share.

Decisions of the AGM also included resolutions on a long-term employee ownership program for the financial years 2020, 2021 and 2022 for permanent employees in the Group (Seop 5), and authorization for the Board to, during the period up to the 2020 AGM, resolve on acquisitions of not more than 1,000,000 Series B shares in Skanska on Nasdaq Stockholm to secure delivery of shares to participants in Seop 5. Complete information on the 2019 AGM and the minutes of the meeting are available on the Group's website: group.skanska.com/corporate-governance/annual-general-meeting/agm-archive/.

The Nomination Committee

The 2018 AGM gave the Chairman of the Board a mandate to allow each of the four largest shareholders in terms of voting power to appoint a representative to join the Chairman on the Nomination Committee for the next AGM. In determining which are deemed to be the largest shareholders in terms of voting power, the list of shareholders registered with and categorized by Euroclear Sweden AB as of the last business day in August is to be used.

The Nomination Committee's mandate includes:

- Evaluating the composition of the Board and its work
- Preparing proposals to submit to the AGM regarding the election of board members and the Chairman of the Board
- Working with the Board's Audit Committee to prepare proposals to submit to the AGM regarding the election of auditors
- Preparing a proposal to submit to the AGM on fees to the non-employee members of the Board, to be divided between the Chairman and the other non-employee members, and any compensation for committee work and fees to the auditors
- Preparing a proposal to submit to the AGM regarding a Chairman for the AGM
- When applicable, preparing a proposal on changes to the principles for appointing the next Nomination Committee.

On the Group's website there is information on how the shareholders can submit their own proposals to the Nomination Committee: group.skanska.com/corporate-governance/annual-general-meeting/nomination-committee/.

Nomination Committee 2020

The Nomination Committee for the 2020 AGM has the following composition:

- Helena Stjernholm, AB Industrivärden (24.3 percent of votes[1]), Chairman of the Nomination Committee
- Mats Guldbrand, L E Lundbergföretagen AB (12.8 percent of votes[1])
- Lars-Åke Bokenberger, AMF (3.6 percent of votes[1])
- Bo Selling, Alecta (3.5 percent of votes[1])
- Hans Biörck, Chairman of the Board, Skanska AB

This information was announced on the Group's website and published in a press release on September 20, 2019. According to the Code, the majority of the Nomination Committee's members are to be independent in relation to the Company and its senior executives and at least one member is also to be independent in relation to the largest shareholders in the Company in terms of voting rights. All of the appointed members are independent in relation to the Company and its senior executives and three are independent in relation to the largest shareholders in the Company in terms of voting rights.

In preparation for the 2020 AGM, the Nomination Committee held six meetings at which minutes were kept. No fees have been paid out for Nomination Committee duties. To perform its work, the Nomination Committee has taken part of the internal evaluation of the Board's work, the Chairman's account of board duties and the Company's strategy. The Committee has also interviewed individual members of the Board. Furthermore, Skanska's President and CEO and CFO have attended a meeting for presentation of the Company's operations and strategies.

The Nomination Committee is of the opinion that the various fields of competence and experience considered important to Skanska are well represented in the proposed Board and that the composition and the size of the proposed Board is appropriate to meet Skanska's needs. The independence requirement is also deemed to have been met. The Nomination Committee has also discussed the diversity requirement. In this regard the Nomination Committee has decided to apply as its diversity policy rule 4.1 of the Code, which states that board members elected by the shareholders' meeting are to collectively exhibit diversity and breadth of qualifications, experience and background. A gender balance is also to be aimed for. Information has been provided on the background and experience of the members of the Board, and it has been determined that the proposed Board will consist of three women and four men. The gender balance is therefore 43 percent/57 percent, which, in the opinion of the Nomination Committee, is consistent with the gender balance requirement.

The Nomination Committee's proposals, work report and supplementary information on proposed members of the Board are published on the Group's website in connection with the notice convening the AGM.

1 Based on shareholding as of August 31, 2019

Board of Directors

The members and the deputy members of the Board

Member	Position	Elected, year	Audit Committee	Compensation Committee	Project Review Committee	Independent in relation to the Company and GLT	Independent in relation to major shareholders
Hans Biörck	Chairman	2016	■ Member	■ Chairman	■ Chairman	Yes	Yes
Pär Boman	Member	2015	■ Member	■ Member	■ Member	Yes	No
Jan Gurander[1]	Member	2019	■ Member		■ Member	Yes	Yes
Nina Linander[2]	Member	2014	■ Member		■ Member	Yes	No
Fredrik Lundberg	Member	2011			■ Member	Yes	No
Catherine Marcus	Member	2017			■ Member	Yes	Yes
Jayne McGivern	Member	2015		■ Member	■ Member	Yes	Yes
Charlotte Strömberg	Member	2010	■ Chairman		■ Member	Yes	Yes
Ola Fält	Employee Representative	2018				–	–
Richard Hörstedt	Employee Representative	2007			■ Member	–	–
Yvonne Stenman	Employee Representative	2018				–	–
Pär-Olow Johansson	Employee Representative (Deputy)	2014				–	–
Anders Rättgård	Employee Representative (Deputy)	2017				–	–

■ = Chairman ■ = Member

1 From March 28, 2019
2 Until March 28, 2019

According to the Company's Articles of Association, the Board is to consist of no fewer than five and no more than ten members with no more than three deputies, all of which are elected by the shareholders at each AGM. The Board has overall responsibility for Skanska's organizational structure and management, and the Board's main duty is to safeguard the interests of the Company and the shareholders. The Board thus makes decisions regarding the Group's strategy, interim and annual reports, major construction projects, investments and divestments, appointment of the President and CEO, and matters concerning the organizational structure of the Group. The Chairman leads the Board in its work and has regular contact with the President and CEO in order to stay informed about the Group's activities and development.

In 2019, the Board consisted of seven members elected by the AGM, without deputies, plus three members and two deputy members appointed by the trade unions. According to the Code, the majority of the Board's AGM-elected members are to be independent in relation to the Company and its senior executives, and at least two members are to also be independent in relation to the largest shareholders in the Company. All of the board members elected by the 2019 AGM are independent in relation to the Company and its senior executives. Of these, five members are also independent in relation to the Company's largest shareholders. The composition of the Board and an assessment of the independence of each member are presented in more detail on pages 46–47.

The work of the Board in 2019

The work of the Board follows an annual agenda established in the Board's Procedural Rules. In preparation for each board meeting, the Board receives reports and documentation compiled according to established procedures. The purpose of this is to ensure that the Board has the relevant information and documentation on which to base decisions. In 2019 the Board held seven meetings, including its statutory meeting. The more important issues dealt with by the Board during the year included monitoring operations, review and approval of the interim reports and year-end report, strategic review of Skanska including a restructuring of the Central Europe Construction operations, as well as internal control, risk management and compliance matters.

Evaluation of the work of the Board

The work of the Board is evaluated annually through a structured process aimed at improving work processes, efficiency and collective expertise, and to assess any need for change. The Chairman of the Board is responsible for the evaluation and for presenting the findings to the Board and the Nomination Committee. In 2019 an evaluation was carried out in the form of a questionnaire and individual conversations between the Chairman and each member of the Board, but also through discussion during board meetings. The Chairman was also evaluated through a written questionnaire and discussion with the Board; the board meeting on this occasion was chaired by another member appointed for the purpose. The outcome of the 2019 evaluation was that the work of the Board was deemed to be functioning well.

Fees to the Board

Total fees to the AGM-elected board members not employed by Skanska were approved by the 2019 AGM in the amount of SEK 8,815,000. The Chairman of the Board received SEK 2,100,000 and the other board members not employed by Skanska received SEK 700,000 each. In addition, the Chairman of the Audit Committee received SEK 230,000 and the other members of the committee SEK 165,000 each, the Chairman of the Compensation Committee received SEK 110,000 and the other members of the committee SEK 105,000 each, and the Chairman of the Project Review Committee and the other members of the committee received SEK 210,000 each. For more detailed information, see Note 37, "Remuneration to senior executives and board members."

The Board's committees

The Board is ultimately responsible for the organization of Skanska and the management of Skanska's operations. The overall responsibility of the Board cannot be delegated, but the Board may appoint committees to do preparatory work and explore certain issues in preparation for decisions by the Board. Skanska's Board has formed three committees to provide structure, improve efficiency and ensure the quality of its work: (i) Audit Committee, (ii) Compensation Committee and (iii) Project Review Committee. The members of the committees are appointed annually at the statutory meeting of the Board. The Board's Procedural Rules specify which duties and decision-making powers have been delegated. The Chairman of each committee reports orally to the Board at each board meeting and all minutes from the committee meetings are submitted to the Board.

Audit Committee

The main task of the Audit Committee is to assist the Board in overseeing the financial reporting, reporting procedures and accounting principles, and to monitor the auditing of the accounts for the Company and the Group. The committee also evaluates the quality of the Group's reporting, internal auditing and risk management, and reviews the reports and opinions of Skanska's external auditors. The committee monitors the external auditors' assessment of their impartiality and independence, and that there are routines in place stipulating which non-audit services they provide to the Company and the Group. The committee also monitors compliance with the rules on auditor rotation. The external auditors are present at committee meetings. At least once a year the Audit Committee meets the auditors without senior executives being present.

In 2019 the Audit Committee consisted of Charlotte Strömberg (Chairman), Hans Biörck, Pär Boman, Jan Gurander[1] and Nina Linander[2].

The Committee held five meetings in 2019. Important matters addressed during the year included capital allocation, financing, pension reporting, external reporting, impairment testing, write-downs in construction projects, larger disputes, review of the interim reports and year-end report, internal control, risk management and compliance matters.

Compensation Committee

The main task of the Compensation Committee is to prepare recommendations for decisions by the Board on the appointment or dismissal of the President and CEO, including salary and other remuneration, and the other Group Leadership Team members. The committee prepares recommendations for decisions by the Board on incentive programs and examines the outcomes of variable remuneration components.

In 2019 the Compensation Committee consisted of Hans Biörck (Chairman), Pär Boman and Jayne McGivern. The Code requirements regarding independence, according to which the Chairman of the Board is permitted to be the Chairman of the Compensation Committee and other AGM-elected members are to be independent in relation to the Company and its senior executives, have therefore been met.

The committee held six meetings in 2019. Important matters addressed during the year were review of Skanska's variable remuneration programs for the senior executives, review and evaluation of the application of the principles for salary and other remuneration to senior executives as well as the existing remuneration structures and levels in the Company and review of senior executives' other assignments.

Attendance at Board and Committee meetings

	Board meetings	Audit Committee	Compensation Committee	Project Review Committee
Number of meetings	**7**	**5**	**6**	**12**
Member				
Hans Biörck	7	5	6	12
Pär Boman	7	5	6	11
Jan Gurander[1]	6	4		8
Nina Linander[2]	1	1		1
Fredrik Lundberg	7			11
Catherine Marcus	7			12
Jayne McGivern	7		5	11
Charlotte Strömberg	7	5		12
Ola Fält	6			
Richard Hörstedt	7			12
Yvonne Stenman	7			
Pär-Olow Johansson	6			
Anders Rättgård	7			

1 From March 28, 2019
2 Until March 28, 2019

Project Review Committee

The Project Review Committee takes decisions on individual projects within the Construction, Commercial Property Development and Residential Development business streams and on certain project financing packages. Projects above a certain monetary threshold or that involve especially high or unusual risks or other special circumstances may be referred to the Board for a decision. The committee consists of all AGM-elected board members and employee representative Richard Hörstedt. The committee held 12 meetings in 2019.

External auditors

According to the Articles of Association, the Company shall have one or two authorized auditors and no more than two deputy auditors. A registered accounting firm may be appointed as the Company's external auditor. At the 2019 AGM, Ernst & Young AB was re-elected as external auditor, until the close of the 2020 AGM. Authorized Public Accountant Hamish Mabon is the auditor in charge. The external auditor has attended two board meetings to report on the auditing process of Ernst & Young AB for Skanska and to provide the members of the Board with an opportunity to ask questions without senior executives being present. The external auditor has also attended four meetings of the Board's Audit Committee. For information on fees and other remuneration to the external auditor for audit-related and other services, see Note 38, "Fees and other remuneration to auditors."

Operational management and internal governance

Skanska operates with a decentralized governance model that recognizes the local characteristics of the construction and development markets, empowering the business units to develop their business and deliver according to plan, while retaining the profit and loss responsibility. The Group Headquarters ("Group HQ") sets the Group strategy and targets, ensures effective financial capacity, and conducts proper follow-up on business unit performance and compliance.

In the decentralized governance structure operated, as a rule, the Group HQ establishes what is required, while the business units are responsible for how requirements are met. Each business unit is headed by a President and has its own administrative functions and other resources to conduct its operations effectively. Aside from day-to-day operations managing projects, the business units deal with matters such as their strategic development, business plans, investments, divestments and organization.

The President and CEO and the Group Leadership Team

The President and CEO is appointed by the Board and runs the Company and the Group in accordance with the instructions adopted by the Board. The President and CEO is responsible for the day-to-day management of the operations of the Company and the Group and is supported by the other members of the Group Leadership Team. The other members of the Group Leadership Team have the title Executive Vice President (EVP).

The work of the President and CEO is evaluated at one board meeting each year at which no senior executives are present. The President and CEO has no business dealings of any significance with the Company or its Group companies.

Information on the President and CEO and the other members of the Group Leadership Team can be found on pages 48–49.

Core corporate functions and Group functions

Core corporate functions and Group functions are based at the Group HQ in Stockholm. The Core corporate functions and Group functions assist the President and CEO and the Group Leadership Team on matters relating to corporate functions, coordination and oversight. They also provide support to the business units. The head of each Group function reports directly to a member of the Group Leadership Team. The head of the Internal Audit and Compliance reports directly to the Board by way of the Audit Committee. A presentation of the Core corporate functions and the Group functions can be found on page 49.

Remuneration to senior executives

The 2019 AGM approved guidelines for salary and other remuneration to senior executives. These are described on page 167. Information about salary and other remuneration to senior executives, as well as outstanding share award and share-related incentive programs,are found in Note 37, "Remuneration to senior executives and board members." Senior executives include the President and CEO and the other members of the Group Leadership Team.

Purpose, values and strategy

While creating shareholder value, Skanska's purpose is to build for a better society. This reflects the Group's role in society, a position that enables Skanska to create shareholder value.

Fundamental to Skanska's success are four values; Care for Life; Act Ethically and Transparently; Be Better – Together; and Commit to Customers. They serve as a moral foundation and compass, and Skanska constantly drives the need for every employee to strongly live these values in all they do.

Skanska provides innovative and sustainable solutions to create a sustainable future for its employees, customers, shareholders and communities. This is reinforced by continued commitment to the sustainability focus areas Health and Safety, Ethics, Green, Community Investment as well as Diversity and Inclusion. Sustainability at Skanska is grounded in the Group's purpose and values. The Group's sustainability focus areas are strengthened by their connection to the United Nations Sustainable Development Goals and will guide Skanska's efforts to make significant positive contributions to the global sustainable development agenda and to society. Skanska's sustainability report can be found on pages 56–85.

Code of Conduct

Skanska's Code of Conduct is based on the Skanska values and sets the standard for the daily behavior of employees and how Skanska does business. It is reviewed regularly by the Group Leadership Team and updates are approved by the Board. It defines Skanska's commitments at the workplace, in the marketplace and to society. It covers such topics as health and safety; diversity and inclusion; data protection; environment; confidentiality; conflicts of interest; fraud; fair competition; anti-corruption and anti-bribery; and insider information and market abuse.

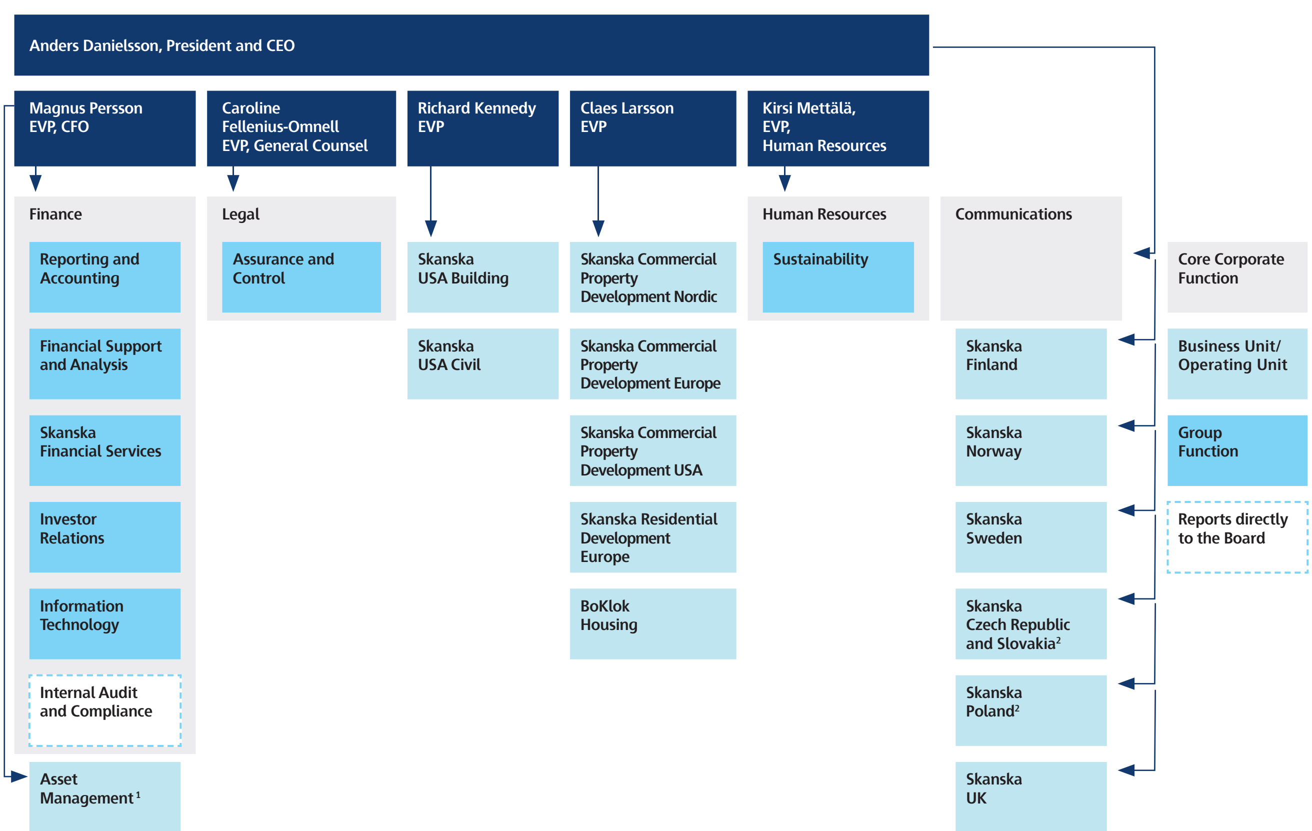
All Skanska employees are required to uphold the principles and requirements contained in the Code of Conduct. All employees receive Code of Conduct training every two years, and new employees are trained within one month of starting with Skanska. This requirement applies equally to members of the Board.

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 and outlines the expectations that Skanska put on those Skanska does business with. The Supplier Code covers topics such as fair working conditions; discrimination and harassment; anti-corruption and anti-bribery; and fair competition.

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 Skanska's Code of Conduct. The hotline is managed by an independent third-party service provider and is a supplement to the internal reporting channels that all employees have access to.

Skanska's management structure

Group Leadership Team



1 Portfolio of PPP assets.
2 Central Europe as of September 1, 2019

Skanska's reporting structure

Operating units	Construction		Residential Development		Commercial Property Development	
	Operating unit	External reporting	Operating unit	External reporting	Operating unit	External reporting
Sweden	■	□	■	□	■	□
Norway	■	□	■	□	■	□
Finland	■	□	■	□	■	□
Commercial Property Development Nordic					■	□
Czech Republic and Slovakia[1]	■	□				
Poland[1]	■	□				
United Kingdom	■	□				
Commercial Property Development Europe					■	□
Residential Development Europe			■	□		
USA Civil	■	□				
USA Building	■	□				
Commercial Property Development USA					■	□
BoKlok[2]			■			

■ = Operating unit □ = External reporting

1 Central Europe as of September 1, 2019.
2 BoKlok has operations in Sweden, Norway, Finland and the UK. In the external reporting BoKlok is divided and included in the Nordic cluster, of which Sweden, and Europe.

Governance framework

The Group HQ is responsible for setting the Group governance framework, including Group policies and other Group steering documents, and for following up on its implementation and effective operation in the business units. The business units are required to establish and maintain a robust and well-functioning system of governance within their operations. A clear framework of policies, procedures and standards reduces risks and increases effectiveness, and makes it easier to live by Skanska's Code of Conduct and other Skanska values. The Group governance framework consists of steering documents that define how Skanska's operations are run, controlled and organized, which standards and process to work according to, how to manage risks, at what levels decisions are made and what is mandatory for the Skanska business units. The governance framework is applicable to the Company, all Skanska business units and Skanska employees. If not followed, there may be consequences – up to dismissal. Business units' governance systems, such as business units' policies and management systems, should complement and add local, practical detail to the steering documents in the Group governance framework.

The Group governance framework consists of three categories of steering documents: Group policies and Group procedures and standards, which are mandatory, as well as non-mandatory guidelines for the Group. The Business Unit President is responsible for implementation of the Group governance framework in the respective business unit.

The Board's Procedural Rules state which items of business will be decided upon by the Board, by the President and CEO/Group Leadership Team or at the business unit level.

In addition to the Board's Procedural Rules, and Skanska's Code of Conduct and Supplier Code of Conduct, Skanska's Group policies include:

- Finance Policy
- IT Policy
- Claims Management Policy
- Insider Policy
- Personal Data Protection Policy
- Anti-Corruption Policy
- Enterprise Risk Management Policy
- Human Resources Policy
- Health and Safety Policy
- Environmental Policy
- Information Policy

Group policies

Core mandatory operating rules of the Group, addressing risks, goals and where corporate governance is needed.

Group standards or Group procedures

Mandatory. Procedures are generally detailed step-by-step instructions to achieve a given goal, while standards indicate expected behavior or a minimum level of quality or a minimum standard.

Group guidelines

A non-binding document containing guidance for the organization.

Internal control

This description includes the most important elements of Skanska's internal control and risk management systems in connection with financial reporting.

Control environment

The Board has overall responsibility for ensuring that Skanska has effective and adequate risk management and internal control. The purpose is to provide a reasonable assurance that the operations are run appropriately and efficiently, that external reporting is reliable, and that laws and regulations and internal rules are complied with. The Board's Procedural Rules ensure a clear division of roles and responsibilities for the purpose of ensuring effective management of business risks. The Board and the Group Leadership Team have also adopted a number of fundamental rules of importance for internal control work, such as the Group's Enterprise Risk Management Policy and the Group Governance Procedure. The Group Leadership Team reports regularly to the Board according to established routines. The Audit Committee also presents reports on its work. The Group Leadership Team is responsible for the system of internal controls required to manage material operational risk. This includes a clear decision-making structure and the Group framework of policies, standards/procedures and guidelines.

The Group function Assurance and Control supports the Group Leadership Team in monitoring the system of internal control.

Risk assessment and control activities

Skanska has identified the material risks in its operations that may, if not managed correctly, lead to errors in financial reporting and/or have an impact on the Company's performance results. The Group HQ has subsequently ensured that the Group has rules in place to guarantee that these risks are managed. The Group Leadership Team and the Group functions are responsible for managing general risks relating to strategy, macroeconomics and regulatory frameworks, while the main tasks relating to operational risk and opportunities are carried out at the local level within the business units. A detailed description of the identified enterprise risks and how they are managed is found on pages 50–54.

Skanska uses a Group-wide procedure for identifying and managing risks associated with construction contracts and project development. A specialized Group unit, the Skanska Risk Team, examines and analyzes proposals for tenders in construction and land investments, project starts as well as divestments in project development above a certain size. Based on the identified risks and opportunities, the Skanska Risk Team then issues a recommendation on how to proceed. The final decision is made by the Skanska Tender Board which consists of the Group Leadership Team and, in certain cases, the Project Review Committee.

Risks and opportunities for improvement are both greatest during the actual execution phase of the projects, and thus the work focuses heavily on this phase. Since almost every project is unique, risks and opportunities must be analyzed with respect to project type, location, execution phase and client. During execution, projects over a set threshold must adhere to the Skanska Project Review and Reporting Procedure to ensure consistent project reviews, including a process to make sure that deviations from planned performance are detected and acted upon early. All business units employ common valuation principles and terminology to ensure conservative project valuation and a high level of performance transparency.

Information and communication

Significant accounting principles, manuals and other documents of importance in financial reporting are updated and information on them is communicated regularly. There are several information channels to the Group Leadership Team and the Board for important information. For its external communication, the Group has an Information Policy to ensure that Skanska complies with existing regulations on providing the market with accurate information.

Monitoring

The Board continually evaluates the information provided by the Group Leadership Team and the Audit Committee. Of particular importance is the result of the Audit Committee's work on monitoring the effectiveness of the Group Leadership Team's internal control processes. This includes ensuring that steps are taken to address the shortcomings revealed in internal and external audits and to implement the proposed actions.

Internal Audit and Compliance

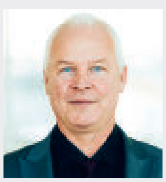
The Group function Internal Audit and Compliance is responsible for monitoring and evaluating risk management and internal control processes. The work is planned in consultation with the Audit Committee and reporting takes place directly to the Board through the committee. Matters relating to internal audit are also communicated on an ongoing basis to Skanska's external auditors. In 2019, Internal Audit and Compliance focused on reviewing the risks identified relating to the Group's projects, business-critical processes and key corporate functions. A total of 122 audits were conducted during the year within all business units. There was a particular focus on the business operations in the USA and Central Europe. The audits were performed in accordance with a uniform audit method.

Board of Directors



	Hans Biörck	Pär Boman	Jan Gurander
Position	Chairman	Board member	Board member
Born	Sweden, 1951	Sweden, 1961	Sweden, 1961
Elected	2016	2015	2019
Shareholding in Skanska, December 31 2019	25,000 B shares	1,000 B shares	0 shares
Other board assignments	– Chairman, Trelleborg AB – Board member, Handelsbanken AB	– Chairman, Handelsbanken AB – Chairman, Essity AB – Chairman, Svenska Cellulosa Aktiebolag SCA – Vice Chairman, AB Industrivärden	– Board member, The Association of Swedish Engineering Industries
Education	– Master of Science in Business and Economics, Stockholm School of Economics	– Degree in engineering and in economics	– Master of Science in Business and Economics, Stockholm School of Economics
Work experience	– Chief Financial Officer, Skanska AB – Chief Financial Officer, Autoliv AB – Chief Financial Officer, Esselte AB	– President and CEO, Handelsbanken AB	– Deputy CEO AB Volvo (since 2018) – Deputy CEO and CFO AB Volvo – CFO & Senior Vice President Finance Volvo Car Group – CFO MAN Diesel & Turbo SE – Group Vice President and CFO, Scania AB
Dependency relationship in accordance with the Swedish Corporate Governance Code	– Independent in relation to the company and its executive management – Independent in relation to major shareholders	– Independent in relation to the company and its executive management – Dependent in relation to major shareholders	– Independent in relation to the company and its executive management – Independent in relation to major shareholders

Board members and deputies appointed by the trade unions[1]



Ola Fält
Born: Gävle, 1966
Skanska Industrial Solutions;
appointed by SEKO in 2018
Board member
Shareholding in Skanska
1,498 B shares

Richard Hörstedt
Born: Helsingborg, 1963
Region Hus Syd;
appointed by Byggnads in 2007
Board member
Shareholding in Skanska
0 shares

Pär-Olow Johansson
Born: Stockholm, 1954
Region Hus Stockholm Nord; appointed by Byggnads in 2014
Deputy Board member
Shareholding in Skanska
4,755 B shares

1 Shareholding in Skanska, December 31 2019

			
Fredrik Lundberg	**Catherine Marcus**	**Jayne McGivern**	**Charlotte Strömberg**
Board member	Board member	Board member	Board member
Sweden, 1951	USA, 1965	United Kingdom, 1960	Sweden, 1959
2011	2017	2015	2010
6,032,000 A shares and 14,050,000 B shares through L E Lundbergföretagen AB (publ) 1,000,000 B shares through privately owned enterprise 5,376 A shares and 1,100,000 B shares privately	0 shares	0 shares	7,000 B shares 900 B shares related person
– Chairman, AB Industrivärden – Chairman, Holmen AB – Chairman, Hufvudstaden AB – Vice Chairman, Handelsbanken AB – Board member, L E Lundbergföretagen AB	– Board member, NCREIF PREA Reporting Standards Board (Private)	– Board member, Cairn Homes plc	– Chairman, Castellum AB – Board member, Clas Ohlson AB – Board member, Sofina S.A. – Board member, Kinnevik AB – Member, The Swedish Securities Council
– M.Sc. Engineering, Royal Institute of Technology, Stockholm – M.B.A, Stockholm School of Economics – Dr. (Econ.) h.c., Stockholm School of Economics – Dr. (Eng.) h.c., Linköping University	– M.S., Real Estate Investment and Development, New York University – B.S.E. Real Estate Finance and Entrepreneurial Management, Wharton School, University of Pennsylvania	– Harrogate Ladies College – Fellow of the Royal Institution of Chartered Surveyors	– M.B.A, Stockholm School of Economics
– President and CEO, L E Lundbergföretagen AB	– Global Chief Operating Officer, PGIM Real Estate – PGIM Real Estate – MBL Life Assurance Corporation	– Executive Vice President Development and Construction, Madison Square Garden plc – Red Grouse Properties – Chief Executive Officer, Multiplex plc (Europe) – Managing Director UK, Anschutz Entertainment Group	– Senior Project and Account Manager, Alfred Berg, ABN AMRO, Stockholm – Head of Investment Banking, Carnegie Investment Bank – President, Jones Lang LaSalle Norden
– Independent in relation to the company and its executive management – Dependent in relation to major shareholders	– Independent in relation to the company and its executive management – Independent in relation to major shareholders	– Independent in relation to thecompany and its executive management – Independent in relation to major shareholders	– Independent in relation to the company and its executive management – Independent in relation to major shareholders

Anders Rättgård
Born: Holmestad, 1961
Region Hus Göteborg; appointed by Unionen in 2017
Deputy Board member

Shareholding in Skanska
3,399 B shares

Yvonne Stenman
Born: Stockholm, 1959
Region Hus Stockholm Nord; appointed by Ledarna in 2018
Deputy Board member

Shareholding in Skanska
0 shares

Auditors
Ernst & Young AB
Auditor in charge since 2016: Hamish Mabon,Stockholm, born 1965, Authorized public accountant.

Group Leadership Team

			
	Anders Danielsson	**Caroline Fellenius-Omnell**	**Richard Kennedy**
Position	President and Chief Executive Officer (since 2018)	Executive Vice President, General Counsel (since 2017)	Executive Vice President (since 2018)
	Responsible for business units/Core Corporate Function – Skanska Finland – Skanska Norway – Skanska Sweden – Skanska Czech Republic and Slovakia[1] – Skanska Poland[1] – Skanska UK – Communications	Responsible for Core Corporate Function/ Group Function – Legal – Assurance and Control	Responsible for business units – Skanska USA Building – Skanska USA Civil
Born	1966	1968	1966
Joined Skanska in	1991	2017	2004
Shareholding in Skanska December 31, 2019	126,760 B shares	6,578 B shares	15,606 B shares
Board assignments	–	– Board member, Aktiemarknads-bolagens förening (AMBF)	– ACE Mentor Program, NY, USA – Building Trades Employers Association, NY, USA
Education	– M.Sc. Engineering, Royal Institute of Technology, Stockholm – Advanced Management Program, Harvard, Boston MA	– Master of Laws, Stockholm University – Master of Laws, College of Europe, Bruges	– Bachelor of Arts, Rutgers College, Rutgers University – Juris Doctor, Seton Hall University School of Law – Master of Laws, London School of Economics and Politic Science
Work experience	– Executive Vice President, Skanska AB – President, Skanska Sweden – President, Skanska Norway	– Group General Counsel, Tele2 AB – Group General Counsel, Sidel – General Counsel Europe,Tetra Pak AB – Corporate Counsel, AB Electrolux	– President and CEO, Skanska USA Building – Chief Operating Officer, Skanska USA Building – General Counsel, Skanska USA Building

Presidents of Business units

Gunnar Hagman
Skanska Sweden

Ståle Rød
Skanska Norway

Tuomas Särkilahti
Skanska Finland

Magnus Persson[2]
Skanska Poland

Michal Jurka[3]
Skanska Czech Republic and Slovakia

Greg Craig
Skanska UK

Paul Hewins
Skanska USA Building

Don Fusco
Skanska USA Civil

Jonas Spangenberg
BoKlok Housing

Björn Matsson
Skanska Residential Development Europe

Jan Odelstam
Skanska Commercial Property Development Nordic

Katarzyna Zawodna
Skanska Commercial Property Development Europe

Robert Ward
Skanska Commercial Property Development USA

1 Central Europe as of September 1, 2019
2 Magnus Persson, Business Unit President for Skanska Poland until August 31, 2019.
3 Michal Jurka, Business Unit President for Central Europe as of September 1, 2019



Claes Larsson	**Kirsi Mettälä**	**Magnus Persson**
Executive Vice President (since 2006)	Executive Vice President, Human Resources (since 2018)	Executive Vice President, Chief Financial Officer (since 2018)
Responsible for business units – Skanska Commercial Property Development Nordic – Skanska Commercial Property Development Europe – Skanska Commercial Property Development USA – Skanska Residential Development Europe – BoKlok Housing	Responsible for Core Corporate Function/ Group Function – Human Resources – Sustainability	Responsible for Core Corporate Function/ Group Functions/Operating unit – Finance – Reporting and Accounting – Financial Support and Analysis – Skanska Financial Services – Investor Relations – IT – Internal Audit and Compliance – Asset Management
1965	1963	1976
1990	1994	2006
193,711 B shares	23,905 B shares	15,215 B shares
– Chairman, Handelsbanken's regional bank board of directors, western Sweden	– Board member, FIBS (Finnish Business Society) – Nomination Committee, Board member, Stockholm School of Economics, Advisory Board	–
– M.Sc. Engineering, Chalmers University of Technology – MBA, Chalmers University of Technology and University of Gothenburg	– Bachelor of Business Administration, Haaga-Helia University of Applied Sciences – eMBA, Aalto Executive Education	– Ph.D. in Business Economics, Uppsala University – Master of Science in Business Economics, Uppsala University
– President, Skanska Commercial Property Development Nordic – President, Skanska Fastigheter Göteborg	– Senior Vice President, HR and Communications, Skanska Finland – Senior Vice President, HR Development, BU Skanska Finland – HRD manager, Skanska Finland – HR specialist, Skanska Finland	– Chief Financial Officer, Skanska Sverige AB – Senior Vice President, Investor Relations, Skanska AB – Group Manager, Corporate Finance, Skanska AB – Head of Research & Analysis, Skanska Financial Services AB

Senior Vice Presidents, Core Corporate Functions/ Group Functions

Katarina Bylund
Reporting and Accounting

Karolina Cederhage
Communications

Anders Göransson
Internal Audit and Compliance

Lena Hök
Sustainability

Mark Lemon
Assurance and Control

André Löfgren
Investor Relations

Therese Tegner
Skanska Financial Services

Izabela Surmacz (acting)
Information Technology (IT)

Caroline Walméus
Financial Support and Analysis

Risk and opportunity management

Proactive and structured risk and opportunity management at all levels provides increased resilience to risks and a greater ability to capture opportunities.

Established by the Board, Skanska's Enterprise Risk Management Policy (ERMP) sets out the framework and responsibilities for risk management across the Group. The overall purpose is to ensure that risks are managed systematically, as efficiently as possible and that Skanska assigns the correct priorities, thereby supporting the achievement of Skanska's business objectives and goals.

Enterprise risk management – new approach

Skanska's approach to risk management has evolved in 2019 and will continue to be developed in 2020. Using established risk identification and analysis techniques and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework for guidance, a top-down and bottom-up approach was implemented. The new approach reflects a more integrated and robust approach to enterprise risk management (ERM).

The Skanska Group Leadership Team is ultimately responsible for risk management and for the implementation of The Enterprise Risk Management Policy (ERMP). Business units are responsible for managing risks in their respective business activities within the framework set by the ERMP and for reporting to the Group Leadership Team regarding relevant risk management matters.

Enterprise-wide risk management approach

The ERMP obliges each business unit to create an Enterprise Risk Register (ERR). Business units identify and classify their risks and then assess the risks and existing controls and submits an ERR for analysis and streamlining at Group level. Business units retain ownership of their risks. The business unit ERRs are collated, sorted and streamlined at Group level to create a "Risk Universe" – a list of risk descriptions that is a way of classifying all enterprise risks to which Skanska might be exposed. Enterprise risks are classified as strategic, operational, financial and regulatory. For each category, the ERMP details the primary policies, procedures, regulations and other steering documents governing risk management. A particular risk may be addressed by more than one policy or procedure. For a list of Group policies according to the Group's governance framework, please see page 44.

Aligning the business units' enterprise risk registers with the risk universe allows Skanska to work in a more consistent way on enterprise risk throughout the Group. Skanska can quickly and easily collate, analyze and respond to the current main risks in a more dynamic and proactive way,

Skanska Tender Approval Procedure: Construction

Activity	Preliminary evaluation of the project with a focus on Skanska's core geographies, competence, customer, contract and partners.	Draft tender with a focus on the main risks and opportunities.	Final tender	Execution according to contract with a continual focus on monitoring risk and opportunities.
Responsible	Business unit	Business unit	Business unit	
Decision	Proceed or abstain?	Submit tender or abstain?	Contract negotiations	
Responsible	Business unit Group Leadership Team	Business unit Group Leadership Team Board of Directors	Business unit	Business unit Group Leadership Team Board of Directors

Skanska Investment Approval Procedure: Commercial Property Development and Residential Development

Activity	Land investment with a focus on location, zoning, partners, environmental issues and return.	Launch of project, considering pricing and pre-sale rate (Residential Development only).	Start of project with a focus on main risks and opportunities in the market.	Divestment of project with a focus on the occupancy rate and payment terms (Commercial Property Development only).
Responsible	Affärsenheten	Affärsenheten	Affärsenheten	Affärsenheten
Decision	Proceed or abstain?	Proceed, hold, re-develop or divest?	Proceed, hold, re-develop or divest?	Proceed or hold?
Responsible	Business unit Group Leadership Team Board of Directors	Business unit Group Leadership Team Board of Directors	Business unit Group Leadership Team Board of Directors	Business unit Group Leadership Team Board of Directors

and to consider whether it is appropriate to establish a risk appetite and risk tolerance for certain key risks. Other benefits of these changes include supporting Skanska's compliance programs and more efficient, design, implementation and assurance of internal controls. This clearly links to the review and update of the Group's Governance Framework implemented in 2018, and ultimately enables a more integrated system of governance, risk and control.

Operational risk management

Construction and Project Development operations depend on properly managing risks and opportunities, which are often specific to each project. 2019 saw changes to how Skanska manages operational risk. As a result of the Skanska Group Project Scrutiny and Approval Procedure, the Group-wide procedures for identifying and managing risks and opportunities – the Skanska Tender Approval Procedure and the Skanska Investment Approval Procedure – were updated. Under these documents, and the Limits of Authorization appended to the Procedural Rules, proposed construction and development projects exceeding heatmap thresholds pass through the business unit level, the Skanska Tender Board on Group-level and the Board's Project Review Committee for scrutiny and approval.

Ongoing projects

The responsibility for managing project risks sits clearly with line management in the business units. The Group framework for oversight of ongoing projects consists of the Skanska Group Project Reporting and Review Procedure and the quarterly reporting/review process. Management of commercial risks in projects in part regulated by the Claims Management Policy.

Launch of a new digital platform

In 2019, Skanska began the process of replacing the project review workflow system with a salesforce platform. In addition to cost savings and increased workflow efficiency, the main benefit is that the new system allows for agile development and, most importantly, a more structured way of collecting data. There is an intention is to develop this further to create a systematic link between operational and enterprise risk management.

Significant risks

Based on Skanska's risk universe, including all business unit enterprise risk registers, Skanska conducts an annual review of the Group's enterprise risk environment. This includes mapping existing risks, identifying and responding to potential new risks, and reviewing the status of risk management activities. The review, presented to the Board, generates a assessment of enterprise risks; for each of the top risks, the appropriateness and effectiveness of management and mitigation measures are assessed and corrected as required. The table below presents significant risks to Skanska divided into distinct but overlapping risk categories; a risk may fall into more than one category.

→ Strategic risks	→ Operational risks	→ Financial risks	→ Regulatory risks
Description ■ Relates to Skanska's purpose, long-term objectives and goals.	**Description** ■ Threatens the achievement of Skanska's business plan and other short-term objectives and goals, or efficient use of resources.	**Description** ■ Threats to Skanska's financial strength and financial assets.	**Description** ■ Relates to compliance with applicable laws, external regulations and internal rules.
Main components ■ Skanska's values ■ Brand ■ People ■ Leadership ■ Markets ■ Climate change	**Main components** ■ Project and investment selection ■ Bidding and developing ■ Production ■ Change and contract management ■ Reporting and forecasting ■ Environmental incident ■ Health and Safety incident ■ IT system failure or attack	**Main components** ■ Balance sheet ■ Capital funding ■ Counterparties ■ Macro economics	**Main components** ■ External rules and legislation ■ Internal rules ■ Contracts and agreements ■ Ethics ■ Human rights

Risk area and description	Potential impact	Mitigation measures/activities
Strategic risks		
➔ Changes in market demands		
■ Failure to understand or meet customer demands and/or adapt to market dynamics, including sustainability demands ■ Working in wrong markets or sub-markets or entering new markets.	■ Lost business opportunities ■ Financial and non-financial consequences for projects ■ Project losses and investment write-downs ■ Damaged reputation and inability to meet project commitments ■ The challenges and opportunities global trends create also can create business opportunities for Skanska.	■ Early Contractor Involvement (ECI) allows for closer collaboration with customers which is essential to better understand customers' evolving needs and challenges, including market trends and government priorities ■ Understanding global trends affecting the construction and project development sector is important as it makes it possible for Skanska to adjust the offering to meet customers' demands.
➔ Climate risks		
■ Physical risks caused by adverse impact from climate change such as extreme weather conditions ■ Not adapting to new climate regulations and demands from investors and customers.	■ Operational cost increases or project delays due to extreme weather conditions ■ Decreased ability to deliver for customers and inability to meet project commitments ■ Lost business opportunities ■ Being at the forefront and driving innovation for new low-carbon solutions creates business opportunities for Skanska.	■ Skanska's climate target of achieving net zero carbon emissions by 2045 will guide the work on reducing the climate impact from the Group's operations ■ Drive innovation and offer new low-carbon solutions to customers ■ Skanska integrates climate resiliency into project development to help cities and communities prepare for and respond to the changing conditions that are an effect of the climate issue. Read more on Skanska's climate and environmental work on pages 66–72.
➔ Diversity and inclusion risks		
■ Risks of job discrimination based on gender, age, religion, ethnicity, family situation, educational background and work experience ■ Non-inclusive – even explicitly excluding – workplace culture, resulting in exclusionary experiences and cases of discrimination and harassment.	■ Difficulties attracting, recruiting and/or retaining employees with needed competencies ■ Decreased employee engagement and productivity due to non-inclusive behaviors and experiences ■ Damaged reputation ■ Fines, penalties, lawsuits.	■ Targets including appropriate action plans for diversity and inclusion have been part of all business units' business plans since 2015 ■ Diversity and inclusion is integrated into employee attraction and recruitment initiatives, employee performance review process and leadership development programs ■ A deep analysis with special focus on how to create a gender-diverse and gender-inclusive workplace has been performed, as part of diversity and inclusion being a priority area for the Group Leadership Team during 2019. Read more on Skanska's work within diversity and inclusion on pages 76–77.
➔ Lack/loss of key employees		
■ Inability to attract, recruit and retain a skilled, diverse and committed workforce.	■ Difficulties attracting, recruiting and/or retaining employees with needed competencies ■ Financial and non-financial consequences for projects ■ Lower employee engagement and productivity due to non-inclusive behaviors and experiences ■ Damaged reputation and inability to meet project commitments.	■ Employee development and career planning including transparent performance review process based on diversity and inclusion ■ Robust and fact-based succession planning and structured resource planning ■ Seop, Skanska employee ownership program ■ Competitive compensation packages ■ Group-wide employee survey.
➔ Leadership or management failure in execution of strategy		
■ Lack of control of business unit performance and poor implementation of corrective actions or management failure to execute or adapt strategy to changes in circumstances.	■ Operational inefficiency, increasing costs and decreasing profits ■ Project losses and investment write-downs ■ Decreased ability to deliver for customers and inability to meet project commitments ■ Pursuing and winning the wrong projects ■ Fines, penalties, lawsuits ■ Damaged reputation.	■ Focus on core business with sweet spot analysis in all Construction business units ■ Strategic risk/reward bidding ■ Changes in management teams ■ Extensive employee training ■ Governance framework provides clarity of business units' decision-making and accountability ■ Enhanced use of digital capabilities to increase efficiency, and to strengthen collaboration and knowledge sharing.

Risk area and description	Potential impact	Mitigation measures/activities
Operational risks		
➔ Loss-making projects/investment		
■ Misjudgment of contract risk, ineffective application or management of contract, poor administration of claims ■ Poor project execution including systematic underestimating of cost, schedule, scope and risk, or selection of wrong projects, customers or teams with lack of the right expertise.	■ Margin fade, operational inefficiency, increasing costs and decreasing profits ■ Project losses and investment write-downs ■ Decreased ability to deliver for customers and inability to meet project commitments ■ Fines, penalties, lawsuits ■ Damaged reputation.	■ Improved project reporting and review procedures in all business units ■ Revised project scrutiny and approval procedures ■ Strategic risk/reward bidding based on sweet spot analysis and heat maps ■ Increased focus on management of design process, commercial terms and project scope changes to make correct decisions in planning, procurement, design and project execution ■ Increased employee training to create teams with right expertise ■ Active work on capital at risk, pre-leasing and pre-sales requirements ■ Increased focus on management of claims and litigation.
➔ Health and safety risks		
■ Injuries, accidents, fatalities and ill-health affecting people at Skanska sites, or people affected by Group work activities.	■ Fatalities, life-changing injuries, and injuries and long-term ill-health that reduce life expectancy or quality of life.	■ The Health and Safety Standard provide expected behaviors for all Skanska workplaces, and cover aspects that include training, incident management, risk assessment and instructions about personal protective equipment. ■ Employee training in proper health and safety practices, e.g. the cultural change program Injury-Free Environment (IFE) and business unit-specific health and safety management system training ■ Mandatory certification of all business units to the ISO 45001 standard. All business units are certified or will finalize implementation in 2020 ■ To be more proactive in health and safety – a focus area for the Group Leadership Team in 2019 – analysis of data on potential fatalities and actual fatalities has been conducted to form the basis of an action plan for 2020.
➔ Environmental risk		
■ Major environmental incident in operations or supply chain or pollution or other negative environmental impacts.	■ Harm to people and ecosystems ■ Negative environmental impact ■ Damaged reputation and loss of license to operate ■ Increasing cost and decreasing profits ■ Fines, penalties, lawsuits.	■ Mandatory ISO 14001 (international environmental management system standard) certifications ensures a systematic approach to managing environmental risk and issues. ■ Skanska engages with suppliers to minimize risks of supply chain environmental breaches ■ Employee training in proper environmental practices ■ Environmental specialists at Group and business unit levels secure compliance with the Group's environmental expectations, which go beyond compliance and include retaining ISO 14001 certification.
➔ Resource efficiency		
■ Inefficient use of energy, materials, waste and water.	■ Negative environmental impact ■ Operational inefficiency, increasing costs and decreasing profits ■ Inability to meet project schedule.	■ The Skanska Color Palette secures a strategic approach to future-proofing projects as regards resource efficiency (energy, carbon, materials and water) ■ Improved planning through building information modeling (BIM) and other digital tools to increase efficiency and productivity.
➔ IT systems and information		
■ Cyber attacks.	■ Social Engineering ■ Ransomware/Malware ■ Unauthorized access ■ Cyber fraud ■ Hacking.	■ Cyber security awareness ■ E-mail filtering ■ Intrusion detection capabilities ■ Monitoring of security posture ■ Supply chain security.

Risk area and description	Potential impact	Mitigation measures/activities
Financial risks		
→ Increased competition		
■ Increased competition, including low-cost actors new to market or major market downturn or lack of projects.	■ Below-cost pricing, decreased margins ■ Lost business opportunities.	■ Ad-hoc scenario planning ■ Capital employed limits ■ Procurement planning ■ Early involvement with customers provides important opportunities to improve competitiveness ■ Focus on core business with sweet spot analysis in all Construction business units.
→ Cost increases		
■ Booming markets, commodity price increase, labor shortages, subcontractor failures, currency exchange rate shifts, insurance risk.	■ Margin fade or losses due to increased project costs ■ Higher costs for external funding.	■ Improved project reporting and review procedures in all business units ■ Revised project scrutiny and approval procedures ■ Review of counterparty risks ■ Insurance including coverage of subcontractor defaults ■ Currency hedging ■ Selective bidding.
→ Supply chain risks		
■ Suppliers not following Skanska's Supplier Code of Conduct or performance risks associated with each supplier's financial condition and ability to procure and manage materials and labor.	■ Damaged reputation if suppliers and subcontractors act in ways not consistent with Skanska's values ■ Margin fade or financial loss ■ Fines, penalties, lawsuits ■ Decreased ability to deliver for customers and inability to meet project commitments ■ Environmental or safety incidents.	■ Strategic procurement and early commitment of key subcontractors ■ Prequalification or qualification prior to award of a contract reduces performance risk ■ Subguard and similar insurance to cover subcontractor failure ■ Risk-based diligence vetting, monitoring and auditing of all contractual counterparties ■ Sanction screening of all suppliers with an external global database on daily basis.
→ Macro-financial instability		
■ Economic slowdown, lag of demand, yield shifts.	■ Project/investment effects: default or non-payment by customers ■ Difficulty obtaining funding.	■ Active management of funding ■ Target of adjusted net debt of no more than SEK -9 billion. ■ Free working capital in construction operations ■ Limits for capital at risk and capital employed in development streams ■ Business units monitor macroeconomic situations and trends at country and regional levels.
→ Financial risks: Skanska is also exposed to other financial risk such as credit risk, liquidity risk and market risk. Read more in Note 6, Financial instruments and financial risk management, on pages 124–132.		

Risk area and description	Potential impact	Mitigation measures/activities
Regulatory risks		
→ Ethical breach, anti-corruption and bribery		
■ Breach of bribery and corruption laws (e.g., UK Bribery Act, US Foreign Corrupt Practices Act, money laundering, proceeds of crime), breaches of EU competition law, US antitrust law or other public procurement law.	■ Damaged reputation and lost trust as a responsible company ■ Delisting from public procurement in some markets ■ Fines, penalties, civil lawsuits and criminal charges ■ Decreased ability to deliver for customers and inability to meet project commitments.	■ Skanska's Code of Conduct, anti-corruption policy, Supplier Code of Conduct and Skanska's values provide clear direction to employees for appropriate and ethical conduct. ■ Code of Conduct training required of employees is conducted continuously. ■ Skanska Code of Conduct was revised in 2019 to ensure alignment with the new governance framework. ■ Clear internal reporting structure for suspected breaches ■ Code of Conduct Hotline reporting system managed by a third party ■ Risk-based diligence vetting, monitoring and auditing of all contractual counterparties.
→ Human rights violations		
■ Human rights violations, such as unfair working conditions, modern-day slavery, harassment and discrimination at workplaces/sites and by subcontractors or suppliers.	■ Damaged reputation and lost trust as a responsible company ■ Fines, penalties, civil lawsuits and criminal charges.	■ In 2019, Skanska has updated the Code of Conduct and Supplier Code of Conduct considering human rights that will form the basis for updated policies and standards. This work will continue in 2020. ■ Code of Conduct Hotline reporting system managed by a third party ■ Risk-based diligence vetting, monitoring and auditing of all contractual counterparties.
→ Political risks		
■ Any act, decision or ruling by a government, regional or local decision maker, public authority or similar.	■ Negative impact on projects or business unit.	■ Home market strategy with extensive knowledge about political landscape ■ Group Leadership Team closer to business units ■ Early dialogue with political stakeholders on projects with high level of governmental risk.

» Our strengthened risk approach is setting our projects up for success before they put a shovel in the ground. «

Jeff Langevin,
Chief Administrative Officer,
Skanska USA Civil

Strengthening Skanska's risk approach increases profitability

To strenghten its risk approach, Skanska USA Civil implemented a more stringent risk management process. The approach has been key to de-risking the backlog and improving profitability.

In 2017 and 2018, the performance of Skanska USA Civil's business unit, which builds civil infrastructure projects primarily on the US East and West coasts, was challenged in several different projects.

The business unit had taken on some projects with high risk profiles and that began to negatively impact performance. As part of guarding against future write-downs Skanska started planning for a more stringent and structured risk management procedure.

Jeff Langevin oversees risk management for Skanska USA Civil. He explains how Skanska USA Civil substantially strengthened its risk management process to improve financial performance.

"Skanska USA Civil decided to implement a new risk management process. It focuses on making sure we take on projects that are right for us. Operating inside the Group-level Skanska Tender Approval Procedure, it includes a business unit-level board to review significant or high-risk projects before bidding and a dedicated risk manager to drive this uniform process. Also, we adopted the philosophy of 'no team, no bid' – we won't bid for a project unless a team with the right competencies and experiences is available. We will not take on work that exceeds the capacity of our organization and our people," says Jeff.

Additionally, all construction business units undertook a 'sweet spot analysis' that examined the prior 15 years of projects to determine what project types and conditions have been most successful. From this research, Skanska USA Civil developed a 14-factor 'go/no go' evaluation tool for determining whether the company will proceed with a bid.

Key bids are reviewed at business unit level and Group level. This includes checking Skanska's partners regarding compliance with ethics and sanctions. Through this iterative process with multiple levels of review, Skanska has come to fully understand the risk profiles of projects and can then price those risks appropriately and submit a strong bid.

"Since launching our new risk management procedure, the number of projects that have lost money has quickly and dramatically decreased. We believe the single biggest factor in this improvement in Skanska USA Civil is our strengthened risk approach – it's setting our projects up for success before they put a shovel in the ground," ends Jeff Langevin.

Sustainability report

Sustainability is grounded in Skanska values and way of working. This enables Skanska to deliver better solutions for customers, drive operational efficiency, attract employees, manage risks and support society in many ways. To Skanska sustainability is a business advantage, contributing to delivering profit and shareholder value.

Working to prevent corruption, promoting a safe and healthy work environment and a climate smart society are main priorities to Skanska. This must be built on diversity and gender equality. Skanska is striving to create an inclusive working environment.

Global commitments

Skanska has been a signatory of the United Nations Global Compact since 2001 and continues to support the UN Global Compact's Ten Principles, which relate to human rights, labor, environment and anti-corruption. This sustainability report constitutes Skanska's Communication on Progress and shows how the Group has continued to implement the Ten Principles during 2019.

Skanska supports the rights of all people as described in the Universal Declaration of Human Rights adopted by the United Nations, and in the conventions of the International Labor Organization. Skanska also follows the guiding policies of Transparency International and applies the Precautionary Principle.

United Nations Sustainable Development Goals

Skanska has an ambition and ability to contribute to the United Nations Sustainable Development Goals. The nature of Skanska's business guides which goals to focus on. Skanska has identified seven goals that are of particular importance.

United Nations Sustainable Development Goals

Goal 5
Achieve gender equality and empower all women and girls.

Goal 8
Promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 11
Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12
Ensure sustainable consumption and production patterns.

Goal 13
Take urgent action to combat climate change and its impacts.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective accountable and inclusive institutions at all levels.

Awards

- Top-ranking in the Capital Goods category in the Sustainability Companies 2019 at Nasdaq Nordic by Lund University and Dagens Industri in Sweden. The award covers several sustainability areas, including environmental and social aspects, as well as anti-corruption.
- Fortune – Change the world 2019. Ranked #20.

Ratings

- CDP Climate A-
- MSCI AAA

Indexes

- OMX Stockholm 30 ESG Responsible Index
- FTSE4Good

Partnerships within sustainability

The areas below have been identified as being most integral to Skanska, based on the materiality assessment, and set the framework for the Group's work within sustainability.

Health and Safety

Ensuring people's health and safety
Skanska is committed to creating an inclusive workplace where health and safety is top priority for all employees and subcontractors. Ensuring people's health and safety is an ongoing challenge for the construction industry and Skanska drives for higher safety standards in all its markets.

→ **Read more on page 58**

Ethics

Understanding and guarding against ethical risks
To Skanska, ethics work is a virtuous circle where doing business in the right way, free from corruption and other unethical behavior, creates a climate of trust and cooperation where employees, subcontractors, customers and partners can thrive. This is the best environment for successful and long-lasting economic growth. Ethics is good business for all parties.

→ **Read more on page 62**

Responsible supply chain
The construction sector is characterized by long and complex supply chains. Skanska is no exception and engages with large and small suppliers of goods and services of all types. Skanska's Code of Conduct and due diligence process guide the Group's relationships with suppliers to ensure that global human rights are guarded as well as fair working conditions for people working on or in the Group's projects.

→ **Read more on page 64**

Green

Climate change and carbon reduction
Skanska strives to drive environmental development and pushes toward future-proof projects. Skanska's environmental commitment focus on the impact of operations, processes and performance of buildings and infrastructure delivered by the Group. Skanska supports costumers to achieve ambitious climate goals and helps cities and communities to prepare and respond to the changing conditions that is an effect of the climate change.

→ **Read more on page 66**

Energy efficiency and circular use of resources
Resource efficiency, reduced and circular use of materials and minimized waste are important aspects of decreasing Skanska's environmental impact as well as increasing operational efficiency.

→ **Read more on page 70**

Community Investment

Developing sustainable cities and communities
By planning and shaping the physical environment for the people who will live, work and spend time there, it is possible to increase well-being, security and inclusion. In cooperation with citizens, local communities, authorities and other stakeholders, Skanska identifies how to address some of society's social and environmental challenges and responds to needs in the local society. Skanska aims to improve communities through holistic design solutions in the physical environment.

→ **Read more on page 73**

Diversity and Inclusion

Fostering a diverse and inclusive culture
Skanska aims to mirror the diversity of society, which strengthens the business. An inclusive working environment fosters healthy and safe work conditions. To Skanska, an inclusive culture is characterized by openness, fairness, trust and respect. It means that all employees have the same opportunity to contribute to the work and have equal career and development opportunities.

→ **Read more on page 76**

Health and Safety

Skanska aspires to achieve a safe working environment and good working conditions for all employees and subcontractors working on the construction sites. This commitment goes beyond safety to also include responsibility for people's health, and to create an inclusive culture where all members of Skanska's diverse workforce can thrive and fully contribute.

Health and Safety

Ensuring people's health and safety

Construction is an industry with risk of injuries and long-term health-hazards, due to such as noise, dust and poor ergonomics. Skanska addresses this through high health and safety standards, an inclusive culture and improved follow-up and focused actions, corresponding to United Nations Sustainable Development Goal 8 – Decent work and economic growth.

Driving higher standards within health and safety

In all the markets Skanska is driving for improved safety within the construction sector. The Skanska Group Health and Safety Standard is more stringent than local regulations in several countries. It applies across Skanska and is important to further improve the safety performance of the Group and the subcontractors. The standard covers aspects that include training, incident management, risk assessment, personal protective equipment and instructions for the most important working procedures on the construction sites.

Skanska continuously strives for higher industry standards by involving competitors and partners. It is mandatory for all business units to be certified to the ISO 45001 standard. All business units are certified or will finalized the implementation during 2020.

Each business unit undertakes an annual review of health and safety performance. This review includes identifying risks and control measures and setting a plan of focused activities for the coming year.

Each business unit also manages occupational health programs for its own employees. Subcontractors are expected to do the same for their employees. In some business units, there is an internal occupational health service and in others, this is contracted in.

A safe and caring culture

A highly engaged, informed and trusting workforce enhances health and safety. As part of developing people, Skanska's health and safety educational programs include both values and procedures. The annual employee survey shows that 88 percent think Skanska is committed to improving the safety in their workplace, which exceeds the industry norm by nine percent. A cultural change program, Injury-Free Environment, started in 2004 and has been adopted by the majority of Skanska's business units. Business unit-specific health and safety management system training has also been developed.

In 2018, Skanska developed a new health and safety program called Commitment into Action that specifically trains managers in safety change management. This initiative aims to build the competence of teams within the business units to improve safety. The first pilots were performed 2018, and during 2019 the program has been rolled out in business units. Management teams in 11 of 13 business units have been trained during 2019.

Read more on page 80.

Supporting a safer construction industry

Skanska has been a part of the creation of a new health and safety training facility near Stockholm, Sweden, that opened in 2019. This center will train about 6,000 workers per year. It will incorporate ten training stations based on high-risk construction activities, emphasizing the importance of preparing for and planning construction tasks. Participants will engage with various scenarios and are expected to reflect on health and safety aspects and what they in their roles can do to prevent risks. Beyond construction industry employees, customers and students from engineering and construction schools are also invited to visit the center to expand their understanding of health and safety.

Health and Safety

Improved follow-up and strategic actions on health and safety

Safety performance is measured using both leading and lagging indicators. The indicators include both Skanska employees and subcontractors working on sites. One of the leading indicators is ESSV (Executive safety site visits) to promote a clear and visible leadership. The group target for ESSV for 2019 was above 3000. The outcome was more than 4000.

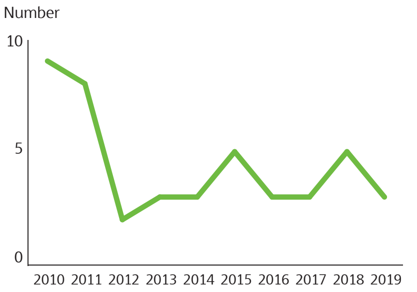
The lost time accident rate was 3.1, including subcontractors working on sites, which is a decrease compared to 2018. The number of fatalities ranges between three and five per year since 2012. One of Skanska's largest projects has experienced several fatalities since the project started in 2015. Skanska has carried out several actions to prevent accidents. In 2019, further actions were taken such as changes in the leadership and stregthening the project organization.

Skanska has seen positive development in health and safety work. To be more proactive and achieve continuous improvements, leadership in health and safety has been a focus for the Group Leadership Team during 2019 and continues in 2020. It is a priority in the Group to strive for zero fatalities.

In 2019 a deep analysis of the data on potential and actual fatalities was performed. The results show that lifting, loading and lowering are the most critical operations for injuries. This insight will form the basis for an action plan for 2020.

Read more on page 80.

Fatalities



Buildings for health and well-being

People increasingly want workplaces that support their well-being. Skanska's project Epic, in Malmö, Sweden, targeted to be WELL-certified, is among a new generation of offices with wellbeing in focus. Patrik Ölvebäck, Sweden manager for Spaces, a global provider of co-working and office spaces explains what matters most to his customers.

Global trends such as urbanization and economic growth drives demand for and investments in sustainable offices. With flexible forms of employment, increasing health awareness and an aging population retiring later, the quality of the working environment is growing increasingly important. This development provides an opportunity for Skanska to innovate the way the company thinks about office environments and to build for a better society. Skanska strives to understand customers' needs and to help them be successful in their business.

Most employees do not have a choice of where they work every day – Patrik Ölvebäck caters to those who do. Patrik is the Sweden Country Manager for IWG, a global provider of co-working and office spaces with brands as Spaces and Regus.

"Many people today, especially those earlier in their careers, are very demanding in terms of their working environment. Employers need to offer inspiring, healthy and highly functional places to win the 'war on talent'", says Patrik.

When it comes to office spaces, Skanska has adopted the offering to further focus on health, well-being and safety. To bring Spaces to Malmö, Patrik chose Skanska's Epic office development, which Skanska created with a special focus on enhancing the well-being of those working there.

"We spend 90 percent of our lives inside different buildings, so it is essential that those buildings help us perform at and be our best. Greenery, fresh air and daylight are important aspects of this. Office areas also need to include many different types of work zones, such as quiet areas and collaboration spaces to accommodate the different activities in an office. Skanska develops and constructs buildings that meet these needs, aiming to help tenants in achieving healthy working environments for today and for many years to come." Patrik ends.

»It is essential that buildings help us perform at and be our best.«

Patrik Ölvebäck
Country Manager Sweden, IWG

Spark | Warsaw | Poland

Ethics

Corruption and ethical breaches make long-lasting economic growth more challenging to attain, increase inequality and hinder human rights. Ethics is a main priority to Skanska as it makes out the framework that ensures that business is conducted in an ethical safe and responsible ways. Skanska's initiatives in this area correspond to United Nations Sustainable Development Goal 16 – Peace, justice and strong institutions.

→ Ethics

Ethics is good business

Skanska has a comprehensive Code of Conduct which defines how all employees work and interact everyday with colleagues, customers and other stakeholders. It covers many topics from corruption and financial crime to bullying and inclusive behavior. It connects all parts of the Group with Skanska's values, strengthening the business.

A review of the Code of Conduct is undertaken annually to ensure it remains up-to-date and relevant. The 2019 review resulted in an increased focus on human rights, and work will continue in this direction throughout 2020.

Code of Conduct training

Training in Skanska's Code of Conduct is given a high priority. All employees are required to be trained within one month of starting employment. In 2019 this was achieved in 94 percent of the cases. Refresher training is carried out on a two-year rolling basis and is mandatory for all employees – a target that was achieved by 98 percent in 2019. Training may be held in person or taken as e-learning.

Formal Code of Conduct training is supplemented by dilemma discussions which are held regularly in all workplaces. These help to familiarize employees with the difficult decisions which sometimes need to be made when they are confronted with situations in "grey areas".

Targeted training is also carried out for relevant roles in, for example, competition law and bribery and corruption.

Anti-corruption

Preventing corruption is an important part of Skanska's Code of Conduct, complemented by the Anti-Corruption Policy which offers further guidance on specific situations that may be encountered. This mandatory Group Policy has been reviewed by the Board of Directors, Group Leadership Team and all business unit management teams as part of the governance implementation program. In 2019, anti-corruption training was made available to all employees with additional e-learning for more "at risk" roles.

Guarding against ethical risks

The construction and development sector is known to carry high ethical risks. Skanska works hard to identify and mitigate these risks to prevent breaches which have the potential to damage the business.

There is a continuous two-year program of ethics risk assessment and assurance review which is carried out in all business units. The risk assessment takes the form of workshops in which participants are drawn from all levels and functions to provide a meaningful and balanced view of the actual ethics risk within their specific area of expertise. In 2019 more than 300 employees took part in 20 workshops. Practical actions are taken in each business unit to address the ethics risks that are identified and the effectiveness of these will be assessed in the ethics assurance reviews which will take place in 2020. The aggregated results of the risk assessments inform the Group Ethics work going forward.

Ethical risk is also considered as part of the project approval process and identified transactional risk and due diligence on potential key parties form part of the materials for review.

Reporting ethichal breaches

Fostering a speak up culture, where employees feel empowered to address issues is crucial to enabling the employees to live Skanska's values. The 2019 employee survey showed that 83 percent felt free to express concerns without fear of negative consequences. This surpasses the industry benchmark by almost 20 percentage points.

Skanska encourages reporting of possible ethical breaches and offers protection via the no retaliation policy. A variety of internal reporting options are offered. Where reporters wishes to remain anonymous, they can use Skanska's hotline, which is operated by a third party and is open to employees and external stakeholders.

Cases which are assessed as higher risk are reported to the Group Leadership Team and the Board of Directors.

Confirmed breaches of the Code of Conduct may result in disciplinary action including termination of employment. This occurred during 2019. An employee who violates anti-corruption or other relevant laws may also be referred to law enforcement authorities for possible criminal prosecution.

Read more on page 80.

94%

Code of Conduct training first month of employment.

Code of Conduct Hotline reporting

In 2019, a total of 190 reports were received via the Code of Conduct hotline. Cases are categorized in line with the topics in Skanska's Code of Conduct. The largest number of reports, 94 in 2019, were concerned with HR-related matters, relating to behavior in the workplace, such as discrimination, rather than the market or the community. Reports in the categories of anti-corruption, fraud and money laundering are much less common. In 2019, Skanska dealt with four cases which were classified specifically as anti-corruption. One of them was substantiated as a breach and one is still under investigation. None of them were considered very high risk after initial investigation.

→ Ethics

Responsible supply chain

The construction and development sector is characterized by long and complex supply chains. Skanska has a supply chain consisting of suppliers of goods and materials, along with a variety of service providers including professional consultants and sub-contractors, performing work on project sites. The construction sector is mainly regional and the contractors stretch from large corporations to one-person businesses.

It is important that Skanska's ethical standards also extend to the supply chain insofar as this is within Skanska's control. Skanska works with more than 300,000 suppliers across the Group, which means it is vital that business processes are robust enough to ensure that both local laws and the Code of Conduct are upheld.

Supplier screening

The first line of defense is to endeavor to do business with third parties who also share Skanska's values. The Group carries out a risk-based assessment followed by deeper due diligence for certain categories of supplier or if the initial assessment indicates this is necessary. Mandatory due diligence is carried out for intermediaries, joint venture partners and sellers or buyers of land or real estate assets. Skanska attempts to gain an understanding of the ethical culture of these third parties as well as obtaining specific information on previous anti-corruption or competition law violations, possible conflicts related to the transaction and other indicators of risk. The Group also ensures that the ultimate beneficial owners of the parties that Skanska does business with are known.

Since 2018 the screening process has included checking relevant sanctions lists. In 2019 an automated process came into operation, that uses a global database to check all active suppliers, according to the Group's sanctions procedure, every 24 hours.

Contracts and Supplier Code of Conduct

Once Skanska is ready to go forward with a supplier, it is ensured that the terms agreed will offer the opportunity for continuous monitoring and audit if appropriate. An option to terminate the agreement in the event of major breaches, such as corruption or inclusion on the sanctions list, is usually included.

Skanska also requires its Supplier Code of Conduct to be incorporated into all contracts. It contains those sections of the Code of Conduct which are relevant for suppliers and sets the standard Skanska expects during the working relationship. Deviations from these standards may have consequences, including termination.

Human rights

The Skanska Code of Conduct and the Supplier Code integrate human rights aspects. Skanska is working to be more specific about the rights which are impacted by the Group's business and to ensure Skanska promotes and protects them throughout the supply chain.

Workers' rights are particularly significant and Skanska aims to ensure that conditions are fair at all the workplaces. Skanska has zero tolerance towards any form of human trafficking, forced or child labor and is vigilant to ensure that this does not affect anyone working on the sites.

Protecting human rights and ensuring safety on site

Skanska UK is currently focusing on heightening the awareness of all project teams to look out for the signs of modern slavery, and ensure that all sub-contractors, and their subcontractors, are meeting the requirements. Skanska UK has in place a compliance framework designed to cover its legal requirements under the UK's Modern Slavery Act. In addition, Skanska UK has also been active in engaging with its direct sub-contractors and have made online training materials available to all suppliers via the Supply Chain Sustainability School. During the year, Skanska UK has produced a toolkit which was cascaded to all projects and included such items as a checklist for Skanska people in site induction, a guidance note explaining Skanska's approach to modern slavery in more detail, a Toolbox Talk slide deck, site posters, and an ethical dilemma for teams to discuss.

Speaking-up for safety

Building supply chain partners' understanding within safety is crucial to ensuring the safe delivery of projects.

Rob Lynch, Director, L.Lynch

Ensuring safe construction projects requires contributions from every person – and every company – operating on site. Cultivating an injury-free environment that inspires safe behavior is key to prevent incidents. Among Skanska's many partners in the Group's journey toward minimizing injuries is L.Lynch Plant Hire and Haulage, which has been supplying equipment and operators to Skanska UK projects for more than ten years.

"Years ago, I was the first person in our business to be trained in Skanska's Injury-Free Environment program, which reinforces every worker's responsibility for the safety of themselves and those around them. Now hundreds of L.Lynch employees have been through the training and we have made the Injury-Free Environment training an official part of the Lynch company culture and way of working", says Rob Lynch.

Skanska's goal is to change the workforce culture to be proactive rather than reactive. To succeed in this, collaborating with subcontractors is essential. Asking for subcontractors' input and advice on how to help improve construction site safety provides important insight and builds trust.

"The Injury-Free Environment program addresses a major construction industry safety challenge: workers not believing they can really speak up if they notice something potentially unsafe. They might not think they truly have the authority to question supervisors or stop working, even though that is what we need them to do. The Injury-Free Environment program stresses that you have to make sure employees feel trusted and empowered to bring up any safety concerns," says Rob.

In the construction sector, subcontractors are heavily influenced by their main customers. Therefore, it is important for Skanska to take responsibility for promoting a safe and respectful culture. One way to speak-up and report misconduct is through Skanska's Code of Conduct Hotline, which is accessible to both employees and outside parties, including clients, suppliers and subcontractors.

Växjö Station och kommunhus | Växjö | Sweden

Green

Skanska strives to increase the demand for climate-smart solutions and seeks out partnerships for innovation within sustainability. The environmental commitment affects all the Group's operations and processes, as well as the long-term environmental performance of buildings and infrastructure delivered by the Group.

→ Green

Climate change and carbon reduction

2045

Targeted year for net-zero carbon emissions for Skanska Group.

Green concrete
In the beginning of 2019, Skanska Sweden launched Green Concrete. Green concrete emits up to 50 percent less carbon than regular concrete because some of the cement has been replaced with slag. It has the same durability, strength and quality as regular concrete but is a more sustainable alternative.

Skanska supports the Paris Agreement and seeks to reduce carbon emissions from the Group's operations. Skanska provides sustainable solutions and propositions to help customers, communities, investors and other stakeholders fulfil their climate ambitions.

Skanska has set a Group target of achieving net-zero carbon emissions by 2045, within the whole value chain[1]. The value chain includes suppliers, subcontractors and those connected to the use phase of the buildings and infrastructure that Skanska creates.

The target will be guiding in Skanska's work on reducing the climate impact from its business. Details of the Skanska Group's climate target are to be found on page 81.

An opportunity to make a great impact on emissions reduction

The construction and buildings sector accounts for 40 percent of the global energy related carbon emissions[2]. The emissions involve extraction, manufacturing and transport of large quantities of materials, as well as construction activities. Furthermore, buildings and civil infrastructure have very long life cycles and environmental impacts lasting for several decades through their final use and operation.

A large part of the carbon emissions from the construction sector originate from the production of materials. Most of the emissions from Skanska's projects come from the production of materials such as concrete, steel and asphalt. Close cooperation with suppliers and customers is necessary to decrease emissions in the value chain.

Changing market demands

Skanska expects the market demands for low-carbon solutions to increase over the coming years. In all Skanska's markets, changes in policies are expected with the aim of reducing carbon emissions. These may include carbon targets, national and regional regulations, carbon reduction requirements in public procurement and changes to building standards. The Nordic countries and the UK are at the forefront of this and the EU is aiming to be carbon neutral by 2050, which will also affect Skanska's markets in Central Europe. In the USA, many of the states and cities where Skanska operates are increasing their focus on climate change with new climate policies and action plans. To be in the forefront in offering low-carbon solutions creates business opportunities for Skanska and is a way of being prepared for the expected market conditions resulting from new regulations and taxation.

Read more on page 81.

Carbon emissions in Skanska's value chain

The carbon emissions in Skanska's value chain originate from the supply chain, the construction operations and the operational phase. A large part of the carbon emissions originate from the production of materials.

Supply chain — Construction operations — Operational phase

1 Carbon in this context means all greenhouse gases, i.e. carbon dioxide equivalents (CO_2e).
2 UNEP, Global Alliance for Buildings and Construction: 2018 Global Status Report

→ Green

Reduced carbon emissions

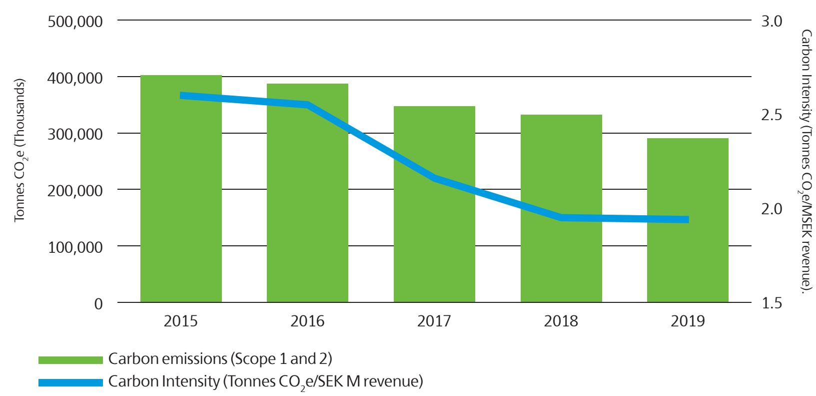
Since 2009, Skanska has publicly reported the Group's scope 1 and 2 carbon emissions. A limited assurance of Skanska's carbon reporting is undertaken by Skanska's external auditors. As a part of Skanska's governance framework that was reviewed, updated and implemented in 2018, the Group's reporting procedures, follow-up and the traceability of reported data have further improved. Since 2015 carbon emissions have decreased by 28 percent.

Getting information about carbon emissions throughout the value chain is a challenge. It is necessary to receive information from suppliers of services and materials as well as end-users or, if this is not possible, to make estimates.

In 2018 Skanska started reporting carbon emissions in the value chain (scope 3). This was developed further in 2019, with improved methods of data collection and follow-up. For the reported scope 3 data for the business units Skanska Sweden, Skanska UK, Commercial Property Development USA, USA Civil and USA Building a limited assurance was performed by EY. This amounts to 720,468 tonnes of carbon dioxide equivalent (CO_2e).

Skanska's integration of sustainability information into the reporting cycle and the company's adoption of sustainable practices correspond to United Nations Sustainable Development Goal 12 – Responsible consumption and production.

Carbon emissions in Skanska's operations



Carbon emissions

-28%

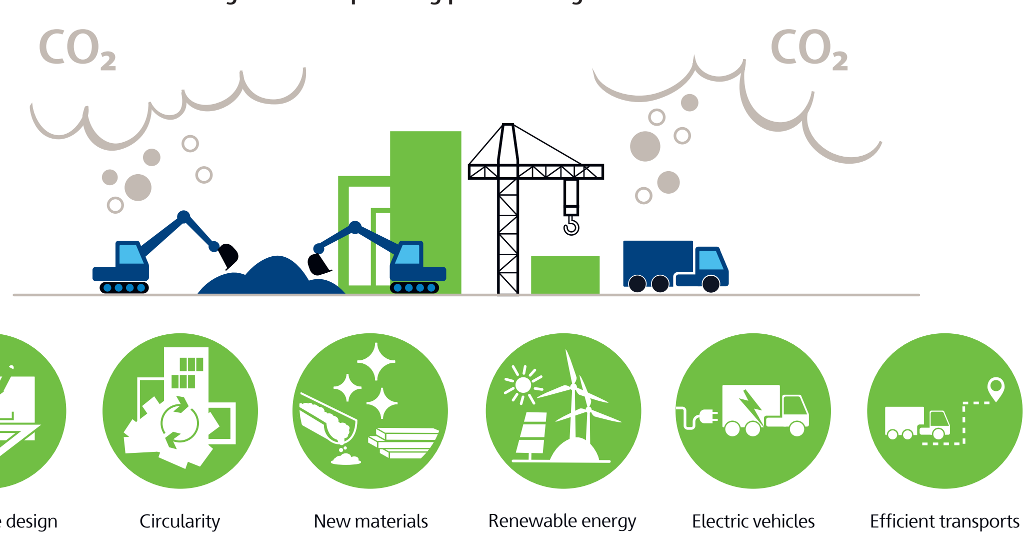
Reduction of carbon emissions since 2015.

Reducing carbon emissions throughout the value chain

Analysis carried out in Skanska's business units has identified important actions for reducing emissions from Skanska's operations. These include a transition to fossilfree fuel and energy, more efficient or electric vehicles, more efficient or circular use of materials – such as recycling and reusing materials, and minimizing transport. Often reducing carbon emissions goes hand in hand with improving efficiency and resource efficiency, thus helping to lower costs. Being able to safely reuse a foundation rather than demolishing it and building a new one, for example, requires less equipment, fuel and materials. This results in reduced emissions and reduced costs. One example is LaGuardia airport, New York, USA. The airport was designed to be able to use less materials and the concrete was reused, which decreased the need for transportation. As a result, carbon emissions were reduced.

Read more on page 81.

Actions to reduce carbon emissions range from the planning phase through construction to demolition



➔ Green

Climate change increases the need to build for resilience

The changing climate has already put pressure on the society due to higher frequency of storms, flooding, drought, heat waves, forest fires and water scarcity. The demand for resilient buildings and infrastructure, such as water and power systems as well as transportation, will increase. The need for climate adaption is increasing as the climate change impact and the effects of urbanization is becoming more tangible in cities around the world. Skanska helps cities and communities prepare for the consequences of the climate change. Skanska's operations in this area correspond to United Nations Sustainable Development Goal 11 – Sustainable cities and communities, and Goal 13 – Climate action.

Skanska has the possibility to support society with future-proof solutions. This is already part of everyday business in several of Skanska's markets. Skanska's experience and knowledge in this area are expected to be even more in demand in the future.

Integrating climate resiliency into project developments
Skanska strives to ensure that projects developed by the Group are resilient to the effects of climate change and secure the long-term value of the buildings. For example, when exploring potential sites to acquire for project development, Skanska Commercial Development USA is piloting a digital climate modelling tool to examine potential long-term flood risks.

In Boston, USA, Skanska implemented design and adaptation strategies that account for the area's vulnerability to severe weather and flooding when developing buildings located near the harbor. These actions included elevating mechanical and electrical rooms 12 meters above the 100-year floodplain and making provisions for portable flood barriers that can be easily installed around the building perimeter to protect against flood water intrusion.

Skanska has rebuilt the Rockaway Beach Boardwalk, in New York, USA, which was destroyed in the hurricane Sandy 2012. The new boardwalk is elevated and has a steel-reinforced concrete deck.

Cooperating to reduce carbon emissions in the value chain

Skanska contributed during 2019 to two reports and participated in the launches during the Climate Week NYC in September. First, the World Green Building Council's "Bringing Embodied Carbon Upfront", which lays out key actions to decarbonize all phases of the construction and buildings sector by 2050. Second, the report "Exponential Roadmap – scaling 36 solutions to halve emissions by 2030" is the result of collaboration between academia, industry and NGOs, including Ericsson, Scania and WWF, led by the Stockholm Resilience Centre.

Task Force on Climate-Related Financial Disclosures
The financial sector is demanding more information on climate related disclosures related to business risks and opportunities.

In 2017, the organization Task Force on Climate-Related Financial Disclosures (TFCD), chaired by Michael Bloomberg, issued recommendations to corporations on how to disclose climate-related financial information. The reasoning behind is that increased transparency makes markets more efficient and economies more stable and resilient. Through consistent, reliable disclosures by companies facing risks related to climate change, market participants of all kinds will be better prepared to evaluate and manage business risks and opportunities related to climate.

Skanska participated during 2019, together with Landlease, Saint-Gobain among others, in a Preparer Forum initiated by Bloomberg Foundation and World's Business Council for Sustainable Development, to support implementation of TCFD recommendations in the construction sector.

→ **Green**

Energy efficiency and circular use of resources

Skanska aims to improve energy efficiency in both construction operations and within the use of buildings. In addition, fossil fuels are increasingly substituted with renewable energy. However, this is challenging in some of Skanska's markets, as the availability of renewable energy sources is limited. Increased energy efficiency is vital for reducing carbon emissions and costs both within Skanska's own operations and among customers and end-users. The energy usage in Skanska's operations 2019 is 1,277,940 MWh, a reduction with 5 percent since 2018.

Circularity and resource efficiency

Resource efficiency, reduced and circular use of materials as well as minimized waste generation are connected to operational efficiency and reduced environmental impact. Since 2008, Skanska has a target for reduction of waste, of less than five percent of self-generated waste to landfill. More than ten years later, the self-generated waste that goes to landfill across the Group has declined from close to 30 percent to about 6 percent. Several projects have gone even further, aiming to generate zero waste, in which all waste materials are put to reuse or recycling in circular loops, such as ESS, in Lund, Sweden, and Georgia Tech Kendeda Center in Atlanta, USA. A sustainable use of materials is a focus area in Skanska's Color Palette .

On all projects, Skanska commonly includes subcontractor waste in the reporting. Materials containing hazardous substance components ending up as waste are handled according to local regulations. This is tracked by measuring the amount of waste generated from projects in the local market.

Water usage

As a construction and project development company, Skanska has a considerable impact on water use, both during the construction phase and the end use of buildings and infrastructure. In many markets, water is regarded as a scarce resource and is therefore recognized as a priority area on the Skanska Color Palette™. In 2016, Skanska started collecting water data on Group level as part of its reporting to the global environmental disclosure system-CDP.

Skanska's operations in this area correspond to United Nations Sustainable Development Goal 8 – Decent work and economic growth, Goal 9 – Industry, innovation and infrastructure, Goal 11 – Sustainable cities and communities, and Goal 12 – Responsible consumption and production.

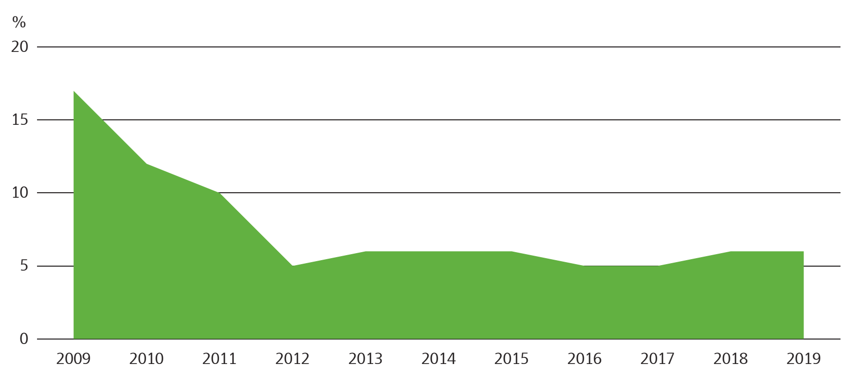
Read more on page 81–82.

Energy reduction in new office buildings

-37%

Annual energy reduction in divested office buildings developed by Commercial Development Nordics, Europe and USA compared to average.

Self-generated waste to landfill 2008–2019



Pioneering a circular approach to concrete production

In the Czech Republic, waste from construction and building demolition accounts for up to half of the country's waste, and the supply of natural aggregates is decreasing. To address both challenges in a sustainable way, Skanska is the world's first concrete supplier that uses 100 percent recycled concrete or masonry to fully replace natural aggregates, called Rebetong. This patented technology was developed by the Czech company ERC-TECH. This will be further developed together with Skanska. The circular approach enables new buildings to be constructed from other buildings at the end of their life cycle. Benefits from using this concrete include less demolition waste sent to landfill, about 12 percent less carbon emissions compared to regular concrete, and reduced cost. Furthermore, as Rebetong has better insulating properties than regular concrete it helps lower energy consumption throughout the building lifecycle.

An energy-positive building that powers itself and its surroundings

Powerhouse Brattørkaia aims to take the environmental performance of buildings to a higher level. Brattørkaia is the first new office building produced by Powerhouse, a Norwegian collaboration of companies – including Skanska – dedicated to creating energy-positive, low-carbon buildings. This office building generates more energy than it uses over a 60-year lifespan. Included in that timespan are energy and carbon emissions from material production, the construction process and building operations.

The aim of the project is threefold; to maximize the amount of clean energy generated by the building, to minimize the energy required to run it, and to serve as a pleasant space for its tenants and the general public.

This eight-story building provides a comfortable and inviting work environment, and yet it is essentially an urban power plant. The building's site has been carefully chosen to ensure maximum exposure to the sun throughout the day and seasons. The roof is sharply pitched at 19.7 degrees to provide the optimum angle for the almost 3,000 square meters of photovoltaic panels to harvest as much solar energy as possible. The solar panels covering Brattørkaia's roof and facade produce about 500,000 kWh annually – more than twice as much electricity as the building needs daily, on average. After Brattørkaia meets its own energy needs, excess energy flows via a microgrid to adjacent buildings and to charging equipment for electric buses, cars and boats. Also, energy for heating and cooling comes from the nearby Norwegian Sea.

Brattørkaia sets new standards in energy efficiency. For instance, the building's frame of low-carbon concrete absorbs and retains heat and cold, helping to regulate office temperatures naturally. Also, the structure's enormous oval opening pulls sunlight into interior offices, minimizing the need for artificial lighting.

→ **Green**

External sustainability certifications and the Skanska Color Palette™

Supporting and using third-party environmental certification systems for building and infrastructure projects is important in order to raise the bar for the industry and also constantly develop Skanska. Certifications used by Skanska include the Living Building Challenge, LEED, Envision, BREEAM, CEEQUAL, WELL, Svanen and Fitwell. In 2019 Skanska divested 18 Commercial Properties certified with WELL, LEED (Platinum or Gold) and BREAM (Excellent) with a value of SEK 15.4 billion, representing 90 percent of Skanska's total divestments.

Skanska has contributed expertise and support to developing Envision, a major sustainability certification system for civil infrastructure in the USA that is now used by 45 government agencies in USA.

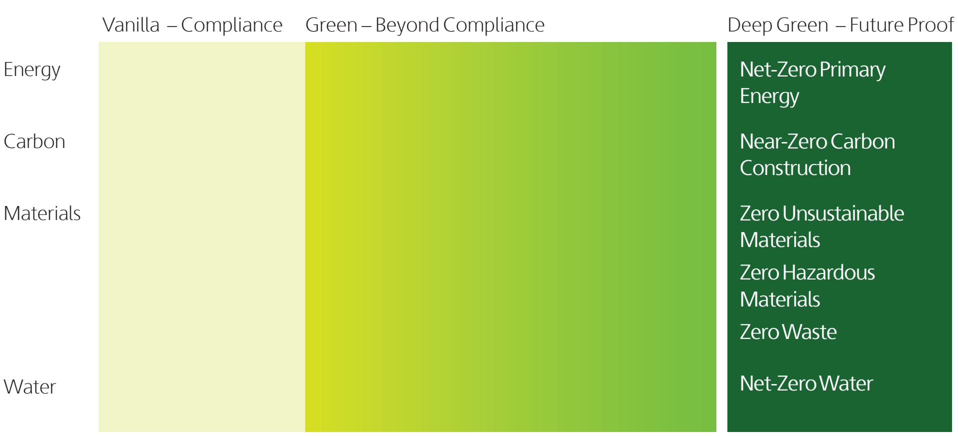
Skanska has pioneered the use of the international CEEQUAL infrastructure sustainability certification system in Sweden, Norway and Finland. Skanska Commercial Development Nordics is developing a standard for net-zero buildings together with the Swedish Green Building Council.

Skanska Color Palette™

Since 2009, the Skanska Color Palette™ has been Skanska's environmental management system. It defines Skanska's vision of Green and Deep Green projects according to four environmental priority areas: energy, carbon, materials and water. Green refers to when the construction processes or building and infrastructure performance are beyond compliance on several defined indicators. The Vanilla level comprises compliance with ISO 14001 and with local legislation. Deep Green projects have low environmental impact, ensuring that the project is future-proof. In 2019, two Deep Green projects were completed, Esplanaden, Sweden and Powerhouse Kjörbo, Norway.

The Brock Environmental Center in Virginia Beach, USA has successfully completed the Full Living Building Challenge, one of the most comprehensive programs for green certification.

Skanska Color Palette™



Certified commercial buildings share of total divestments

90%

Share of total value, corresponding to SEK 15.4 billion, of divested offices in the Commercial Property Development business stream, certified with WELL, LEED (Platinum or Gold) or BREEAM (Excellent).

Sollentunamässan Activity area | Sollentuna | Sweden

Community Investment

Skanska aims to improve cities and communities by developing holistic design solutions and shaping the physical environment for the people who will live, work and spend time there. In cooperation with citizens, local communities, authorities and other stakeholders, Skanska identifies how to address some of society's social and environmental challenges and responds to needs in the local society.

Community Investment

Developing sustainable cities and communities

Skanska is committed to supporting local communities by leveraging the Group's business to address local social challenges. Skanska's approach to community investment strives to jointly benefit local communities, customers and the business. The Group's three Community Investment focus areas include – employability, education and design for social impact.

Community investment provides shared value

Cities that are developed and planned based on people's needs create security, a sense of belonging and the feeling that there is room for everyone. By designing the physical environment for the people who will live, work and spend time there, it is possible to increase inclusion. Skanska sees an opportunity to make positive progress on United Nations Sustainable Development Goal 9 – Industry, innovation and infrastructure, and Goal 10 – Reduce inequalities.

As part of Skanska's work on employability, opportunities for diverse groups to enter the job market are created. This is done together with partners – by providing skills, opportunities and, where possible, employment. When it comes to education, Skanska supports schools and other organizations by providing students with role models and learning opportunities to help inspire further study. Through designing for social impact, Skanska strengthens communities by utilizing holistic design solutions for projects. This can involve creating integrated movement patterns to reduce segregation or improve accessibility for people with disabilities.

Measuring social impact

There is a challenge in systematic, comparable ways to measure and report economic and social impacts from community investment. However, Skanska has started to explore ways to measure impacts more systematically. Measuring business and societal impacts is the focus of a strategic research collaboration with the University of Örebro and Stockholm School of Economics which began in 2018. The work from this partnership continued in 2019.

Increasingly, providing value to society is part of the public procurement process in several of Skanska's home markets. Understanding what environmental, social and economic criteria are most important to public customers is vital to identifying business opportunities.

Driving demand for sustainable city development

Skanska has the ability to contribute significantly to United Nations Sustainable Development Goal 11 – making cities inclusive, safe, resilient and sustainable. More than 50 percent of revenue in the Construction stream comes from public sector customers. Encouraging public customers to increase demands regarding sustainable solutions and to seek added value in procurement provides great business opportunities.

In cooperation with citizens, local communities, authorities and other stakeholders, Skanska identifies how to address some of society's most important social and environmental challenges. The development towards more socially sustainable cities is a trend that can be seen in several parts of the world.

Enhancing the community through a better and safer passage
In Bucharest, Romania, Skanska refurbished a tunnel leading from the subway station to Politehnica University and Skanska's Campus 6 office development. Previously dark and graffiti covered, the tunnel had been perceived as unsafe and uninviting. Skanska installed bright lighting and security cameras, and lined the walls with images. Using design solutions to address social challenges is an important way to contribute to the local community and further benefit tenants of Campus 6.

Integrating social sustainability into land allocation process

Skanska is collaborating with the city of Malmö, Sweden, to integrate social sustainability further into the city's land allocation process. The collaboration has resulted in two development projects, and the success of these pilot projects has already led to the city formalizing a policy to make social sustainability a regular part of city land transactions.

» The new land procurement policy we created from working with Skanska will have a huge impact. «

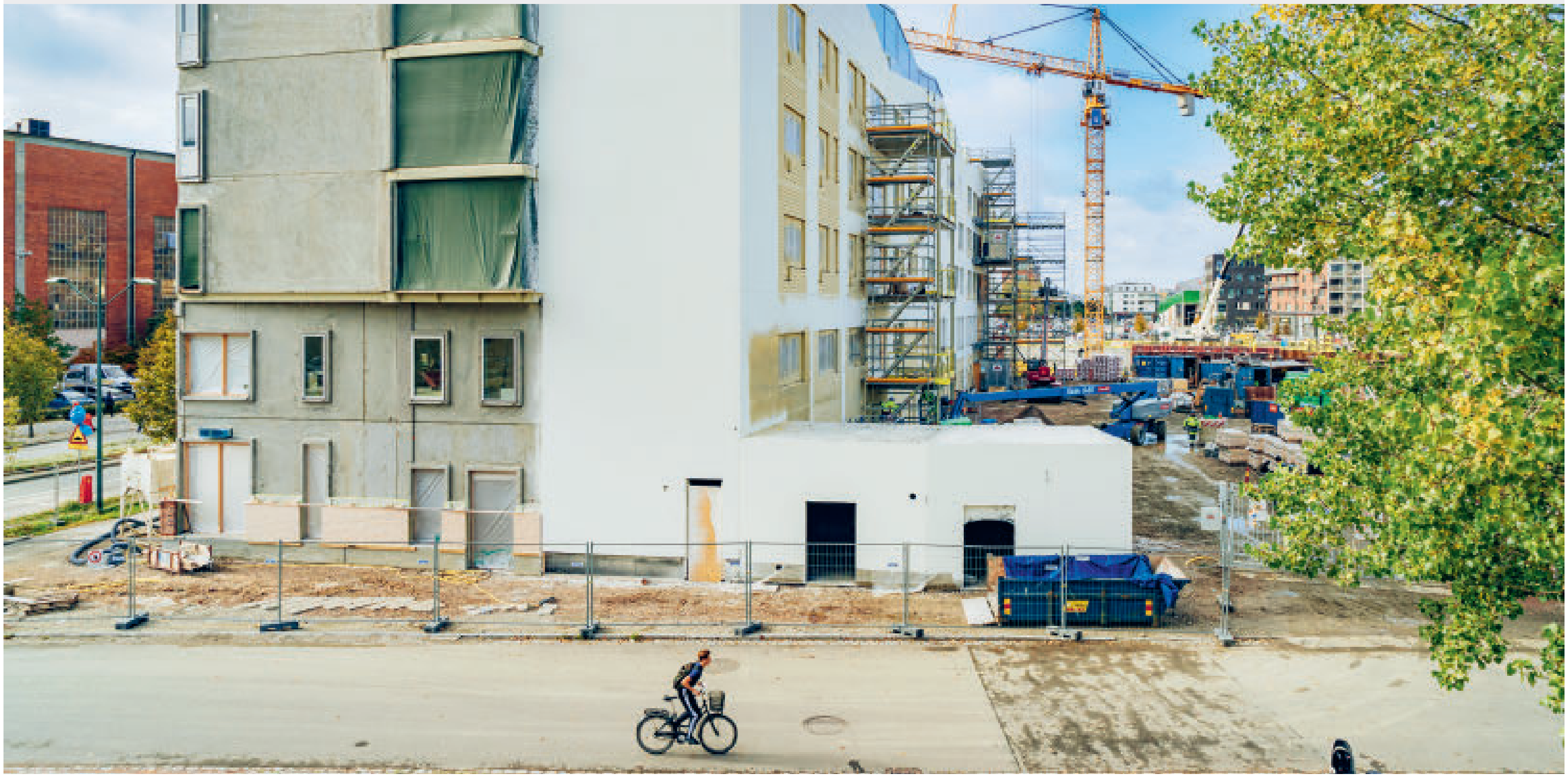
Andreas Schönström
Municipal counsellor in Malmö, Sweden

Integrating sustainability requirements into land allocation processes is one of the most powerful ways to advance sustainable solutions. Focusing on employability and education Skanska engaged with officials of Malmö, Sweden's third-largest city, to explore a new dimension of this – attaching social sustainability requirements to the city's process of selling land.

"Over the last 20 years, Malmö has transformed from a heavy industrialized city to a city that relies a lot on knowledge. Many company headquarters have come to Malmö, providing jobs for people with higher education. However, many Malmö residents do not have that educational background, leading to the city having many unemployed people. That's a gap we're working hard to fix", says Andreas Schönström, the Malmö municipal counsellor responsible for land allocation.

In collaborating with Skanska, the city of Malmö has been able to explore new ways to develop land. This resulted in a new city policy that will affect the city long term and will steer the construction sector towards taking a larger responsibility for the quality of life in the areas they develop. This collaboration also serves both parties' aim to contribute to United Nations Sustainable Development Goal 11 – Sustainable cities and communities.

"The new land procurement policy we created from working with Skanska will have a huge impact as the city still owns 54 percent of the land in our municipality. We believe we have created a policy that will assure Malmö get the best of both worlds. We gain new office buildings or homes while we create jobs for those who lack education or don't have the right qualifications. If a company provides education or work for one person, it's all worth it. Not only from an economic point of view but also from a social point of view", says Andreas.



Diversity and Inclusion

To Skanska, an inclusive culture is characterized by openness, fairness, trust and respect. Skanska aim's to mirror the diversity of the society, and believes that inclusive working environment fosters healthy and safe work conditions, which also strengthens the business.

Fostering a diverse and inclusive culture

Diverse and inclusive teams outperform homogenous and non-inclusive teams, and diverse and inclusive organizations increase their ability to attract and retain great people. Diversity can be seen from many viewpoints, such as gender, ethnicity, age, education and professional background. To Skanska, inclusion is based on openness, fairness, trust and respect and means that all employees have the same opportunity to contribute to the work and have equal career opportunities and the long term aim is that all employees feel a sense of belonging, and that they can fully contribute and thrive within Skanska. Skanska sees diversity and inclusion as critical factors affecting United Nations Sustainable Development Goal 5 – Gender equality and Goal 8 – Decent work and economic growth.

Business units are responsible for adapting Skanska's overall Diversity and Inclusion Vision into appropriate action plans and targets. Targets for diversity and inclusion have been part of all business units' business plans since 2015.

This has also been a priority area for the Group Leadership Team during 2019. Skanska is specifically focusing on how to attract, develop and retain people of different genders in order to create a gender diverse and gender inclusive workplace. As an important step, in 2019 an analysis of diversity and inclusion was performed. The focus in 2020 will be on implementing actions based on the analysis.

Launching a parental leave program for US employees

USA is one of few countries providing no national paid leave for new parents. In 2019, Skanska launched a paid parental leave program for the Group's employees in the USA. Covering both birthing and non-birthing parents, along with adoptive and foster parents, this program provides parental and bonding benefits for up to 12 weeks. All of Skanska's 3,300 full-time, salaried US employees are eligible for these benefits. Skanska introduced this program to better support current employees and to help attract new employees.

Continued focus on diversity and inclusion

Skanska's annual employee survey (YVOS) shows that Skanska is making continued progress within inclusion. Skanska exceeds the global industry benchmark when it comes to having a workplace free from bullying and harassment. In the survey, 86 percent of employees agree that this is true for Skanska compared to the global industry benchmark of 79 percent. Despite steady progress challenges remain, also in terms of the most foundational aspects of inclusion such as a workplace free from bullying and harassment.

A large proportion of the cases reported to Code of Conduct Hotline and Ethics committee are related to lack of inclusion, such as discrimination.

43%

Women in Skanska's Board of Directors.

Regarding how colleagues care for each other and treat each other fairly, 84 percent agree that this is true for Skanska's workplaces compared to the benchmark of 78 percent. The result has improved over the last three years as well as the increased gap between Skanska and benchmark.

The survey showed a correlation between inclusive leadership and employees' effectiveness and intention to stay with Skanska. Thus, by the Group's culture and leadership becoming more inclusive, this helps lessen a business risk of the lack or loss of key employees as well as lower effectiveness. The survey also revealed a link between inclusive leadership and a culture of care, a key aspect in Skanska's safety work.

Advancing gender equality

Gender is the diversity component followed up at Group level. Other aspects of diversity, such as ethnicity or age are tracked by business units but not on Group level, since definitions differ between countries, as well as legislations.

The construction industry is challenging from a gender perspective, being dominated by men. Out of Skanska's employees, 82 percent are men and 18 percent are women. Hence, the gender equality is in focus from a Group perspective. However, the gender ratio differs between different professional groups, different business streams and different business units within Skanska. Craft employees account for the most skewed gender ratio, 97 percent men and 3 percent women. In Commercial Property Development business units, the number of men and women are about even.

Increasing the number of women in top positions – and throughout Skanska – is a long-term effort. Since 2018 the share of women in senior positions (level 3–6) has increased from 22 percent to 25 percent. Three of seven of the shareholder elected directors in Skanska's Board are women.

Read more on page 83.

Helping America's small businesses succeed

In New York City, Spearhead Construction has benefited from knowledge gained through Skanska's training program for US small businesses.

In the USA, Skanska provides training to help small companies owned by women and ethnic minorities compete for business, to increase diversity among subcontractors.

After a successful career that included combat service in the U.S. Army, in 2016 Andee Hidalgo transferred her "mission-focused" leadership skills to a new environment by founding Spearhead Construction. Andee reflects on Skanska's Building Blocks training program and her journey of starting and growing her company, which now has about ten direct employees and approximately 65 Union carpenters.

"Skanska's Building Blocks training program is a great opportunity to learn more about the complexities of major building projects. Over two months, experts from Skanska and other organizations shared important project information, including payment systems, building information modelling (BIM) and, of course, safety," says Andee.

Her company, which provides interior construction services, is now working with Skanska on major New York projects such as redeveloping LaGuardia Airport's Terminal B. At LaGuardia, USD 684 million of the construction must be subcontracted to minority or women-owned small businesses.

"Building Blocks prepared our company to contribute to iconic projects like LaGuardia. If there is a better program out there, I've yet to find it. At LaGuardia, Skanska developed favorable labor provisions that leveled the playing field for younger businesses like mine. Also, I am grateful for the mentorship by Skanska personnel, which has enabled our company to take on greater opportunities with confidence," says Andee.

"We are focused on building a company, not chasing projects, which requires a more disciplined methodology. Spearhead's process is wholly inspired by Skanska's approach for selecting projects and clients. As a result, we are adding sought after projects to our portfolio, we are adding talent to our roster and we are executing on our commitments at a high level," says Andee.

By providing education and support, and by structuring work packages suitable for smaller or younger firms, Skanska bolsters the Group's supply chain. This improves Skanska's ability to be competitive while strengthening the industry and society.

Non-financial information

Sustainability governance
The management of sustainability follows the Group Governance Framework and internal audit procedures see page 45. The Group Governance Framework is decided by the Board. The business units are responsible to comply with what is stated in the Group Policies and Group Procedures and Standards. The framework for sustainability is set by the Code of Conduct, Supplier Code of Conduct, Anti-Corruption Policy, Environmental Policy, Health and Safety Policy, Health and Safety Standard, Health and Safety Reporting Procedure, Green Reporting Procedure, Color Palette Standard, Restricted Substance Standard, Health and Safety Road Map Standard, Procedure of the Code of Conduct Program, and the Community Investment and Sponsorship Standard.

To strengthen Skanska's sustainability ambitions in relevance to business the Skanska Sustainability Business Forum, which includes members from Group Leadership Team, is a body for anchoring strategic decisions. Its aim is to strengthen Skanska's sustainability ambition and its relevance to the business. The governance structure for green bonds is established in the Skanska Green Bond Framework prepared by the Green Bond Committee, which is headed by the Senior Vice President Sustainability.

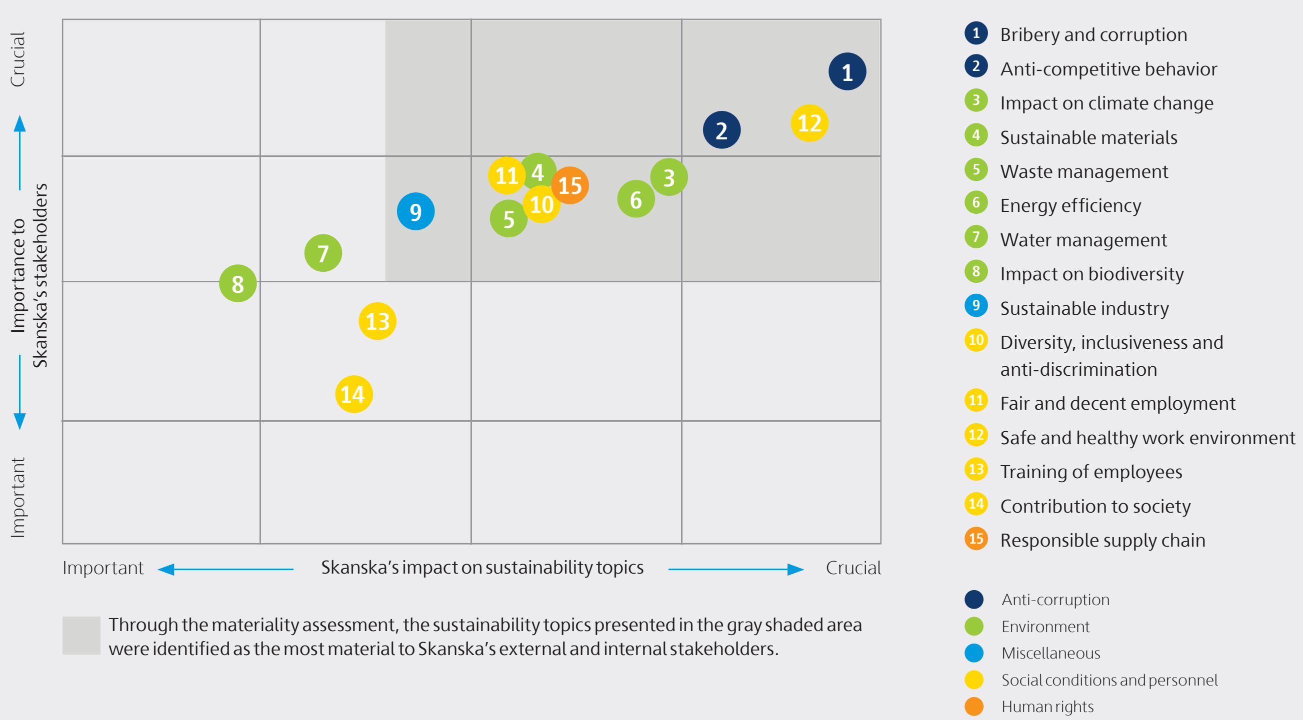
Sustainability performance is assessed via key performance indicators and the annual Group-wide employee survey (YVOS). Employees are annually evaluated according to their capability to drive sustainability. Sustainability – through health and safety parameters – is part of incentive programs for business unit management teams.

Materiality assessment
Skanska's sustainability report and sustainability focus areas are based on an assessment of the importance of the Group's impact on sustainability topics according to key external and internal stakeholders. An open and ongoing dialogue with stakeholders is a key component in day-to-day operations and long-term planning. This provides important insights regarding needs, expectations and challenges. One important tool for internal stakeholder dialogue is the annual Group-wide employee survey.

The most important stakeholder groups to Skanska are:
- Customers
- Suppliers and subcontractors
- Shareholders and investors
- Employees
- Society and local communities
- Authorities and policymakers

To identify Skanska's most material sustainability areas, a materiality assessment is performed every two years. During 2018, Skanska performed a structured stakeholder dialogue – including an online survey and interviews – with external and internal stakeholders. Key questions were selected and aligned with regulations, the UN Sustainable Development Goals, UN Global Compact, GRI Standards, along with current industry trends and benchmarks. The responses were evaluated and mapped to identify the most material sustainability areas. The next materiality assessment will be performed in 2020.

Materiality assessment



Health and Safety

Lost time accident rate (LTAR)

Number of employee and subcontractor lost-time accidents multiplied by 1,000,000 hours and divided by total labor hours.

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
LTAR	3.1	3.5	3.4	2.8	3.3	3.3	3.5	3.5	4.4	4.2
Skanska employees	3.5									
Subcontractors	3.0									

Number of accidents

	2019	2018	2017	2016
Lost time accidents	566	712	730	638
Skanska employees	252			
Subcontractors	314			

Fatal accidents

Number of fatalities on Skanska project worksites.

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Fatalities	3	5	3	3	5	3	3	2	8	9
Skanska employees	2									
Subcontractors	1									

Annual employee survey (YVOS)

Percentage of favorable scores (“Strongly Agree” and “Agree” ratings on the 5-point SA-SD Likert scale). These percentages indicate the proportion of respondents agreeing with the statement being asked.

Question	Industry norm	2019	2018	2017
Skanska is committed to improving the safety in my workplace	79	88	88	87

ISO 45001 certification

All Skanska business units are certified to the occupational health and safety management system standard ISO 45001. All business units are certified or will finalize implementation during 2020. The business units certified to OHSAS 18001 will change to ISO 45001. In 2019, no major non-conformities were identified by accredited third party auditors.

Ethics

Code of Conduct training

%	2019	2018	Target
First month of employment	94	93	100
Updated training every second year	98	100	100

Speak up culture

Percentage of favorable scores (“Strongly Agree” and “Agree” ratings on the 5-point SA-SD Likert scale). These percentages indicate the proportion of respondents agreeing with the statement being asked.

Question	Industry norm	2019	2018	2017
I can freely express my concerns without fear of negative consequences (e.g. safety, discrimination, ethical matters, etc)	64	83	82	79

Green

Skanska Group climate target
Skanska aims to achieve net-zero carbon emissions in its own operations and its value chain (scope 1, 2 and 3) by 2045.

2030 interim target
For Skanska's development units (Residential Development and Commercial Property Development), the interim target is a 50 percent decrease in carbon emissions by 2030 – including the value chain of these projects (scope 1, 2 and 3). The base year for scope 1 and 2 is 2015, while the base year for scope 3 is 2020.

For construction projects with external clients the interim target is to reduce carbon emissions by 50 percent by 2030. This covers emissions from Skanska's own operations (scope 1 and 2).

To achieve the interim target to reduce the carbon emissions in scope 1 and 2, the average reduction per year has to 2.2 percentage points.

The scopes are defined according to the Greenhouse Gas Protocol:

- Scope 1 emissions include direct emissions 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 occur at the facility where the electricity, heat and cooling are generated.
- Scope 3 includes indirect greenhouse gas emissions from sources not owned or directly controlled by the organization.

See reporting principles on page 84–85.

Skanska's scope 3 reported categories[1]

Category according to Greenhouse Gas Protocol	CO_2e emissions (tonnes)
Purchased goods and services	693,357 (limited to cement, concrete, steel and bitumen)
Capital goods	
Fuel- and energy-related activities (not included in scope 1 or scope 2)	17,985
Upstream transportation and distribution	
Waste generated in operations	
Business travel	9,126 (limited to air travel)
Employee commuting	
Upstream leased assets	
Downstream transportation and distribution	
Processing of sold products	
Use of sold products	
End-of-life treatment of sold products	
Downstream leased assets	
Franchises	
Investments	

1 The reported scope 3 data include the business units Skanska Sweden, Skanska UK, Commercial Property Development USA, USA Civil and USA Building.

Scope 1 (direct) and scope 2 (indirect) emissions (CO_2e)

Tonnes CO_2e		2019	2018	2017	2016	2015[3]
Scope 1		212,609	275,173	275,537	312,800	322,325
Scope 2	Location-based method	42,987	36,824	55,464	52,704	42,987
	Market-based method	78,069	57,187	71,389	73,300	80,334
Greenhouse gas emission intensity[1]		1,64	1.95	2.16	2.55	2.60
Outside of scope[2]		20,078	7,002			

1 Scope 1 and 2 (market-based)/MSEK revenue, according to segment reporting.
2 The direct carbon dioxide (CO_2) impact of burning biomass and biofuels is not included in the scope.
3 The 2015 data has been updated following a review in 2019.

Total energy usage

MWh	2019	2018	2017	2016	2015[2]
Fuel usage (non-renewable)	715,541	1,021,815	1,023,242	1,121,646	1,278,787
Fuel usage (renewable)	182,218	69,621	68,094	54,482	271
Electricity usage	331,167	241,495	272,979	263,246	259,479
Non-renewable	211,551	114,531	154 ,363	143,037	104,502
Renewable	119,617	126,964	118,616	120,209	154,977
District heating usage	12,275	10,499	11,740	3,721	573
District cooling usage	36,739	623	1,499	2,597	196
Total energy usage	1,277,940	1,344,054	1,377,555	1,445,692	1,539,306
Energy intensity[1]	7.23	7.88	8.57	9.55	9.94

1 Total energy MWh/MSEK revenue, according to segment reporting
2 Carbon emission data for 2015 i reviewed. The data for energy usage 2015 has not been updated accordingly

Green cont.

Energy reduction in new office buildnings developed by Commercial Property Development business units

The business units Commercial Development Europe, Commercial Development Nordic and Commercial Development USA divested 14 office properties during 2019. The annual energy reductions for those divested properties stands at 98 TJ, representing 37 percent reduction compare to average office buildings.

This calculation is made according to international standards, such as ASHRAE. The annual consumption of energy is determined through two models, proposed and baseline, in order to determine the energy efficiency of current projects.

ISO 14001 certification

	2019	2018	2017	2016	2015
Major non-conformance (MNC) citations from external auditors	0	0	1	0	0

Significant environmental incidents

Skanska has a reporting procedure established which covers reporting of significant environmental incidents. In 2019, three incidents were reported in line with the procedure. These relate to noise permits, grey water from a residential building into a nearby ditch and cleaning of another company intermediate bulk container with diluted cutting emulsion water into a nearby stream. The residential building grey water is under control and closed. The other two ones reported are with actions taken and will be closed by the authorities in 2020.

	2019	2018	2017	2016	2015
Significant environmental incidents	3	2	1	3	0

Self-generated waste to landfill 2008–2019

%	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Self-generated waste to landfill	6	6	5	5	6	6	6	8	10	12	17	28

Diversity and Inclusion

Employees by gender by year end

%	2019, %		2018, %		2017, %		2016, %	
Category	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
Skanska AB Board of Directors[1]	57	43	43	57	50	50	63	37
Senior executives (Group Leadership Team, level 7)	67	33	67	33	67	33	70	30
Business Unit Presidents (level 6)	92	8	92	8	93	7	93	7
Group Senior Vice Presidents (level 6)	33	67	44	56	62	38	67	33
Senior positions (level 3–6)[2]	75	25	78	22	78	22	80	20
All employees	82	18	83	17	83	17	83	17

1 Elected at the Annual General Meeting.

2 Level 6 means Business Unit Presidents and Group Senior Vice Presidents, level 5 means business unit management teams, level 4 means direct reports to level 5 and level 3 means direct rreports to level 4.

Employees by business unit 2019[1]

	Average headcount				
Business unit	**Total number of employees (headcount)**	**Of which women**	**% of total number of employees (headcount)**	**Of which men**	**% of total number of employees (headcount)**
SWE	8,912	1,816	20	7,096	80
NOR	3,724	367	10	3,357	90
FIN	2,197	379	17	1,818	83
CS/SK/HU/RO	3,159	453	14	2,706	86
PL	2,482	660	27	1,822	73
UK	5,404	1,256	23	4,148	77
USA Civil, USA Building and Skanska Inc.	10,907	1,336	12	9.571	88
CDE	235	144	61	91	39
CDN	120	62	52	58	48
CD US	70	32	46	38	54
BoKlok	412	129	31	283	69
RDE	133	74	56	59	44
HQ	133	77	58	56	42
Total	**37,888**	**6,785**	**18**	**31,103**	**82**

1 The definition is described in reporting principles, page 85 and differs from Note 36.

Annual employee survey (YVOS)
Percentage of favorable scores ("Strongly Agree" and "Agree" ratings on the 5-point SA-SD Likert scale). These percentages indicate the proportion of respondents agreeing with the statement being asked.

Question	Industry norm	2019	2018	2017
My manager makes the most of the diversity in the team to achieve stronger performance together	N/A	74	73	70
My workplace is free from bullying and harassment	79	86	86	85
At my workplace, people care for each other and treat each other fairly	78	84	83	82

Reporting principles

Skanska is reporting in accordance with the GRI Standards Core sustainability reporting guidelines. Skanska aims to ensure that all information and data is relevant, transparent, consistent, accurate and complete and that it provides an objective picture of the Group's operations. The reporting period is January 1, 2019 to December 31, 2019.

The sustainability disclosures are reported from the business units quarterly or monthly using the sustainability reporting database CR360, if not else stated.

Greenhouse gases and energy

Skanska calculates and reports greenhouse gas emissions in accordance with the GHG Protocol Corporate Standard. Scope 2 emissions are calculated in accordance with the GHG Protocol Scope 2 Guidance applying the market based and location based methods.

Activity data is based on invoiced data, real-time meters, models, assumptions and estimates or data as reported by suppliers. Energy conversions use publicly available conversion factors and emission factors are sourced from open databases such as the IEA (2019), DEFRA (2019), ICE 3.0 Reliable Disclosure Systems for Europe and RE-DISS (2018). Greenhouse gases included in the reported carbon inventory are carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O). Biogenic emissions of CO_2 from the combustion of biofuel and biomass are reported separately from the gross direct (scope 1) GHG emissions as Outside of scope. The GWPs used in the calculation of CO_2e are based on the IPCC Fourth Assessment Report (AR4) over a 100-year period, with exception for scope 2 calculations applying emission factors from the IEA, which are based on AR5. Skanska applies the financial control approach. Emissions data is subject to inherent uncertainties due to incomplete scientific knowledge used to determine emission factors and uncertainties in measurement methods and resulting effects on measurements and estimations.

Waste to landfill

The indicator for waste is defined as the amount of self-generated waste to landfill. Self-generated by Skanska means materials brought into the project which were not used in the production of the project but instead are being treated as waste. Demolition waste or excavated materials are not included in the definition. The waste disposal method is based on the organizational defaults of the waste disposal contractor. The waste indicator is measured as the total weight of self-generated waste and the weight of that waste which is diverted from landfill and sent for reuse, recycling or recovery. Data is based on invoiced data, assumptions and estimates or data as reported by supplier, and is subject to inherent uncertainties.

Compliance with ISO 14001 management system

If a third-party auditor identifies a major non-conformity at their review, it is to be reported through the CR360 reporting database in the next quarterly report.

Certified commercial buildings share of total divestments.

The certified projects are reported manually to Skanska headquarters.

Health and safety

The lost time accident rate (LTAR) represents the number of employee lost-time accidents resulting in an injury that restricts the employee from being able to perform their normally assigned duties for a period of one or more working days, multiplied by 1,000,000 hours and divided by total labor hours. The reported data includes Skanska employees and subcontractor employees working on Skanska jobsites.

The number of fatal incidents includes Skanska employees and subcontractor employees working on Skanska jobsites. The data is based on report from the projects. The LTAR is influenced by national regulations, norms and regional definitions, and is hence subject to inherent uncertainty.

Compliance with ISO 45001 management system.

If a third-party a uditor identifies a major non-conformity at their review, it is to be reported through the CR360 reporting database in the next quarterly report.

YVOS

The annual employee web survey is conducted over the period April to June, with the same set-up and questions since 2017. All employees are addressed except for craft employees at Skanska USA Civil and Skanska USA Building, due to local working conditions. The percentage of favorable scores refers to "Strongly Agree" and "Agree" ratings on the 5-point SA-SD Likert scale. These percentages indicate the proportion of respondents agreeing with the statement being asked.

Code of Conduct training

Code of Conduct training statistics are collated by the business units' HR functions and entered into the Skanska common reporting system. The business units report as non-compliance any new employees who have not participated in Code of Conduct training within one month of starting work. For Skanska USA Civil craft workers are not included due to union restrictions. There is a requirement for temporary staff and consultants who will be working with Skanska for a medium to long period of time to also take the training. That time period is determined as three months, although it differs between business units. Refresher training for all employees is required every two years. Due to the differences in reporting, the percentage of employees taking the refresher training within two years may in some cases cover a period of up to 27 months.

Human resources

The HR statistics are reported manually by the business units' HR functions through the data entry portal Skanska Common Analytics. Data is broken down by gender and is reported on a quarterly basis.

The headcount reflects the actual number of people directly employed by Skanska at the end of the quarter. All employees count as one, regardless of worktime percentage. The average headcount is calculated as the average over the last four quarters.

Changes in the Sustainability Report between 2018 and 2019

- The reported carbon emissions for the base year 2015 are updated due to review of the data and recalculations
- The reported energy emissions are updated due to review of the data and recalculations
- No report of green revenue and market value from green projects.

New data disclosed

- The gender ratio of business unit presidents and Group senior vice president
- LTAR and fatal accidents are divided by Skanska employees and subcontractors.
- Number of reported cases to Code of Conduct Hotline.
- Cases investigated as corruption
- Number of employees is presented by region (defined as business units)
- Selected parts from the yearly employee survey (YVOS)
- Certified commercial buildings share of total divestments.

Financial analysis

Revenue increased in Swedish kronor and decreased slightly in local currencies, while operating income according to both segment reporting and IFRS increased both in Swedish kronor and in local currencies compared to the previous year. The underlying profitability in Construction has improved compared to the previous year. The operating margin during the year amounted to 2.4 percent and was impacted negatively by goodwill impairment losses in the UK of SEK 367 M. The improved operating margin is a result of the strategic initiative that was started in 2018 with an emphasis on a more selective tender approval procedure, commercial focus and cost effectiveness. The more selective tender approval procedure resulted in order bookings declining during the year and amounting to SEK 145.8 billion, while Skanska's operations in Sweden and in the USA saw strong order bookings. By being selective it is possible to add projects to the order backlog that are attractive from a risk and return perspective.

The order backlog for Construction at the end of the year amounted to SEK 185.4 billion, which is equivalent to 14 months of production. The Residential Development business stream showed strong profitability. The Swedish new-build market is improving gradually and there has been an increase the number of transactions. The current market conditions are resulting in customers making their buying decisions closer to the completion of projects. Goodwill impairment losses in the Norwegian operations during the year amounted to SEK 101 M. However, the underlying profitability is still 10 percent thanks to strong implementation and a well-diversified portfolio in various segments and markets. Commercial Property Development had a very active and profitable year in all three markets. In 2019, the Nordics, Central Europe and USA divested property for SEK 17.1 billion with divestment gains of SEK 4.3 billion reported according to segment reporting. At the end of the year, Commercial Property Development had 42 ongoing projects. Skanska leased out 421,000 square meters during the year. Skanska is experiencing strong leasing activity and is creating value for the future by leasing modern, green properties to stable and long-term tenants.

Market outlook

Construction

In Sweden, the civil market and the non-residential market is strong, although the market is competitive. The Swedish residential building market is slow. In Norway, the outlook for the civil market remains positive, but with significant competition in new bids. The non-residential market also benefits from increased public investments, while investments in the residential building market are slightly lower. The overall market situation in Finland is stable except for a slowdown in the residential building market. In the UK, Brexit is still limiting investments in the non-residential building market and civil market to a certain degree. In Central Europe there is a high activity level in general and construction related inflation is high, causing postponement of new projects coming to the market in especially Poland. In USA the overall market is strong. The civil construction market remains good, although competition is intense, and the building construction market is strong in sectors such as offices, aviation, education, data centers and healthcare.

Residential Development

The Swedish residential market for new developments is improving slightly as confidence regarding housing prices is recovering and transaction activity is increasing. In Norway the market situation is stable, while the Finnish market is slower. The Central European market is stable. Common for all markets is the challenge with high construction costs and long zoning processes.

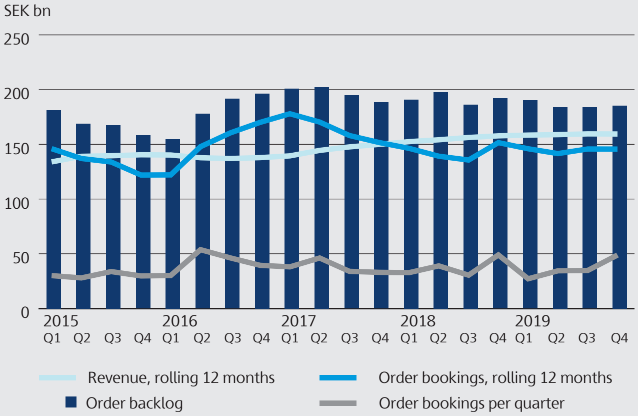
In 2019, 3,853 (3,653) homes were sold, of which 417 rentals and construction on 3,407 (4,480) homes was started, of which 415 rentals. BoKlok has sold 1,024 (926) homes and started 1,035 (1,158) homes. At the end of the year there were 7,130 (7,539) homes under construction and 70 percent (68) of these were sold.

Commercial Property Development

Vacancy rates for office space in most of the Nordic and Central European cities where Skanska has operations are stable. In Sweden vacancy rates are low and rents are high. Demand for office space is strong in Poland and in other parts of Central Europe as well. In USA, demand from tenants is good in Boston and Seattle, while somewhat weaker in Washington, D.C. and Houston's Energy Corridor. Modern properties with high quality tenants are in demand from property investors, resulting in attractive valuations for these properties. Investor appetite remains strong in USA, Central Europe and the Nordics, especially Sweden, but the number of shortlisted investors in transactions are fewer and more selective regarding investment properties. Yield levels in Sweden and in USA have likely bottomed out. Common for all markets is the challenge with high construction costs and long zoning processes.

At the end of the year, Commercial Property Development had 42 ongoing projects, representing leasable space of 941,000 square meters.

Order bookings, order backlog and revenue in Construction



Order bookings

Order bookings amounted to SEK 145.8 billion (151.7) (decreased 8 percent in local currency). Order bookings in SEK were 9 percent lower than revenue in 2019, compared to the previous year when order bookings were 4 percent lower than revenue. The reduction in order bookings is mainly a result of the strategic initiative in certain markets to streamline operations and reduce the risk profile in Construction.

Order bookings and order backlog

	Order bookings		Order backlog	
SEK M	**2019**	**2018**	**2019**	**2018**
Nordic countries	59,437	65,239	62,244	61,639
of which Sweden	37,596	35,922	37,771	35,388
Europe	18,953	30,557	24,699	34,941
USA	67,428	55,923	98,427	95,462
Total	**145,818**	**151,719**	**185,370**	**192,042**

Order backlog

The order backlog decreased by 3 percent compared to the previous year and amounted to SEK 185.4 M (192.0) at the end of the year. The order backlog is equivalent to 14 (14) months of production. The US, Nordic and European operations accounted for 53, 34 and 13 percent respectively of the order backlog.

Segment and IFRS Reporting

The Group reports its Residential Development and Commercial Property Development business streams according to a method described in Note 1. The differences between the two methods of reporting revenue and operating income are summarized in the following tables.

Revenue

SEK M	2019	2018
Revenue by business stream according to segment reporting		
Construction	159,579	157,894
Residential Development	12,483	10,739
Commercial Property Development	17,850	16,271
Central and eliminations	–13,130	–14 410
Total revenue according to segment reporting	**176,782**	**170,494**
Difference in accounting principles	–3,936	1,236
Total revenue according to IFRS	**172,846**	**171,730**

Revenue according to IFRS increased by 1 percent (decreased 4 percent in local currency) to SEK 172.8 billion (171.7).

Revenue according to segment reporting increased by 4 percent (decreased 1 percent in local currency) to SEK 176.8 billion (170.5). In the Construction business stream, revenue rose in SEK by 1 percent. SEK 13.0 billion (13.7) of revenue in Construction, equivalent to 8 percent (9), was generated by the Group's Project Development operations. Of the SEK 12,483 M (10,739) in Residential Development revenue, SEK 532 M (160) is from joint ventures and this has been included line by line according to the proportional method in segment reporting.

Operating income

SEK M	2019	2018
Revenue by business stream according to segment reporting		
Construction	3,772	1,099
Residential Development	1,195	1,505
Commercial Property Development	3,287	3,069
Central	–388	–780
Eliminations	–38	–66
Operating income according to segment reporting	**7,828**	**4,827**
Difference in accounting principles	–400	820
Operating income according to IFRS	**7,428**	**5,647**

Operating income according to IFRS increased by 32 percent (increased 28 percent in local currency) to SEK 7,428 M (5,647).

Operating income according to segment reporting amounted to SEK 7,828 M (4,827). Impairment losses on current and non-current assets were charged to operating income in the amount of SEK –719 M (–677), mainly attributable to goodwill impairment losses

Construction

In the Construction business stream, operating income increased amounting to SEK 3,772 M (1,099). The operating margin was also higher than in the previous year and amounted to 2.4 percent (0.7). A goodwill impairment charge of SEK –367 M in a part of the UK operations impacted negatively. Compared to the previous year the operating income was negatively affected in Sweden by fewer completed high-profitability projects and weak profitability in the residential building construction operations in Stockholm, and in asphalt operations. The comparative period was negatively affected by restructuring charges and project write-downs in Poland and the USA, as well as goodwill impairment losses in the USA, while resolved disputes in the USA and termination of defined-benefit pension plans in the UK had a positive effect. The total net effect amounted to SEK –2.3 billion.

Residential Development

Operating income in Residential Development amounted to SEK 1,195 M (1,505) and was negatively affected by goodwill impairment losses of SEK 101 M in Norway due to lower volumes. The operating margin in the business stream declined by 9.6 percent (14.0), with the comparative period including a larger positive effect of gains on land divestments and the release of provisions relating to completion of project in the Nordics. Impairment losses on current assets in Residential Development were charged to earnings in the amount of SEK –170 M (–72).

Commercial Property Development

Operating income in the Commercial Property Development business stream amounted to SEK 3,287 M (3,069). Properties were sold during the year for a value of SEK 17,133 M (15,720), generating divestment gains of SEK 4,275 M (4,005) and income from joint ventures of 146 (61) M. Impairment losses on current-asset properties in Commercial Property Development were charged to earnings in the amount of SEK –19 M (–107).

Central

Central expenses amounted to SEK –388 M (–780), of which SEK 24 M (31) relates to the PPP portfolio. The release of a provision totaling SEK 212 M for legal proceedings relating to the R4 project in the Czech Republic had a positive effect on earnings. The comparative period includes restructuring charges totaling SEK –220 M, of which SEK –120 M relates to restructuring charges in connection with the close down of the Infrastructure Development business stream.

Elimination of intra-Group profits

Eliminations of intra-Group profits amounted to SEK –38 M (–66). At the Group level, this included elimination of profits relating to property projects in the Construction business stream. Eliminations are reversed when the projects are divested.

Return on equity and capital employed according to segment reporting

Return on equity according to segment reporting amounted to 21.4 percent (14.1) and return on capital employed in Project Development operations amounted to 10.3 percent (12.0) according to segment reporting.

Income according to IFRS

SEK M	2019	2018
Operating income	7,428	5,647
Financial income	188	192
Financial expense	–276	–153
Financial items	**–88**	**39**
Income after financial items	**7,340**	**5,686**
Taxes	–1,286	–1,092
Profit for the year	**6,054**	**4,594**

Financial items amounted to SEK –88 M (39) net, including interest expense from lease liabilities according to IFRS 16, which applies from January 1, 2019, of SEK 272 M. Tax expense for the year amounted to SEK –1,286 M (–1,092), representing a tax rate of 18 percent (19).

Investments/divestments

SEK M	2019	2018
Operations – investments		
Intangible assets	–116	–225
Property, plant and equipment	–2,566	–2,351
Shares	108	–99
Current-asset properties	–22,173	–21,849
of which Residential Development	–9,308	–10,449
of which Commercial Property Development	–12,865	-11,400
Operations – investments	**–24,963**	**–24,524**
Strategic investments		
Acquisition of businesses	–6	–16
Strategic investments	**–6**	**–16**
Total investments	**–24,969**	**–24,540**
Operations – divestments		
Intangible assets	25	6
Property, plant and equipment	1,028	428
Shares	284	84
Current-asset properties	25,258	27,322
of which Residential Development	11,740	12,068
of which Commercial Property Development	13,518	15,254
Operations – divestments	**26,595**	**27,840**
Total net divestments (+) / investments (–)	**1,626**	**3,300**
Depreciation/amortization, non-current assets	–3,043	–1,780

The Groups investments amounted to a total of SEK –24,969 M (–24,540). Divestments amounted to SEK 26,595 M (27,840), and the Group's net divestment amounted to SEK 1,626 M (3,300).

Net divestments in current-asset properties amounted to SEK 3,085 M (5,473). In Residential Development investments in current-asset properties amounted to SEK –9,308 M (–10,449), of which SEK –1,744 M (–1,599) was for land, equivalent to 4,197 (3,333) in building rights. Homes were handed over for a volume of SEK 11,740 M (12,068). Net divestment of current-asset properties in Residential Development amounted to SEK 2,432 M (1,619).

In Commercial Property Development investments in current-asset properties amounted to SEK 12,865 M (–11,400), of which SEK –2,498 M (–994) was for land. Divestments of current-asset properties amounted to SEK 13,518 M (15,254). Net divestment of current-asset properties in Commercial Property Development amounted to SEK 653 M (3,854).

Consolidated operating cash flow

SEK M	2019	2018
Cash flow from operating activities	4,704	394
Change in working capital	–651	4,040
Net investments (–) / divestments (+)	1,632	3,316
Accrual adjustments	209	–39
Cash flow from business operations before taxes paid	5,894	7,711
Taxes paid in business operations	–1,371	–443
Cash flow from operating activities including taxes paid	**4,523**	**7,268**
Net interest items and other financial items	–983	156
Taxes paid in financing operations	295	–47
Cash flow from financing activities	**–688**	**109**
Cash flow from operations	**3,835**	**7,377**
Strategic net divestments (+) / investments (–)	–6	–16
Dividend etc.[1]	–2,488	–3,472
Cash flow before change in interest-bearing receivables and liabilities	**1,341**	**3,889**
Change in interest-bearing receivables and liabilities	–3,415	–311
Cash flow for the year	**–2,074**	**3,578**
Cash and cash equivalents, January 1	10,722	6,998
Exchange-rate differences in cash and cash equivalents	97	146
Cash and cash equivalents, December 31	**8,745**	**10,722**
1 Of which repurchases of shares	0	–72

Cash flow for the year amounted to SEK –2,074 M (3,578).

Cash flow from operating activities amounted to SEK 3,835 M (7,377), where the change in working capital in Construction as well as net investments in Commercial Property Development are the main reasons for the change in cash flow. Taxes paid in business operations amounted to SEK –1,371 M (–443).

Cash flow for the year of SEK –2,074 M (3,578) combined with translation differences of SEK 97 M (146) increased cash and cash equivalents, which amounted to SEK 8,745 M (10,722).

Commercial Property Development assets sold but not yet transferred as of December 31, 2019 will have a positive effect on cash flow of SEK 9.2 billion (SEK 6.6 billion, net, after remaining investments), of which SEK 7.6 billion will be received in 2020. The remainder will impact cash flow in 2021–2022.

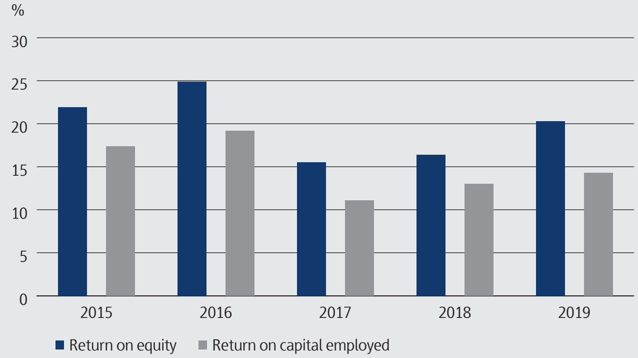
Financing and liquidity

At the end of 2019 the Group had interest-bearing net liabilities amounting to SEK –4.9 billion (3.2), including SEK 8.9 billion in lease liabilities according to IFRS 16, which applies as of January 1, 2019.

At the end of the year, cash and cash equivalents and unutilized confirmed credit facilities amounted to SEK 17.6 billion, of which SEK 11.8 billion is available within one week.

The Group's total assets increased by SEK 9.7 billion and amounted to SEK 126.0 billion (116.3).

For financial position, see also Note 6 and Note 14.



Return on equity and capital employed

At the end of the year, equity attributable to equity holders amounted to SEK 32,924 M (29,250). Apart from comprehensive income for the year of SEK 5,958 M, the change in equity is mainly explained by dividends of SEK –2,462 M and share-based payments in connection with long-term employee ownership programs (Seop) totaling SEK 245 M. Return on equity increased to 20.3 percent (16.4).

Capital employed at year-end amounted to SEK 55,938 M (46,187). Return on capital employed amounted to 14.3 percent (13.0).

Equity/assets ratio and debt/equity ratio

The net debt/equity ratio amounted to 0.1 (–0.1) and the equity/assets ratio amounted to 26.2 percent (25.2).

For additional financial information see Note 6 and Note 14.

Parent Company

The Parent Company carries out administrative tasks and includes the Group Leadership Team and group functions.

Profit for the year amounted to SEK 3,038 M (3,970) and mainly consisted of dividends from subsidiaries. The average number of employees was 97 (118).

Senior executive remuneration

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.

The Board of Directors' (the "Board") of Skanska AB (publ) (the "Company") proposal to the 2020 Annual General Meeting for resolution on guidelines for salary and other remuneration to senior executives

The Board proposes that the 2020 Annual General Meeting resolves on the following guidelines for salary and other remuneration to senior executives of the Company. Senior executives include the President and CEO and the other members of the Group Leadership Team. The guidelines are forward-looking, i.e. they are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the 2020 Annual General Meeting. These guidelines do not apply to any remuneration decided by the Annual General Meeting (the "General Meeting"), including any long-term share related incentive plans.

The guidelines' promotion of the Company's business strategy, long-term interests and sustainability

A prerequisite for the successful implementation of the Company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the Company is able to recruit and retain qualified personnel. To this end, it is necessary that the Company offers competitive remuneration. These guidelines enable the Company to offer the senior executives a competitive total remuneration.

Variable cash remuneration covered by these guidelines shall aim at promoting the Company's business strategy and long-term interests, including its sustainability. This is accomplished through the financial and non-financial targets that determines the outcome of the variable cash remuneration and are clearly linked to the business strategy and the Company's sustainability agenda. The variable cash remuneration is further described in the section "Variable cash remuneration" below.

The Company's objectives for having a variable cash remuneration program and a long-term share related incentive plan are to (i) drive behaviors that will support the Company's long and short term business success and create shareholder value, (ii) make the Company attractive as an employer for top talents, (iii) retain key individuals within the Company, and (iv) increase employees' interest and involvement in the Company's business and development.

For information regarding the Company's business strategy, see the Company's website: group.skanska.com/about-us/strategy/.

Total remuneration

The combined remuneration for each senior executive shall be market-related and competitive in the labor market in which the senior executive is placed, and distinguished performance should be reflected in the total remuneration. The remuneration may consist of the following components: fixed cash salary, variable cash remuneration, pension and insurance benefits and other benefits. Additionally, the General Meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration. Fixed salary and variable remuneration shall be related to the senior executive's responsibility and authority.

Variable cash remuneration

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one or several years. The variable cash remuneration shall be capped and related to the fixed salary, and may amount to not more than 100 percent of the fixed annual cash salary.

The variable cash remuneration shall take into account both financial and non-financial performance. The outcome in relation to predetermined and measurable financial targets shall determine the total (financial) bonus potential, i.e. the financial targets shall be the basis of the total bonus potential. This outcome may be reduced depending on the outcomes of the non-financial targets. The variable cash remuneration must be based on results in relation to established targets and be designed to increase the alignment between the shareholders and senior executives of the Company.

The financial targets for the variable cash remuneration may be related to the Group's earnings before taxes, to relevant business unit's earnings before interest and taxes, etc.

The non-financial targets shall be set to support the business strategy and long-term interests, including sustainability, by for example, being clearly linked to the business strategy or sustainability. The non-financial targets should together represent 50 percent of the total bonus which means that the total bonus outcome may be reduced with up to 50 percent if the non-financial targets are not met.

To which extent the criteria for awarding variable cash remuneration has been satisfied shall be evaluated/determined when the measurement period has ended. The Board is responsible for the evaluation so far as it concerns variable remuneration to the CEO. For variable cash remuneration to other senior executives, the Compensation Committee is responsible for the evaluation. For financial objectives, the evaluation shall be based on the latest financial information made public by the Company.

The terms for variable cash remuneration shall be structured so that the Board, if exceptional economic conditions prevail, has the possibility to limit or refrain from paying variable remuneration, if such a payment is considered unreasonable and incompatible with the Company's responsibility in general to the shareholders, employees and other stakeholders. There shall also be a possibility to limit or refrain from paying variable remuneration if the Board considers that this is appropriate for other reasons. Further, the Board shall have the possibility to reclaim paid out variable cash remuneration if it is discovered after the payment that the senior executive has violated Skanska's Code of Conduct or other Skanska values, policies, standards or procedures.

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining senior executives, or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Such remuneration may not exceed an amount corresponding to 100 percent of the fixed annual cash salary and may not be paid more than once each year per individual. Any resolution on such remuneration for the President and CEO shall be made by the Board based on a proposal from the Compensation Committee. Any resolution on such remuneration for other senior executives shall be made by the Compensation Committee based on a proposal from the President and CEO.

Pension and insurance

For the President and CEO, pension benefits, including health insurance (Sw: sjukförsäkring), shall be defined-contribution schemes. Variable cash remuneration shall not qualify for pension benefits. The pension premiums to defined-contribution schemes shall amount to not more than 35 percent of the fixed annual cash salary. For other senior executives, pension benefits, including health insurance, shall be defined-contribution schemes. Variable cash remuneration shall not qualify for pension benefits, except when it follows from rules under a general pension plan (like the Swedish ITP plan). The pension premiums for defined-contribution pension shall amount to not more than 30 percent of the fixed annual cash salary. If the variable cash remuneration qualifies for pension benefits, the pension premiums for defined-contribution pension on the variable cash remuneration shall amount to not more than 30 percent of the fixed annual cash salary.

Other benefits

Other benefits may include, for example, medical insurance (Sw: sjukvårdsförsäkring), housing, home travel, tax compensation, parking and company cars. Such benefits may amount to not more than 15 percent of the fixed annual cash salary.

For employments governed by rules other than Swedish rules, pension benefits and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

Senior executives who are expatriates, i.e. based in another country than their home country, may receive additional remuneration and other benefits to the extent reasonable in light of the special circumstances associated with the expat arrangement, taking into account, to the extent possible, the overall purpose of these guidelines. Such benefits may not in total exceed 50 per cent of the fixed annual cash salary.

Long-term share saving programs

Long-term share saving programs, Skanska Employee Ownership Programs (”Seop 4” and ”Seop 5”) have been implemented in the Company. Such plans have been resolved by the General Meeting and are therefore excluded from these guidelines. New plans may also be resolved by the General Meeting. Seop 4 and Seop 5 give present and future employees the opportunity of becoming shareholders of Skanska and include permanent employees in the Skanska Group. The performance criteria used to assess the outcome of the plans are clearly linked to the business strategy and thereby to the Company’s long-term value creation, including its sustainability. The performance criteria consist of financial targets at Group, business unit and/or business unit cluster level. At present, the financial target applicable at Group level is growth in earning per share (EPS). The financial targets applicable at business unit and/or business unit cluster level vary depending on which business stream the relevant business unit or business unit cluster belongs to, as set out in the table below.

Construction	Residential Development	Commercial Property Development
EBIT[1]	EBIT	EBIT
–	ROCE[2]	Leased SQM[3]

Seop 4 och Seop 5 are further conditional upon the participant’s own investment and three-year holding and employment period. For more information on Seop 4 and Seop 5, including the criteria which the outcome depends on, see the Company’s website: group.skanska.com/4922a2/siteassets/corporate-governance/annual-general-meeting/2019/item-17-the-board-of-directors-proposal-on-a-long-term-employee-ownership-program-seop-5-.pdf

1 Earnings Before Interest and Taxes.
2 Return on capital employed.
3 Leasing Square Meters.

Termination of employment

In the event of employment termination by the Company, the normal period of notice is six months, combined with severance pay corresponding to a maximum of 18 months fixed cash salary or, alternatively, a period of notice of maximum 12 months, combined with severance pay corresponding to a maximum of 12 months fixed cash salary. Fixed cash salary during the notice period and severance pay may not together exceed an amount corresponding to the fixed cash salary for two years. When termination is made by the senior executive, the notice period may not exceed 12 months, without any right to severance pay.

Remuneration to board members in addition to board fees

To the extent that a non-employed board member elected by the General Meeting performs work for the Company, besides the board membership, consultant fee and other remuneration may be granted for such work. Decisions on consultant fees and other remuneration to non-employed board members elected by the General Meeting are made by the Compensation Committee.

Salary and employment conditions for employees

In the preparation of the Board’s proposal for these remuneration guidelines, salary and employment conditions for employees of the Company have been taken into account by including information on the employees’ total income, the components of the remuneration and increase and growth rate over time, in the Compensation Committee’s and the Board’s basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable. The development of the gap between the remuneration to senior executive and remuneration to other employees will be disclosed in the remuneration report.

The decision-making process to determine, review and implement the guidelines

The Board has established a Compensation Committee. The Compensation Committee’s tasks include preparing the Board’s decision to propose guidelines for senior executive remuneration. The Board shall prepare a proposal for new guidelines at least every fourth year and submit it to the General Meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Compensation Committee shall also monitor and evaluate programs for variable remuneration for the senior executives, the application of the guidelines for senior executive remuneration as well as the current structures and compensation levels in the Company. The members of the Compensation Committee are independent of the Company and its senior executives. The President and CEO and other members of the senior executives do not participate in the Board’s processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

Derogation from the guidelines

The Board may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the Company's long-term interests, including its sustainability, or to ensure the Company's financial viability. As set out above, the Compensation Committee's tasks include preparing the Board's resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Skanska employee ownership program (Seop)

The purpose of the Seop is to strengthen the Group's ability to retain and recruit qualified employees and to align those 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.

In 2019, costs related to the Seop program amounted to SEK 245 M. See also Note 26 and Note 37.

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

Research and innovation

Research and development (R&D) strengthens Skanska's ability to provide the innovative, sustainable solutions needed by customers and society. Through R&D, Skanska identifies, develops and applies new and enhanced products, services and processes, increasingly working with external partners. R&D enables improved operational efficiency performance, supporting Skanska's ability to create shareholder value over the long term.

Skanska's business units lead R&D efforts and activities. This arrangement provides a flexible and agile means of leveraging R&D to meet business needs. With this, various internal networks and communications platforms facilitate R&D knowledge sharing across the Group, driving efficiencies. Digitalization and sustainability are Skanska priorities integrated into many research activities.

Research partnerships

Skanska's research priorities frequently intersect with those of government and industry, enabling joint development.

At the European Union (EU) level, Skanska is part of the EU-funded GrowSmarter project that is researching "smart city solutions" in energy, infrastructure and transport to help achieve a sustainable Europe. Also, Skanska is contributing to CRAVEzero, an EU-funded program focused on reducing the costs and accelerating the market for viable nearly zero-energy buildings.

Skanska is involved in two large research programs funded by the Swedish state, Smart Built Environment and InfraSweden 2030. Smart Built Environment is focused on increasing digitalization and industrialization within construction to create buildings faster, at less cost and through more sustainable means. Skanska is represented on Smart Built Environment's governing board.

With InfraSweden2030, the focus is enhancing innovation and collaboration in the Swedish transport infrastructure sector. InfraSweden2030 includes the research project Construction Factory, in which Skanska, Volvo Construction Equipment and other partners are investigating how to improve construction industry productivity, for example by implementing such Industry 4.0 solutions as artificial intelligence. Skanska is represented on the InfraSweden2030 board of directors.

Other national research partnerships involving Skanska are:

- Klima 2050, a consortium financed by the Research Council of Norway that aims to reduce society's climate change risk by developing better means to adapt buildings and infrastructure. Skanska is represented on the Klima 2050 governing board.
- Building 2030, a consortium organized by Aalto University that is developing a vision for the Finnish construction sector in 2030 and working toward its implementation.
- Zero-Emission Neighborhoods in Smart Cities, a group of public and private organizations hosted by the Norwegian University of Science and Technology that is developing solutions to eliminate greenhouse gas emissions from buildings and neighborhoods.

Additional research and development

Further examples of current research and development initiatives across the Group include:

- Using machine learning and artificial intelligence to optimize the use of heavy construction equipment on project sites. This is expected to lower carbon emissions, reduce operating costs and accelerate productivity. Skanska's partners on this research project are Volvo Construction Equipment; SINTEF, a Norway-based research organization; and Ditio, a construction software company of which Skanska is a part owner. This project is partially financed by a research grant from the Norwegian state.
- Setting up Sustainovation, a structured platform for Skanska's R&D activities in Sweden to support the achievement of the UN Sustainable Development Goals. To include external perspectives in guiding this work, Sustainovation includes an Innovation Council comprised of leaders from the Swedish Film Institute, the Third AP Fund and Ericsson.

- Creating more environmentally responsible concrete mixes, including with reduced carbon emissions and fewer natural resources. In 2019, Skanska in Sweden launched Green Concrete, a collection of concrete mixes with up to 50 percent less carbon emissions than traditional mixes. Also, in the Czech Republic where supplies of natural aggregates are decreasing, Skanska is bringing to market a circular concrete approach that uses 100 percent recycled concrete and/or masonry.
- Developing a new definition of Powerhouse energy-positive buildings, one that aligns with the Paris climate agreement. This work included conceiving a budget for total greenhouse gas emissions over a 60-year building lifecycle per square meter of building space, providing a guideline for new Powerhouse office developments. Powerhouse is a Norwegian consortium that includes Skanska, real estate company Entra and Snøhetta architects.
- Testing "smart" home solutions with technology company ABB at a test laboratory at Metropolia University of Applied Sciences in Helsinki. The connected, digital solutions are being analyzed from both user experience and technical perspectives.
- Creating an online system that enables people to preview and then purchase Skanska-developed apartments in Finland through a fully digital process. This system – among the first of its kind globally – is based on a blockchain-powered digital transaction process developed by Finnish technology company Tomorrow Tech. Homebuyers gain greater convenience and transparency while both customers and Skanska save administrative time and effort.
- Developing cloud-based software systems that enable rapid and simple comparisons of designed energy consumption, power requirements and indoor climate with measured data from the operational phase of completed buildings. Through these systems, called SmartTune, the results will be graphically displayed to aid building operations and to provide feedback to improve the design of future buildings. SmartTune is financed by the Norwegian Research Council.
- Creating and analyzing "digital twins", which are digital replicas of buildings that facilitate proactive operations and maintenance and can provide important feedback for the design phase. Digital twins are based on building information models (BIM) that have been enriched with data from Internet of Things (IoT)-enabled devices and building automation systems.
- Conceiving of and co-creating the Embodied Carbon in Construction Calculator (EC3), a free, open-source tool for calculating and evaluating the carbon emissions embodied within building materials. EC3, which was developed with industry partners and publicly launched at the Greenbuild International Conference and Expo in November 2019, empowers the construction industry to reduce its carbon footprint and create a more sustainable future.

Information on shares

In order to ensure allotment of shares to the participants in Skanska's employee ownership programs, the 2019 Annual General Meeting authorized the Board to repurchase shares in own custody. According to this decision the company may buy a maximum of 1,000,000 Series B shares to ensure allotment of shares to participants in Seop 5.

No shares were repurchased during the year, but the average price for all shares repurchased in previous years is SEK 137.54. During the year 1,830,155 shares were allotted to the employees participating in the employee ownership program. The quota value of these shares is SEK 3.00 per share, totaling SEK 5.5 M, and the shares represent 0.4 percent of the total share capital. The number of shares in own custody held as of December 31, 2019 amounted to 8,394,479. The quota value of these shares is SEK 3.00 per share, totaling SEK 25.2 M, and the shares represent 2.0 percent of the total share capital. The cost of acquiring the shares amounted to SEK 1.2 billion.

Proposed dividend

The Board proposes a regular dividend of SEK 6.25 (6.00) per share. The proposal is equivalent to a regular dividend totaling SEK 2,572 M (2,462). The Board proposes March 30, 2020 as the record date for the dividend.

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 Skanska 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 26.2 percent (25.2). 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.

Consolidated income statement

SEK M	Note	2019	2018
Revenue	8, 9	172,846	171,730
Cost of sales	9	–156,540	–157,465
Gross income		**16,306**	**14,265**
Selling and administrative expenses	11	–9,469	–9,473
Income from joint ventures and associated companies	20	591	855
Operating income	10, 12, 13, 22, 36, 38, 40	**7,428**	**5,647**
Financial income		188	192
Financial expense		–276	–153
Financial items	14	**–88**	**39**
Income after financial items	15	**7,340**	**5,686**
Taxes	16	–1,286	–1,092
Profit for the year		**6,054**	**4,594**
Profit for the year attributable to			
Equity holders		6,031	4,571
Non-controlling interests		23	23
Earnings per share, SEK	26, 43	14.68	11.17
Earnings per share after dilution, SEK	26, 43	14.62	11.11
Proposed regular dividend per share, SEK		6.25	6.00

Consolidated statement of comprehensive income

SEK M	2019	2018
Profit for the year	**6,054**	**4,594**
Other comprehensive income		
Items that will not be reclassified to the period's profit or loss		
Remeasurement of defined-benefit pension plans[1]	–895	–478
Tax on items that will not be reclassified to profit or loss for the period	166	59
	–729	**–419**
Items that have been or will be reclassified to profit or loss for the period		
Translation differences attributable to equity holders	672	1,299
Translation differences attributable to non-controlling interests	3	3
Hedging of exchange rate risk in foreign operations	4	–183
Effect of cash flow hedges	31	–30
Share of other comprehensive income of joint ventures and associated companies	–41	272
Tax related to items that have been or will be reclassified to profit for the period	–10	7
	659	**1,368**
Other comprehensive income after tax	**–70**	**949**
Comprehensive income for the year	**5,984**	**5,543**
Comprehensive income for the year attributable to		
Equity holders	5,958	5,517
Non-controlling interests	26	26
1 Effects of social insurance contributions including special employer's contribution are included	–144	–207

See also Note 26.

Consolidated statement of financial position

SEK M	Note	Dec 31, 2019	Dec 31, 2018
ASSETS			
Non-current assets			
Property, plant and equipment	17	7,742	7,645
Property, plant and equipment, right-of-use assets	40	4,616	–
Goodwill	18	4,057	4,324
Other intangible assets	19	865	975
Investments in joint ventures and associated companies	20	3,442	3,288
Non-current financial assets	21	2,528	2,345
Deferred tax assets	16	1,862	1,933
Total non-current assets		**25,112**	**20,510**
Current assets			
Current-asset properties	22	46,373	42,391
Current-asset properties, right-of-use assets	40	3,980	–
Inventories	23	1,128	1,256
Current financial assets	21	6,899	7,117
Tax assets	16	670	396
Contract assets	9	5,898	6,661
Other operating receivables	24	27,213	27,243
Cash and bank balances	25	8,745	10,722
Total current assets		**100,906**	**95,786**
ASSETS	32	**126,018**	**116,296**
of which interest-bearing non-current financial assets	31	2,483	2,302
of which interest-bearing current assets	31	15,517	17,769
		18,000	20,071

Consolidated statement of financial position

SEK M	Note	Dec 31, 2019	Dec 31, 2018
EQUITY	26		
Share capital		1,260	1,260
Paid-in capital		3,027	2,782
Reserves		3,165	2,509
Retained earnings		25,472	22,699
Equity attributable to equity holders		**32,924**	**29,250**
Non-controlling interests		97	97
TOTAL EQUITY		**33,021**	**29,347**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	27	2,565	3,912
Lease liabilities	40	7,843	–
Pensions	28	6,866	5,669
Deferred tax liabilities	16	1,045	711
Total non-current liabilities		**18,319**	**10,292**
Current liabilities			
Current financial liabilities	27	4,617	7,310
Lease liabilities	40	1,078	–
Tax liabilities	16	564	615
Current provisions	29	10,021	9,922
Contract liabilities	9	20,419	20,738
Other operating liabilities	30	37,979	38,072
Total current liabilities		**74,678**	**76,657**
TOTAL LIABILITIES		**92,997**	**86,949**
EQUITY AND LIABILITIES	32	**126,018**	**116,296**
of which interest-bearing financial liabilities	31	16,051	11,171
of which interest-bearing pensions and provisions	31	6,866	5,669
		22,917	16,840

Information on the Group’s pledged assets and contingent liabilities can be found in Note 33.

Consolidated statement of changes in equity

SEK M	Equity attributable to equity holders							
	Share capital	Paid-in capital	Translation reserve	Cash flow reserve hedge	Retained earnings	Total	Non-controlling interests	Total equity capital
Equity, December 31, 2017	**1,260**	**2,528**	**1,759**	**–615**	**22,132**	**27,064**	**121**	**27,185**
Changed accounting principle, Note 3					–140	–140		–140
Adjusted equity, January 1, 2018	**1,260**	**2,528**	**1,759**	**–615**	**21,992**	**26,924**	**121**	**27,045**
Profit for the year					4,571	4,571	23	4,594
Other comprehensive income for the year			1,116	249	–419	946	3	949
Dividend paid					–3,373	–3,373	–27	–3,400
Change in Group composition							–23	–23
Repurchase of 435,000 Series B shares					–72	–72		–72
Change in share- based payments		254				254		254
Equity, December 31, 2018	**1,260**	**2,782**	**2,875**	**–366**	**22,699**	**29,250**	**97**	**29,347**
Changed accounting principle, Note 3					–67	–67		–67
Adjusted equity, January 1, 2019	**1,260**	**2,782**	**2,875**	**–366**	**22,632**	**29,183**	**97**	**29,280**
Profit for the year					6,031	6,031	23	6,054
Other comprehensive income for the year			676	–20	–729	–73	3	–70
Dividend paid					–2,462	–2,462	–26	–2,488
Change in share- based payments		245				245		245
Equity, December 31, 2019	**1,260**	**3,027**	**3,551**	**–386**	**25,472**	**32,924**	**97**	**33,021**

See also Note 26.

Consolidated cash flow statement

SEK M	2019	2018
Operating activities		
Operating income	7,428	5,647
Adjustments for items not included in cash flow	–2,724	–5,253
Income tax paid	–1,309	–414
Cash flow from operating activities before change in working capital	**3,395**	**–20**
Cash flow from change in working capital		
Investments in current-asset properties	–22,036	–21,647
Divestments of current-asset properties	25,330	27,081
Change in inventories and operating receivables	2,009	2,434
Change in operating liabilities	–2,660	1,606
Cash flow from change in working capital	**2,643**	**9,474**
Cash flow from operating activities	**6,038**	**9,454**
Investing activities		
Acquisition of businesses	–6	–16
Investments in intangible assets	–116	–225
Investments in property, plant and equipment	–2,566	–2,351
Investments in PPP-portfolio		–62
Investments in shares	–108	–37
Increase in interest-bearing receivables	–1,300	–1,394
Divestments of intangible assets		6
Divestments of property, plant and equipment	25	420
Divestment assets in the PPP portfolio	1,028	80
Divestments of shares	284	12
Decrease in interest-bearing receivables	1,607	1,229
Income tax paid	–62	–29
Cash flow from investing activities	**–1,214**	**–2,367**
Financing activities		
Net interest items	224	134
Other financial income and expense	79	22
Borrowings	2,497	1,419
Repayment of debt excluding lease liabilities	–6,219	–1,565
Total cash outflow from leases	–1,286	–
Dividend paid	–2,462	–3,373
Shares repurchased		–72
Dividend to non-controlling interests	–26	–27
Income tax paid	295	–47
Cash flow from financing activities	**–6,898**	**–3,509**
Cash flow for the year	**–2,074**	**3,578**
Cash and cash equivalents, January 1	10,722	6,998
Translation differences in cash and cash equivalents	97	146
Cash and cash equivalents, December 31	**8,745**	**10,722**

Change in interest-bearing net receivables/net liabilities

SEK M	2019	2018
Interest-bearing net receivables/ net liabilities, January 1	**3,231**	**–1,126**
Changed accounting principle, Note 3	–7,469	–30
Adjusted opening balance	**–4,238**	**–1,156**
Cash flow from operating activities	6,038	9,454
Cash flow from investing activities excluding change in interest-bearing receivables	–1,521	–2,202
Cash flow from financing activities excluding change in interest-bearing liabilities	–3,176	–3,363
Remeasurement of pension liabilities	–751	–271
Net receivable/net liability acquired/divested	–505	–7
Translation differences	129	282
Other	–893	494
Interest-bearing net receivables/ net liabilities, December 31	**–4,917**	**3,231**

See also Note 35.

Consolidated cash flow statement, specification

Consolidated operating cash-flow statement and change in interest-bearing net receivables/net liabilities

SEK M	2019	2018
Construction		
Cash flow from operating activities	6,614	2,755
Change in working capital	–262	2,600
Net divestments (+) / investments (–)	–1,503	–2,080
Total Construction	**4,849**	**3,275**
Residential Development		
Cash flow from operating activities	–707	–476
Change in working capital	1,055	26
Net divestments (+) / investments (–)	2,354	1,604
Accrual adjustments[1]		
Total Residential Development	**2,702**	**1,158**
Commercial Property Development		
Cash flow from operating activities	–917	–1,193
Change in working capital	–1,130	1,393
Net divestments (+) / investments (–)	775	3,823
Accrual adjustments[1]	209	–39
Total Commercial Property Development	**–1,063**	**3,984**
Central and eliminations		
Cash flow from operating activities	–286	–692
Change in working capital	–314	17
Net divestments (+) / investments (–)	6	–31
Total central and eliminations	**–594**	**–706**
Total cash flow from operating activities	4,704	394
Total change in working capital	–651	4,036
Total net divestments (+) / investments (–)	1,632	3,316
Total accrual adjustments[1]	209	–39
Total cash flow from operating activities before taxes paid	**5,894**	**7,707**

SEK M	2019	2018
Taxes paid in business operations	–1,371	–443
Cash flow from operating activities including taxes paid	**4,523**	**7,264**
Net interest items, other financial items and repayment of lease liabilities	–983	156
Taxes paid in financing operations	295	–47
Cash flow from financing activities	**–688**	**109**
Cash flow from operations	**3,835**	**7,373**
Strategic net divestments (+) / investments (–)	–6	–16
Dividend etc.[2]	–2,488	–3,472
Cash flow before change in interest-bearing receivables and liabilities	**1,341**	**3,885**
Change in interest-bearing receivables and liabilities excluding lease liabilities	–3,415	,–311
Cash flow for the period	**–2,074**	**3,574**
Cash and cash equivalents, January 1	10,722	6,998
Translation differences in cash and cash equivalents	97	146
Cash and cash equivalents, December 31	**8,745**	**10,718**

1 Refers to payments made during the reporting year related to divestments/investments in prior years, and unpaid divestments/investments related to the reporting year.

2 Of which shares repurchased	0	–72

See also Note 35.

Parent company income statement

SEK M	Note	2019	2018
Revenue	45	729	739
Gross income		729	**739**
Selling and administrative expenses		–533	–697
Operating income	48, 49, 61	**196**	**42**
Income from holdings in Group companies	46	2,896	3,982
Interest expense and similar items	46	–33	–51
Income after financial items		**3,059**	**3,973**
Tax on profit for the year	47	–21	–3
Profit for the year[1]		**3,038**	**3,970**

1 Coincides with comprehensive income for the year.

Parent company balance sheet

SEK M	Note	Dec 31, 2019	Dec 31, 2018
ASSETS			
Intangible non-current assets	48	**11**	**13**
Property, plant and equipment	49		
Plant and equipment		0	1
Total property, plant and equipment		**0**	**1**
Non-current financial assets	50		
Holdings in Group companies	51	11,318	11,283
Holdings in joint arrangements	52	3	3
Receivables in Group companies	62	318	301
Deferred tax assets	47	64	74
Other non-current receivables	50	107	107
Total non-current financial assets		**11,810**	**11,768**
Total non-current assets		**11,821**	**11,782**
Current receivables			
Current receivables in Group companies	62	28	12
Tax assets		8	14
Other current receivables		107	116
Prepaid expenses and accrued income	53	14	7
Total current receivables		**157**	**149**
Total current assets		**157**	**149**
ASSETS	58	**11,978**	**11,931**

SEK M	Note	Dec 31, 2019	Dec 31, 2018
EQUITY AND LIABILITIES			
Equity	54		
Share capital		1,260	1,260
Statutory reserve		598	598
Restricted equity		**1,858**	**1,858**
Retained earnings		3,892	2,168
Profit for the year		3,038	3,970
Unrestricted equity		**6,930**	**6,138**
Total equity		**8,788**	**7,996**
Provisions	55		
Provisions for pensions and similar obligations	56	173	176
Other provisions		81	139
Total provisions		**254**	**315**
Non-current interest-bearing liabilities	57		
Liabilities to Group companies	62	2,816	3,500
Total non-current interest-bearing liabilities		**2,816**	**3,500**
Current liabilities	57		
Trade accounts payable		21	18
Liabilities to Group companies	62	21	26
Other liabilities		5	6
Accrued expenses and prepaid income		73	70
Total current liabilities		**120**	**120**
EQUITY AND LIABILITIES	58	**11,978**	**11,931**

Parent company statement of changes in equity

SEK M	Share capital	Statutory reserve	Unrestricted equity	Total equity
Equity, January 1, 2018	**1,260**	**598**	**5,355**	**7,213**
Repurchase of 435,000 Series B shares			–72	–72
Compensation from subsidiaries for shares issued under employee ownership programs			4	4
Dividend paid			–3,373	–3,373
Share-based payments			254	254
Profit for 2018[1]			3,970	3,970
Equity, December 31, 2018/ Equity, January 1, 2019	**1,260**	**598**	**6,138**	**7,996**
Compensation to subsidiaries for shares issued under employee ownership programs			–29	–29
Dividend paid			–2,462	–2,462
Share-based payments			245	245
Profit for 2019[1]			3,038	3,038
Equity, December 31, 2019	**1,260**	**598**	**6,930**	**8,788**

1 Coincides with comprehensive income for the year.

See also Note 54.

Parent company cash flow statement

SEK M	2019	2018
Operating activities		
Operating income	196	42
Adjustments for items not included in cash flow	15	20
Income tax paid	–12	–17
Cash flow from operating activities before change in working capital	**199**	**45**
Cash flow from change in working capital		
Change in operating receivables	–14	20
Change in operating liabilities	–61	5
Cash flow from change in working capital	**–75**	**25**
Cash flow from operating activities	**124**	**70**
Investing activities		
Increase in interest-bearing receivables	–17	–54
Decrease in interest-bearing receivables		
Cash flow from investing activities	**–17**	**–54**
Financing activities		
Net interest items	–33	–51
Dividends received	2,896	3,982
Repayment of debt	–684	–677
Dividend paid	–2,462	–3,373
Repurchase of shares		–72
Income tax paid	7	11
Payments from subsidiaries for employee ownership programs	169	164
Cash flow from financing activities	**–107**	**–16**
Cash flow for the year	**0**	**0**
Cash and cash equivalents, January 1	0	0
Cash and cash equivalents, December 31	**0**	**0**

See also Note 60.

Notes including accounting and valuation principles

Amounts in millions of Swedish kronor (SEK M) unless otherwise specified.
Income is reported in positive figures and expense in negative figures.
Both assets and liabilities are reported in positive figures.
Interest-bearing net receivables/net liabilities are reported in positive figures if they are receivables and negative figures if they are liabilities.
Accumulated depreciation/amortization and accumulated impairment losses are reported in negative figures.

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Note 1. Consolidated accounting and valuation principles

Conformity with laws and standards

In compliance with the ordinance approved by the European Union (EU) on the application of international accounting standards, the consolidated financial statements have been prepared according to the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), as well as the interpretations by the IFRS Interpretations Committee and its predecessor, the Standing Interpretations Committee (SIC), to the extent these standards and interpretations have been approved by the EU. In addition, the Swedish Financial Reporting Board's Recommendation RFR 1 "Supplementary Accounting Rules for Groups" has been applied, as have the Statements of the Swedish Financial Reporting Board.

The Parent Company applies the same accounting principles as the Group, except in the cases indicated below in the section "Parent Company accounting and valuation principles."

The Parent Company's annual accounts and the consolidated annual accounts were approved for issuance by the Board of Directors on February 6, 2020. The Parent Company income statement and balance sheet and the consolidated income statement and statement of financial position will be subject to adoption by the Annual General Meeting on March 26, 2020.

Conditions when preparing the Group's financial reports

The functional currency of the Parent Company is Swedish crowns or kronor (SEK), which is also the reporting currency of the Parent Company and of the Group. The financial reports are therefore presented in Swedish kronor. All amounts are rounded off to the nearest million, unless otherwise stated.

Preparing the financial reports in accordance with IFRS requires management to make judgments and estimates, and to make assumptions that affect the application of the accounting principles and the recognized amounts of assets, liabilities, revenue and expenses. Actual outcomes may deviate from these estimates and judgments.

Estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period the change is made if the change only affects this period, or in the period the change is made and future periods if the change affects both the period in question and future periods.

Judgments made by management when applying IFRS with a substantial impact on the financial reports and estimates that may lead to significant adjustments in the financial reports of subsequent years are described in more detail in Note 2.

The accounting principles for the Group described below have been applied consistently for all periods that are presented in the Group's financial reports, unless otherwise indicated below. The accounting principles for the Group have been applied consistently in reporting and consolidation of the Parent Company, subsidiaries, associated companies and joint arrangements.

New standards and interpretations

A new standard IFRS 16 is effective from January 1, 2019. Under IFRS 16 Leases, as the lessee in operating leases as well, Skanska recognizes operating leases in the statement of financial position, except for low-value or short-term leases. Skanska has chosen to implement the standard retrospectively with cumulative effect, i.e. without restating the comparison periods and to apply the standard to contracts that were previously identified as leases under IAS 17. Lines have been added to the balance sheet for property, plant and equipment right-of-use assets, current-asset right-of-use assets as well as interest-bearing lease liabilities. Right-of-use assets are depreciated over the term of the lease, except for current-asset properties right-of-use assets, which are recognized in the same way as current-asset properties. The lease payments are divided up into an interest portion and an amortization portion. The application of IFRS 16 results in an increase in operating profit and a decrease in financial items. There is an increase in cash flow from operating activities and a decrease in cash flow from financing activities.

See the more detailed description of IFRS 16 later in this note, and a description of its effects in Note 3 and Note 42.

Early adoption of new or revised IFRS and interpretations

There has been no early adoption of new or revised IFRS or interpretations.

IAS 1 Presentation of Financial Statements

Income statement

Items recognized as revenue are: project revenue, compensation for other services performed, divestment of current-asset properties, deliveries of materials and merchandise, rental income and other operating revenue. Revenue from the sale of machinery, equipment, non-current-asset properties and intangible assets is not included, but is instead recognized on a net basis among operating expenses against the carrying amounts of the assets. See Note 10.

Items reported as cost of sales include: direct and indirect manufacturing expenses, loss risk provisions, the carrying amounts of divested current-asset properties, bad debt losses and warranty expenses. Also included is depreciation on property, plant and equipment used in construction and property management. Changes in the fair value of derivatives related to operations are recognized in operating income.

Selling and administrative expenses include customary administrative expenses, technical expenses and selling expenses, as well as depreciation of machinery and equipment that have been used in selling and administrative processes. Goodwill impairment losses are also reported as selling and administrative expenses.

Profit/loss from joint ventures and associated companies, after tax, is recognized separately in the income statement and is included in operating income.

Financial income and expenses are recognized divided into two items: "Financial income" and "Financial expense." Among items recognized under financial income are interest income, dividends and other financial items. Financial expense includes interest expense and other financial items. Changes in the fair value of financial instruments, primarily derivatives linked to financing activities, are recognized as a separate sub-item allocated between financial income and financial expenses. The net amount of exchange-rate differences and gains/losses on divestments of shares are recognized either as financial income or financial expense. Financial income and expenses are described in more detail in Note 6 and in Note 14.

Comprehensive income

Aside from profit for the year, the consolidated statement of comprehensive income includes the items that are included under "Other comprehensive income." These include translation differences, hedging of exchange rate risks in foreign operations, remeasurement related to pension-linked assets and liabilities, effects of cash flow hedges and tax on these items.

Statement of financial position

Assets

Assets are allocated between current assets and non-current assets. An asset is regarded as a current asset if it is expected to be realized within 12 months from the closing day or within the company's operating cycle. The operating cycle is the period from the signing of a contract until the company receives cash payment following a final inspection or delivery of goods (including properties). Since the Group executes large contracting projects and project development, the operating cycle criterion means that many more assets are designated as current assets than if the only criterion were within 12 months.

Cash and cash equivalents consist of cash and immediately available deposits at banks and equivalent institutions, plus short-term liquid investments with a maturity from the acquisition date of less than three months that are subject to only an insignificant risk of fluctuation in value. Checks that have been issued reduce cash and cash equivalents only when cashed. Cash and cash equivalents that cannot be used freely are reported as current assets (current receivables) if the restriction will cease within 12 months from the closing day. In other cases, cash and cash equivalents are reported as non-current assets. Cash and cash equivalents belonging to

Note 1. Continued

joint operations are cash and cash equivalents with restrictions if they are only permitted to be used to settle the joint operations' debts.

Assets that meet the requirements in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are accounted for as a separate item among current assets.

Note 31 shows the allocation between interest-bearing and non-interest-bearing assets.

In Note 32, assets are allocated between amounts for assets that are expected to be recovered within 12 months of the closing day and assets that are expected to be recovered later than 12 months from the closing day. The allocation between non-current non-financial assets is based on expected annual depreciation. The division for current-asset properties is mainly based on outcomes during the past three years. This division is even more uncertain than for other assets, since the outcome during the coming year is strongly influenced by the dates when large individual properties are handed over.

Equity

The Group's equity is allocated between "Share capital," "Paid-in capital," "Reserves," "Retained earnings" and "Non-controlling interests."

Acquisitions of treasury shares are recognized as a deduction from equity. Proceeds from the divestment of shares are recognized as an increase in equity. Any transaction costs are recognized directly in equity.

Dividends are recognized as a liability once the Annual General Meeting has approved the dividend.

A description of equity, the year's changes and disclosures concerning capital management are provided in Note 26.

Liabilities

Liabilities are allocated between current liabilities and non-current liabilities. Recognized as current liabilities are liabilities that are either supposed to be paid within 12 months of the closing day or – in the case of business-related liabilities only – are expected to be paid within the operating cycle. Since the operating cycle is taken into account, no non-interest-bearing liabilities, such as trade accounts payable and accrued employee expenses, are recognized as non-current. Liabilities that are recognized as interest-bearing due to discounting are included among current liabilities, since they are paid within the operating cycle. Interest-bearing liabilities can be recognized as non-current even if they fall due for payment within 12 months of the closing day if the original maturity was longer than 12 months and the company reaches an agreement on long-term refinancing of the obligation before the end of the reporting period. Information on liabilities is provided in Note 27 and Note 30.

In Note 32, liabilities are allocated between amounts for liabilities to be paid within 12 months of the closing day and liabilities to be paid later than 12 months from the closing day. Note 31 also provides information about the allocation between interest-bearing and non-interest-bearing liabilities.

IFRS 10 Consolidated Financial Statements

The consolidated financial statements cover the accounts of the Parent Company and the companies in which the Parent Company has a direct or indirect controlling interest. Under IFRS 10, a controlling interest exists when the investor has power over the business, or when it has rights to or is exposed to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. If, on the acquisition date, a subsidiary meets the conditions to be classified as held for sale in accordance with IFRS 5, it is reported according to that accounting standard.

The sale of a portion of a subsidiary is recognized as a separate equity transaction when the transaction does not result in a loss of controlling interest. If control of an operating Group company ceases, any remaining holding is to be recognized at fair value. Non-controlling interests may be recognized as a negative amount if a partly-owned subsidiary is operating at a loss.

Acquired companies are consolidated from the quarter within which the acquisition takes place. In a corresponding manner, divested companies are consolidated up to and including the final quarter before the divestment date.

Intra-Group receivables, liabilities, revenue and expenses are eliminated in their entirety when the consolidated financial statements are prepared.

Gains that arise from intra-Group transactions and that are unrealized from the standpoint of the Group on the closing day are eliminated in their entirety. Unrealized losses on intra-Group transactions are also eliminated in the same way as unrealized gains, to the extent that the loss does not correspond to an impairment loss.

Goodwill attributable to foreign operations is expressed in local currency. Translation to SEK is in accordance with IAS 21. Information on goodwill is provided in Note 18.

IFRS 3 Business Combinations

This accounting standard deals with business combinations, which are mergers of separate entities or operations. If the acquisition does not relate to business operations, as is normally the case when acquiring properties, IFRS 3 is not applied. In such cases, the acquisition cost is instead allocated among the individual identifiable assets and liabilities based on their fair values on the acquisition date, without recognizing goodwill and any deferred tax assets/tax liability resulting from the acquisition.

Acquisitions of businesses, regardless of whether the acquisitions are of holdings in another company or a direct acquisition of assets and liabilities, are recognized according to the purchase method of accounting. If the acquisition is of holdings in a company, the method involves regarding the acquisition as a transaction through which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and contingent liabilities. The cost of the acquisition recognized in the consolidated accounts is determined by means of an acquisition analysis in conjunction with the business combination transaction. The analysis establishes both the cost of the holdings or the business and the fair value of acquired identifiable assets plus the liabilities and contingent liabilities assumed. The difference between the cost of acquiring holdings in a subsidiary and the net fair value of acquired assets and of the liabilities and contingent liabilities assumed is goodwill on consolidation. If non-controlling interests remain after the acquisition, goodwill is normally calculated based only on the Group's stake in the acquired business.

Transaction costs relating to business combinations are expensed immediately. In the case of step acquisitions, previous holdings are remeasured at fair value and recognized in profit or loss when a controlling interest is achieved. Contingent consideration is recognized on the acquisition date at fair value. If the amount of the contingent consideration changes in subsequent financial statements, the change is recognized in profit or loss.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated among cash-generating units and subject to annual impairment testing in accordance with IAS 36.

In the case of business combinations where the cost of acquisition is below the net value of acquired assets and the liabilities and contingent liabilities assumed, the difference is recognized directly in profit or loss.

IAS 21 The Effects of Changes in Foreign Exchange Rates

Foreign currency transactions

Foreign currency transactions are translated into an entity's functional currency at the exchange rate in effect on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the exchange rate in effect on the closing day. Exchange rate differences that arise in remeasurement are recognized in profit or loss. Non-monetary assets and liabilities recognized at historic cost are translated at the exchange rate in effect on the transaction date.

Functional currency is the currency of the primary economic environment where the companies in the Group conduct their business.

Note 1. Continued

Financial statements of foreign operations

Assets and liabilities in foreign operations, including goodwill and other consolidated surpluses and deficits, are translated to Swedish kronor at the exchange rate in effect on the closing day. Revenue and expenses in foreign operations are translated to Swedish kronor at the average exchange rate.

Net investment in foreign operations

Translation differences that arise in connection with translation of a foreign net investment are recognized under "Other comprehensive income." Foreign currency loans and currency derivatives for hedging of translation exposure are carried at the exchange rate on the closing day. Exchange rate differences are recognized, taking into account the tax effect, under "Other comprehensive income."

Hedging of translation exposure reduces the exchange rate effect when translating the financial statements of foreign operations to SEK. Any forward contract premium is accrued until maturity and is recognized as interest income or interest expense.

When divesting a foreign operation, the related accumulated translation differences and accumulated exchange rate differences from any currency hedges are transferred to the Group's profit or loss.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Discontinued operations constitute a portion of an entity's operations that represent a separate line of business or major operations in a geographical area and which are part of a single coordinated plan to dispose of a separate line of business or major operations in a geographical area, or constitute a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operations occurs upon divestment, or at an earlier date when the operations meet the criteria to be classified as held for sale. A disposal group that is to be shut down can also qualify as discontinued operations if it meets the above criteria.

If a non-current asset or disposal group is to be classified as held for sale, the asset (disposal group) must be available for sale in its present condition. It must also be highly probable that the sale will occur. In order for a sale to be highly probable, a decision must have been made at management level, and active efforts to locate a buyer and complete the plan must have been initiated. The asset or disposal group must also be actively marketed at a price that is reasonable in relation to its fair value, and it must be probable that the sale will occur within one year. Skanska also applies the principle that with regard to a single non-current asset, its value must exceed EUR 100 M.

No depreciation or amortization of a non-current asset takes place as long as it is classified as held for sale.

Non-current assets classified as held for sale as well as disposal groups and liabilities attributable to them, and discontinued operations are recognized separately in the statement of financial position.

IAS 28 Investments in Associates and Joint Ventures s

Companies in which the Skanska Group exercises a significant but not a controlling influence, which is presumed to be the case when the Group's holding is between 20 and 50 percent of the voting power, are reported as associated companies. In addition, it is presumed that this ownership is one element of a long-term connection and that the holding will not be reported as a joint arrangement.

Associated companies are recognized according to the equity method, as are joint ventures. See IFRS 11 on joint ventures.

The equity method

From the date when Skanska gains a significant influence in an associated company, or a joint controlling interest in a joint venture, holdings in associated companies and joint ventures are recognized in the consolidated financial statements according to the equity method. Any difference upon acquisition between the cost of the holding and Skanska's share of the net fair value of the associated company's or joint venture's identifiable assets, liabilities and assumed contingent liabilities is recognized in accordance with IFRS 3. Under the equity method, the recognized carrying amount of the Group's interest in associated companies and joint ventures is equivalent to the Group's share of the associated company's share capital, as well as goodwill on consolidation and any other remaining consolidated surpluses and deductions of internal profits. The Group's share of the associated company's or joint venture's income after tax is recognized as "Income from joint ventures and associated companies" in the income statement. Any depreciation, amortization and impairment losses on acquired surpluses have been taken into account. Dividends received from an associated company or joint venture reduce the carrying amount of the investment.

When the Group's share of recognized losses in an associated company or joint venture exceeds the carrying amount of the holdings in the consolidated financial statements, the value of the holding is reduced to zero. Settlement of losses also occurs against long-term unsecured financial assets (subordinated loans), which, in substance, form part of Skanska's net investment in the associated company or joint venture and are thus recognized as shares. Continued losses are only recognized if the Group has provided guarantees to cover losses arising in the associated company or joint venture, and then as a provision.

Elimination of intra-Group profits

When profits arise from transactions between the Group and an associated company or a joint venture, the portion equivalent to the Group's share of ownership is eliminated. If the carrying amount of the Group's holding in the associated company is less than the elimination of internal profit, the excess portion of the elimination is recognized as prepaid income. If a loss arises from a transaction between the Group and an associated company or a joint venture, the loss is eliminated only if it does not correspond to an impairment loss on the asset.

If a profit or loss has arisen in the associated company or in a joint venture, the elimination affects the income for the transaction year recognized under "Income from joint ventures and associated companies." The elimination of the internal profit is reversed in later financial statements based on how the asset is used or when it is divested.

The equity method is applied until the date when the significant influence in an associated company or the joint controlling interest in a joint venture ceases. The sale of an interest in an associated company or in a joint venture is recognized on the date that the Group no longer has control over the holding.

Note 20 B provides information about associated companies and joint ventures.

IFRS 11 Joint Arrangements

A joint arrangement exists when the co-owners are bound by a contractual arrangement, and the contractual arrangement gives those parties joint control of the arrangement. The joint arrangement may be either a joint operation or a joint venture. A joint operation exists where the co-owners have rights to the assets of the arrangement and obligations for the liabilities of the arrangement. A joint arrangement that is not structured through the formation of a separate company is a joint operation. Contracting projects executed in cooperation with outside contracting companies, with joint and several liability, are reported by Skanska as joint operations. If the joint arrangement is a separate company but the vast majority of the company's production is acquired by the co-owners and there is no obstacle to its sale to an external party, the joint arrangement is often considered to be a joint operation. In other cases the arrangement is a joint venture. If the co-owners of the joint arrangement only have rights to the net assets of the arrangement, it is a joint venture. Classification of a joint arrangement requires a determination of its legal form, the terms of the contractual arrangement between the co-owners and other circumstances.

For joint operations the revenue, costs, assets and liabilities of the joint operation are included line by line in the consolidated financial statements

Note 1. Continued

according to Skanska's interest in the joint operation. Joint operations are described in Note 20 C.

The equity method is used for joint ventures when preparing the consolidated financial statements. This method is described under the heading IAS 28.

In connection with PPP projects, the Group's investment may include either holdings in or subordinated loans to a joint venture. Both are treated in the accounts as shares in joint ventures.

Note 20 B provides information about joint ventures and a specification of significant holdings in joint operations is given in Note 20 C.

IFRIC 12 Service Concession Arrangements

IFRIC 12, which affects Skanska's joint ventures within the PPP portfolio, deals with the question of how the operator of a service concession should account for the infrastructure, as well as the rights it receives and the obligations it undertakes under the agreement. The operator constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and maintains the infrastructure (operation services) for a specified period of time. Construction or upgrade services and operation services are reported in accordance with IFRS 15. The consideration may be rights to a financial asset or an intangible asset. If the operator has an unconditional right in specified or determinable amounts (the consideration model is based on availability through the provision of, for example, a hospital or an airport), a financial asset is recognized. IFRS 9 requires interest to be calculated on this financial receivable. The customer does not pay until the facility is put into operation, and the payment received is then reported as a reduction in the financial receivable. If the operator is instead entitled to charge the user of the public service (the consideration model is based on market risk through, for example, road tolls) an intangible asset is recognized, which is amortized over the life cycle of the project. The road tolls received in payment are recognized as revenue.

IFRS 15 Revenue from Contracts with Customers

Under IFRS 15 revenue is recognized based on a five-step model. Step one involves identifying the contract with a customer. If two or more contracts are entered into with a customer at the same time and the price of one contract is dependent on the other contract, the contracts are combined. A contract modification involves a change to the scope or price (or both) of a contract that has been approved by the contracting parties. A contract modification exists when the parties approve a change that either creates new or changes existing rights and responsibilities for the contracting parties. A contract modification is treated as a separate contract when the scope of the contract increases due to the addition of promised goods or services which are distinct and where the price of the contract is raised by an amount reflecting the company's stand-alone selling price for the additional goods or services promised. If the parties have not approved a contract modification the entity is to continue applying the standard for the existing contract until such time as the contract modification is approved.

Step two involves identifying the separate performance obligations in the contract. A performance obligation is a promise to the customer to transfer goods or services that are distinct, or a series of distinct goods or services that are essentially the same and follow the same model for transfer to the customer. Goods or services are distinct if the customer can benefit from the goods or services either on their own or in combination with other resources that are readily available to the customer and if the entity's promise to transfer the goods or services to the customer is separately identifiable from the other promises in the contract. Skanska's customer contracts are usually of the type that do not require categorization into two or more performance obligations.

In step three the transaction price is determined. This determination involves establishing a fixed agreed price, variable consideration, any contingent considerations, bonuses and penalties. If there is variable consideration, an estimate is made of the highest amount of revenue that will likely not require a reversal of accumulated revenue in later reporting periods.

If the contract includes a significant financing component, the transaction price is to be adjusted for the effect of the time value of the money. Changes to and supplementary orders in contracts that have not yet been approved by the customer do not require an increase in the transaction price in the project's estimated income upon completion.

Where there is a non-cash consideration, this is measured at fair value. If a customer defers goods or services, an assessment is made as to whether it has gained control of these; if this is the case, they are recognized as non-cash revenue received from the customer.

The revenue/transaction price is allocated in step four over the separate performance obligations in the contract if more than one obligation exists. The allocated transaction price for each individual obligation is to reflect the consideration that the company is expecting to have the right to in exchange for the transfer of the promised goods or services to the customer, based on a relative, stand-alone selling price.

Revenue is recognized in step five when the performance obligation is satisfied, either over time or at a point in time, and when the customer obtains control of the asset. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance, when the entity's performance creates or enhances an asset that the customer controls, or when the entity's performance does not create an asset with an alternative use for the entity and the entity also has the right to payment for its performance completed to date. If a performance obligation is not satisfied over time as stated above, the entity fulfills the obligation at a certain point in time. This takes place at the point when the customer gains control of the promised asset. Indicators for determining control can be that the entity has the right to receive payment for the asset, the customer has the legal right of ownership of the asset, the entity has transferred the physical possession of the asset, the customer has the material risks and rewards associated with ownership of the asset or the customer has accepted the asset.

Costs relating to obtaining a contract, i.e., costs the entity would have had if it had not won the contract, are recognized as an asset only if the entity is expecting to have those expenses covered. Expenses to complete a contract that does not fall under a standard other than IFRS 15 are recognized as an asset if the expenses have a direct link to a contract or to an expected contract, if the expenses create or enhance resources that will be used to fulfill the performance obligation in the future and that are also expected to be recovered. These "Assets arising from expenses to obtain or complete a contract with a customer" are included in the line item "Contract assets" and are reported in Note 9.

Contract assets and contract liabilities are recognized net of revenue recognized and invoiced amounts per project. Construction contracts often allow for invoicing in advance. Once an amount has been invoiced, a trade account receivable is recognized.

Loss contracts are expensed immediately and provisions for losses are made for the remaining work to be done and recognized according to IAS 37.

As stated under the heading "Segment reporting compared with IFRS reporting", a different principle is used to establish when revenue is recognized in segment reporting for the Residential Development and Commercial Property Development business streams.

The Construction business stream builds and renovates buildings, industrial facilities and infrastructure. It also executes service-related assignments, in areas such as construction services and facility operations and maintenance. This business serves both public and private customers.

A combination of contracts happens rarely, but contract modifications, such as those related to additional orders, are common. In most cases the added goods or services are not distinct and therefore form part of a single performance obligation that is partially met at the time of the contract modification and is reported as being a part of the existing contract.

Most often the contracts, within this business stream, contain only one performance obligation. Performance obligations in the Construction business stream are the construction contract or the service that is to be

Note 1. Continued

delivered, for example the construction of a building on the customer's land or the maintenance of existing facilities, such as roads. If an agreement involves operations in different geographical locations, delivered during different time periods or with different risk exposures, the breakdown of several performance obligations may be relevant.

If there is a right to variable remuneration, such as incentive agreements, this is taken into account to the extent that it is highly unlikely it will be reversed at a later date.

Revenue is recognized over time in the Construction business stream, when the customer simultaneously receives and consumes the benefits provided through the entity's performance or when Skanska creates or enhances an asset that the customer controls.

Revenue is recognized over time, determined each quarter, on the basis of accumulated project expenses in relation to estimated accumulated project expenses upon completion.

The Residential Development business stream develops and sells new residential and rental units. Its customers consist mainly of private persons. The reason for recognizing revenue is usually an agreement to sell a specific unit, such as a residential apartment. Contract modifications are rare, but are included in the original contract if they do occur.

The performance obligation in the Residential Development business stream is the handing over of an apartment that is ready for occupation. The transaction price is a fixed price according to the terms of the sales agreement.

Revenue is recognized at the point in time when the keys to the home are handed over to the individual buyer. In other words, it is recognized when the buyer has taken possession of the apartment and has full control over it as the owner. This is based on Skanska being deemed not to be entitled to full payment until fulfillment of its contract obligation. Even if a certain advance payment is made by the buyer, Skanska is not entitled to full payment for the work completed to date. This is due to the fact that sales contracts contain clauses that allow the buyer in certain situations to withdraw from the contract during construction without reimbursing Skanska in the manner required for the recognition of revenue over time.

Skanska initiates and enters into agreements with newly formed Swedish cooperative housing associations or Finnish housing corporations for the construction of homes. Under the terms in these agreements Skanska has a controlling influence and thus consolidates the cooperative housing associations and housing corporations during the construction period and until the end-customer takes possession, at which point Skanska no longer has a controlling influence. Homes not yet transferred are recognized as current-asset properties.

In the Commercial Property Development stream Skanska initiates, invests in, develops and leases commercial properties that it sells to real estate investors.

Within this business stream the performance obligation to the customer (the property investor) is to deliver an investment holding in the form of a commercial property, usually with tenants. If land is sold prior to the commencement of construction work, the sale of land is a performance obligation on its own, which means that the construction work becomes a separate performance obligation within the Construction business stream.

The development of commercial projects is a continuous process with a number of clearly defined phases. The average development cycle from the initial project idea to its completion is five to seven years. Divestment normally occurs at the end of the cycle, when a project is completed. The performance obligation is to hand over a fully developed property that usually becomes an investment holding of the customer.

The combination of contracts rarely occurs. In some cases, Skanska also assists the investor with renting the property, an undertaking that may be a separate performance obligation. The transaction price is usually a fixed price according to the terms of the contract.

When the contract with the customer is signed, there is no alternative use for the property. If Skanska is entitled to payment for any work performed to date, this would depend on the contractual terms and conditions and on the applicable legislation. Skanska's assessment is, however, that it usually assumes this right only when fulfilling a contract obligation. Prior to the completion of a project, Skanska normally only has the right to an indemnity not equal to work performed to date. Revenue is therefore recognized at a point in time when the property is handed over to the customer.

It is considered appropriate to recognize the sale of properties through divestment of companies according to IFRS 15 and not as divested companies under IFRS 10 as it is an asset that is being divested, not a company with a business.

The PPP portfolio includes development of hospitals, airports, roads and other necessary social structures. The accounting of these projects complies with IFRIC 12 Service Concession Arrangements, which in turn accounts for revenue according to IFRS 15.

IFRS 16 Leases – Applies to the financial year beginning on January 1, 2019

Leases, with the exception of leases with a term of less than 12 months and leases where the underlying asset is of low value, are recognized in the statement of financial position as property, plant and equipment right-of-use assets, current-asset properties right-of-use assets as well as interest-bearing lease liabilities.

A contract is a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Non-lease components in a contract, such as servicing costs, are separated out and not included in the calculation of the value of the right-of-use asset where it is possible to separate such costs. Contracts with subcontractors are generally considered to be service agreements since Skanska is requesting a service and the contract does not give Skanska control over a specific asset. Hire of tower cranes and scaffolding, which in large construction projects are generally hired for a long period, is reported as leases.

When assessing whether an asset is of low value, the asset is grouped with assets on which it is heavily dependent or with which it is linked. Where the asset can be substituted by the supplier and it is practically possible to do so, a lease is not considered to exist since Skanska does not have control over the specific asset.

The lease term is the non-cancellable period of the lease, taking into consideration any extension or termination option for the contract and whether it is reasonably certain that this option will be exercised. Current-asset properties right-of-use assets which are in practice always extended are considered to be perpetual rights of use and the lease term is then set at 100 years.

Rights of use of property, plant and equipment are depreciated over the lease term except in the case of perpetual rights of use of land, which are not depreciated at all since the remaining lease term is always a constant 100 years. Rights of use for current-asset properties – both those considered to be perpetual and those with a fixed lease term – are not depreciated at all since they are reported in accordance with IAS 2.

When making payments on a lease, the payment is divided between interest expense and reduction of the outstanding liability. Payments relating to rights of use that are not depreciated are recognized entirely as interest expense, since – as mentioned earlier – the liability is unchanged. The interest expense is capitalized during the construction period in the case of rights of use for current-asset properties.

In the case of sale and leaseback transactions, the seller only recognizes the gain that relates to the rights transferred to the buyer, while a right of use is recognized for the rights retained.

IAS 17 Leases – Applies to financial years ending on December 31, 2018

The accounting standard distinguishes between finance and operating leases. A finance lease is characterized by the fact that the economic risks and rewards incidental to ownership of the asset have substantially been transferred to the lessee. If this is not the case, the agreement is regarded as an operating lease.

Note 1. Continued

Finance leases

Assets that are leased under a finance lease, as a lessee, are recognized as assets. The obligation to make future lease payments is recognized as a non-current or current liability. The leased assets are depreciated during their respective useful lives. When making payments on a finance lease, the minimum lease payment is divided between interest expense and reduction of the outstanding liability. Interest expense is allocated over the lease period in such a way that each reporting period is charged an amount equivalent to a fixed interest rate for the liability recognized during each respective period. Variable payments are recognized among expenses in the periods when they arise.

Assets leased under finance leases, as a lessor, are not recognized as property, plant and equipment, since the risks incidental to ownership have been transferred to the lessee. Instead a financial receivable is recognized for the future minimum lease payments.

Operating leases

As for operating leases, the lease payment is recognized as an expense/ as revenue over the lease term on the basis of utilization, and taking into account the benefits that have been provided or received when signing the lease.

The Commercial Property Development business stream carries out operating lease transactions. Information on future minimum lease payments (rents) is provided in Note 40, which also contains other information about leases.

IAS 16 Property, Plant and Equipment

Property, plant and equipment are recognized as assets if it is probable that future economic benefits from them will flow to the Group and the cost of the assets can be reliably calculated. Property, plant and equipment are recognized at cost minus accumulated depreciation and any impairment losses. Cost includes the purchase price plus expenses directly attributable to the asset in order to bring it to the location and condition to be used in the intended manner. Examples of directly attributable expenses are delivery and handling costs, installation, ownership documents, consultant fees and legal services. Borrowing costs are included in the cost of property, plant and equipment produced by the Group. Impairment losses are applied in accordance with IAS 36.

The cost of property, plant and equipment produced by the Group includes expenditures for materials and remuneration to employees, plus other applicable manufacturing costs that are considered attributable to the asset.

Further expenditures are added to cost only if it is probable that the Group will derive future economic benefits from the asset and the cost can be reliably calculated. All other further expenditures are recognized as expenses in the period when they arise.

The decisive factor in determining when a further expenditure is added to cost is whether the expenditure is related to replacement of identified components, or parts thereof, at which time such expenditures are capitalized. In cases where a new component is created, this expenditure is also added to cost. Any undepreciated carrying amounts for replaced components, or parts thereof, are disposed of and recognized as an expense at the time of replacement. If the cost of the removed component cannot be determined directly, its cost may be estimated as the cost of the new component adjusted by a suitable price index to take into account inflation. Repairs are recognized as expenses on a continuous basis.

Property, plant and equipment that consist of parts with different useful lives are treated as separate components of property, plant and equipment. Depreciation occurs on a straight-line basis during the estimated useful life, or based on degree of use, taking into account any residual value at the end of the period. Office buildings are divided into foundation and frame, with a depreciation period of 50 years, installations of 35 years, and non-weight-bearing parts of 15 years. In general, industrial buildings are depreciated over a 20-year period without allocation into different parts. Stone crushing and asphalt plants as well as concrete mixing plants are depreciated over 10 to 25 years depending on their condition when acquired and without being divided into different parts. For other buildings and equipment, division into different components occurs only if major components with different useful lives can be identified. For other machinery and equipment, the depreciation period is normally between five and 10 years. Minor equipment is recognized as an expense immediately. Gravel pits and stone quarries are depreciated as materials are removed. Land is not depreciated. Assessments of an asset's residual value and period of service are performed annually.

The carrying amount of a property, plant and equipment item is removed from the statement of financial position when it is disposed of or divested, or when no further economic benefits are expected from the use or divestment of the asset.

IAS 38 Intangible Assets

This accounting standard deals with intangible assets. Goodwill that arises upon acquisition of companies is recognized in accordance with the rules in IFRS 3.

An intangible asset is an identifiable non-monetary asset without physical substance that is used for producing or supplying goods or services or for leasing and administration. To be recognized as an asset, it is necessary both that it be probable that future economic benefits attributable to the asset will flow to the entity and that the cost can be reliably calculated. It is especially worth noting that expenditures recognized directly in prior annual or interim reporting periods may not subsequently be recognized as an asset.

Research expenses are recognized in the income statement as they arise. Development expenses, which are expenses for designing new or improved materials, structures, products, processes, systems and services by applying research findings or other knowledge, are recognized as assets if it is probable that the asset will generate future revenue. Other development expenses are expensed directly. Expenses for regular maintenance and modifications of existing products, processes and systems are not recognized as development expenses. Nor is work performed on behalf of a customer recognized as development expenses.

Intangible assets other than goodwill are recognized at cost minus accumulated amortization and impairment losses. Impairment losses are applied in accordance with IAS 36.

Amortization is recognized in the income statement on a straight-line basis, or based on the degree of use, over the useful life of intangible assets, to the extent such a period can be determined. Consideration is given to any residual value at the end of the period. Acquired customer contracts are amortized at the pace of completion and patents are amortized over 10 years. Investments in major computer systems are amortized over a maximum of seven years.

Further expenditures for capitalized intangible assets are recognized as an asset only when they increase the future economic benefits of the specific asset to which they are attributable.

IAS 36 Impairment of Assets

Assets covered by IAS 36 are tested on every closing day for indications of impairment. Exempted assets, for example inventories (including current-asset properties), assets arising when construction contracts are carried out and financial assets included within the scope of IFRS 9, are measured according to the respective accounting standard.

Impairment losses are determined on the basis of the recoverable amount of assets, which is the higher of fair value less cost to sell and value in use. In calculating value in use, future cash flows are discounted using a discounting factor that takes into account risk-free interest and the risk associated with the asset. Estimated residual value at the end of the asset's useful life is included as part of value in use. For assets that do not generate cash flows that are essentially independent of other assets, the recovery value is calculated for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest group of assets that generates

Note 1. Continued

cash inflows that are independent of other assets or groups of assets. For goodwill, the cash-generating unit is mainly the same as the Group's business unit or other unit reporting to the Parent Company. If the business unit operates in more than one business stream, the cash-generating unit is no larger than the identified business stream to which goodwill has been allocated. Operations that are not integrated into the business unit's other operations are exempted from the main rule.

In Construction and Residential Development, the recoverable amount of goodwill is based on value in use, which is calculated by discounting expected future cash flows. The discounting factor is the weighted average cost of capital (WACC) applicable to the operation. See Note 18.

Impairment of assets attributable to a cash-generating unit is allocated mainly to goodwill. After that, a proportionate impairment loss is applied to other assets included in the unit.

Goodwill impairment is not reversed. A goodwill-related impairment loss recognized in a previous interim report is not reversed in a later full-year report or interim report.

Impairment losses on other assets are reversed if there has been a change in the assumptions on which the estimate of the recoverable amount was based.

An impairment loss is reversed only to the extent that the carrying amount of the asset after the reversal does not exceed the carrying amount that the asset would have had if no impairment loss had occurred, taking into account the amortization that would then have occurred.

IAS 23 Borrowing Costs

Borrowing costs are capitalized provided that it is probable that they will result in future economic benefits and the costs can be measured reliably. Generally speaking, capitalization of borrowing costs is limited to assets that take a substantial period of time for completion, which in the Group's case mainly means the construction of current-asset properties and properties for the Group's own use (non-current-asset properties). Capitalization occurs when expenditures included in acquisition cost have arisen and activities to complete the building have begun. Capitalization ceases when the building is completed. Borrowing costs during an extended period when work to complete the building is interrupted are not capitalized. If separate borrowing has occurred for the project, the actual borrowing cost is used. In other cases, the cost of the loan is calculated on the basis of the Group's borrowing cost.

IAS 12 Income Taxes

Income taxes consist of current tax and deferred tax. Income taxes are recognized in the income statement except when the underlying transaction is recognized directly under "Other comprehensive income," in which case the accompanying tax effect is also recognized there. Current tax is tax to be paid or received that is related to the year in question, applying the tax rates that have been decided or have effectively been decided as of the closing day; this also includes adjustment of current tax attributable to earlier periods.

Deferred tax is calculated according to the balance sheet method based on temporary differences arising between reported and fiscal values of assets and liabilities. The amounts are calculated based on how the temporary differences are expected to be settled and by applying the tax rates and tax rules that have been decided or announced as of the closing day. The following temporary differences are not taken into account: for a temporary difference that has arisen upon initial recognition of goodwill, the initial recognition of assets and liabilities that are not business combinations and which, on the transaction date, affect neither recognized profit nor taxable profit. Also not taken into account are temporary differences attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Offsetting of deferred tax assets against deferred tax liabilities occurs when there is a right to settle current taxes between companies.

Deferred tax assets related to deductible temporary differences and loss carryforwards are recognized only to the extent it is likely that they can be utilized. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilized.

IAS 2 Inventories

Aside from customary inventories of goods, the Group's current-asset properties are also encompassed by this accounting standard. Both current-asset properties and inventories of goods are measured item by item in accordance with the lowest cost principle, which means that a property or item is measured either by its acquisition cost or net realizable value, whichever is lower. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

When item-by-item measurement cannot be applied, the cost of inventories is assigned by using the first-in, first-out (FIFO) formula and includes expenditures that have arisen from acquisition of inventory assets and from bringing them to their present location and condition. For manufactured goods, cost includes a reasonable share of indirect costs based on normal capacity utilization. Materials not yet installed at construction sites are not recognized as inventories, but are included among project expenses.

Except for properties that are used in Skanska's own business, the Group's property holdings are reported as current assets, since these holdings are included in the Group's operating cycle. The operating cycle for current-asset properties is around three to five years.

Acquisitions of properties are recognized in their entirety only upon the transfer of legal ownership, which normally occurs on completion of the purchase. Property acquisitions through purchases of property-owning companies are recognized when the shares have been taken over by Skanska.

Current-asset properties are divided up between Commercial Property Development and Residential Development. They are also categorized as "Development properties," "Properties under construction" or "Completed properties." Note 22 provides information about these properties.

Before impairment losses, properties both completed and under construction are valued based on costs paid directly, a reasonable proportion of indirect costs and interest expense during the construction period. Information on market appraisal of properties is provided at the end of this note.

Information on customary inventories of goods is found in Note 23.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provision is recognized when the Group has a legal or informal obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Skanska makes provision for future expenses relating to warranty obligations according to construction contracts that involve a liability for the contractor to remedy errors and omissions that are discovered within a certain period after the contractor has handed over the property to the customer. Such obligations may also be required by law.

Loss contracts are recognized in the form of a provision for the remaining work to be done.

A provision is made for disputes related to completed projects if it is probable that a dispute will result in an outflow of resources from the Group.

Provisions for restructuring charges are recognized when a detailed restructuring plan has been adopted and the restructuring has either begun or been publicly announced.

When accounting for interests in joint ventures and associated companies, a provision is made when a loss exceeds the carrying amount of the holding and the Group has a payment obligation.

Note 1. Continued

Contingent liabilities

Contingent liabilities are possible obligations arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the company. Also reported as contingent liabilities are obligations arising from past events that have not been recognized as a liability because it is not likely that an outflow of resources will be required to settle the obligation, or the size of the obligation cannot be estimated with sufficient reliability.

The amounts of contract fulfillment guarantees are included until the contracted work has been transferred to the customer, which normally occurs upon its approval in a final inspection. If the guarantee covers all or most of the contract sum, the amount of the contingent liability is calculated as the contract sum minus the value of the portion performed. In cases where the guarantee only covers a small portion of the contract sum, the guarantee amount remains unchanged until the contracted work is handed over to the customer. The guarantee amount is not reduced by being offset against payments not yet received from the customer. Guarantees that have been received from subcontractors and suppliers of materials are not taken into account, either. If the Group receives reciprocal guarantees related to external consortium members' share of joint and several liability, these are not taken into account. Tax cases, court proceedings and arbitration are not included in contingent liability amounts. Instead, a separate description is provided.

In connection with contracting assignments, security is often provided in the form of a completion guarantee from a bank or insurance institution. The issuer of the guarantee, in turn, normally receives an indemnity from the contracting company or other Group company. Such indemnities related to the Group's own contracting assignments are not reported as contingent liabilities, since they do not involve any increased liability compared to the contracting assignment.

Note 33 presents information about contingent liabilities.

Contingent assets

Contingent assets are possible assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company.

In the Group's construction operations, claims for additional compensation from the customer are not uncommon. If the right to additional compensation is confirmed, this affects the valuation of the project when reporting according to IFRS 15. As for claims that have not yet been confirmed, it is not practicable to provide information about these, unless there is an individual claim of substantial importance to the Group.

Assets pledged

Shares in joint ventures within the PPP-portfolio are reported as assets pledged when the shares in the project company, which may be directly owned by Skanska or owned via an intermediate holding company, are pledged as collateral for loans from banks or lenders other than the co-owners.

Note 33 provides information about assets pledged.

IAS 19 Employee Benefits

This accounting standard makes a distinction between defined-contribution and defined-benefit pension plans. Defined-contribution pension plans are defined as plans in which the company pays fixed contributions into a separate legal entity and has no obligation to pay further contributions, even if the legal entity does not have sufficient assets to pay all employee benefits relating to their service until the closing day. Other pension plans are defined-benefit plans. Calculation of defined-benefit pension plans according to IAS 19 is carried out in a way that often deviates from local rules in each country. Obligations and costs are to be calculated according to the projected unit credit method. The purpose is to recognize expected future pension disbursements as expenses in a way that yields more uniform expenses over the employee's period of employment. Actuarial assumptions about the discount rate, wage or salary increases, inflation and life expectancy are taken into account in the calculation. Pension obligations for post-employment benefits are discounted to present value. Discounts are calculated for all three countries where Skanska has defined-benefit pension plans using an interest rate based on the market return on high quality corporate bonds including mortgage bonds, with maturities matching the pension obligations. Pension plan assets are recognized at fair value on the closing day. In the statement of financial position, the present value of pension obligations is recognized after subtracting the fair value of plan assets. The pension expense and the return on plan assets recognized in the income statement refer to the pension expense and return estimated on January 1. The return on plan assets is calculated using the same interest rate as is used to discount the pension obligations. Any differences compared to actual pension expense and actual return, as well as effects of changed assumptions, together constitute remeasurement and are reported in "Other comprehensive income."

If the terms of a defined-benefit plan are significantly amended, or the number of employees covered by a plan is significantly reduced, a curtailment occurs. Obligations are recalculated according to the new conditions. The effect of the curtailment is recognized in profit or loss.

When there is a difference between how pension expense is determined in a legal entity and the Group, a provision or receivable is recognized for the difference for taxes and social insurance contributions based on the company's pension expenses. The provision or receivable is not calculated at present value, since it is based on present-value figures. Deferred taxes and social insurance contributions on remeasurements are recognized under "Other comprehensive income."

Obligations related to contributions to defined-contribution plans are recognized as expenses in the income statement as they arise.

The Group's net obligation related to other long-term employee benefits, aside from pensions, amounts to the value of future benefits that employees have earned as compensation for the services they have performed during the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to present value, and the fair value of any plan assets is subtracted. The discount rate is again based on the yield on high quality corporate bonds including mortgage bonds, or government bonds, with a maturity matching the maturity of the obligations.

A provision is recognized in connection with termination of employees' employment only if the company is obligated through its own detailed formal termination plan – and there is no realistic possibility of annulling the plan – to end employment before the normal date, or when benefits are offered in order to encourage voluntary resignation. In cases where the company terminates employees' employment, the provision is calculated on the basis of a detailed plan that includes at least the location, function and approximate number of employees affected, as well as the benefits for each job category or position and the time at which the plan will be implemented.

Only an insignificant percentage of the Group's defined-benefit pension obligations were financed by premiums to the retirement insurance company Alecta. Since the required figures cannot be obtained from Alecta, these pension obligations are reported as a defined-contribution plan. Since the same conditions apply to the AFP plan in Norway, this is also reported as a defined-contribution plan.

IFRS 2 Share-based Payment

The Seop 3 and Seop 4 employee ownership programs are recognized as share-based payment settled with equity instruments, in accordance with IFRS 2. This means that the fair value is calculated on the basis of market value at the time of investment and expected fulfillment of targets. This value is allocated over the respective vesting period. After the fair value is established, there is no reappraisal during the remainder of the vesting period, except in the case of changes in the number of shares because the condition of continued employment during the vesting period is no longer met.

Note 1. Continued

Social insurance contributions

Social insurance contributions that are payable in connection with share-based payments are reported in accordance with statement UFR 7 from the Swedish Financial Reporting Board. The cost of social insurance contributions is allocated over the period when the services are performed. The provision that arises is reappraised on each financial reporting date to correspond to the estimated contributions that are due at the end of the vesting period.

IAS 7 Statement of Cash Flows

In preparing its cash flow statement, Skanska applies the indirect method in accordance with the accounting standard. Aside from cash and bank balance flows, cash and cash equivalents are to include short-term investments whose conversion into bank balances may occur in an amount most of which is known in advance. Short-term investments with maturities of less than three months are regarded as cash and cash equivalents. Cash and cash equivalents that are subject to restrictions are reported either as current receivables or as non-current receivables.

In addition to the cash flow statement prepared in accordance with the standard, the Report of the Directors presents an operating cash flow statement that does not conform to the structure specified in the standard. The operating cash flow statement was prepared on the basis of the operations that the different business streams carry out.

IAS 33 Earnings per Share

Earnings per share are reported directly below the consolidated income statement and are calculated by dividing the portion of profit for the year that is attributable to the Parent Company's equity holders (shareholders) by the average number of shares outstanding during the period.

For Seop 3 and Seop 4 employee ownership programs, the dilution effect is calculated by adding potential ordinary shares to the number of ordinary shares before dilution. The calculation of potential ordinary shares occurs in two stages. First there is an assessment of the number of shares that may be issued when established targets are reached. The number of shares for the respective program year is then determined the following year, provided that the condition of continued employment is met. In the next step, the number of potential ordinary shares is reduced by the value of the consideration that Skanska is expected to receive, divided by the average market price of a share during the period.

IAS 24 Related Party Disclosures

According to this accounting standard, information must be provided about transactions and agreements with related companies and physical persons. In the consolidated financial statements, intra-Group transactions fall outside this reporting requirement. Notes 36, 37 and 39 provide disclosures in accordance with the accounting standard. With respect to the Parent Company, this information is provided in Notes 61 and 62.

IAS 40 Investment Property

Skanska is not reporting any investment properties. Properties that are used in the Group's own operations are reported in accordance with IAS 16. The Group's holdings of current-asset properties are covered by IAS 2 and thus fall outside the application of IAS 40.

IFRS 8 Operating Segments

According to this standard, an operating segment is a component of the Group carrying out business operations whose operating income is evaluated regularly by the Group's highest executive decision-maker and about which separate financial information is available.

Skanska's operating segments consist of its business streams: Construction, Residential Development and Commercial Property Development.

The Group Leadership Team is the Group's highest executive decision-maker.

The principle for segment reporting of Residential Development and Commercial Property Development in the income statement deviates from IFRS on two points. In segment reporting a divestment gain is recognized on the date a sales contract is signed. In segment reporting joint ventures are recognized within Residential Development line by line according to the proportional method of accounting. This means that Construction's revenue from joint ventures within Residential Development operations is eliminated in segment reporting. Note 4 presents a reconciliation between segment reporting and the income statement in accordance with IFRS.

Note 4 provides information about operating segments. Financial reporting to the Group Leadership Team focuses on the areas for which each respective operating segment is operationally responsible: operating income in the income statement and capital employed. For each respective operating segment, the note thus reports external and internal revenue, cost of sales, selling and administrative expenses and capital employed. Capital employed refers to total assets minus tax assets and receivables invested in Skanska's treasury unit (internal bank) less non-interest-bearing liabilities excluding tax liabilities. In the calculation of capital employed, a capitalized interest expense is removed from total assets for the Residential Development and Commercial Property Development segments. Acquisition goodwill has been reported in the operating segment to which it relates.

In transactions between operating segments, pricing occurs on market terms.

Certain parts of the Group do not belong to any operating segment. These are reported in Note 4 under the heading "Central and eliminations." Operating segment income includes intra-Group profits and, consequently, these are eliminated during reconciliation with the consolidated income statement and the consolidated statement of financial position.

In addition to information about operating segments, Note 4 provides disclosures on external revenue for the entire Group and disclosures on the allocation of certain assets divided by countries with more than ten percent of the Group's total items.

IAS 10 Events After the Reporting Period

Events after the end of the reporting period may, in certain cases, confirm a situation that existed on the closing day. Such events are taken into account when the financial reports are prepared. Information is provided about other events that occur after the closing day and before the financial report is signed if the omission of such information would affect the ability of a reader to make an accurate assessment and a sound investment decision.

Such information is provided in Note 41.

IAS 32 Financial Instruments: Presentation

Offsetting of financial assets and financial liabilities occurs when an entity has a legal right to offset items against each other and intends to either settle these items on a net basis or simultaneously divest the asset and settle the liability.

Prepaid income and expenses are not financial instruments. Accrued income and expenses that are related to the business are not recognized as financial instruments. Thus, contract assets and contract liabilities are not included under financial instruments. Obligations for employee benefit plans in accordance with IAS 19, such as pension plans, are exempt from IAS 32 and are thus not recognized as financial instruments. Assets and liabilities that are not based on contracts, such as income taxes, are not considered financial instruments.

Information in accordance with the accounting standard is provided mainly in Notes 6, 21 and 27.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the recognition of financial assets and liabilities. Categories exempt from application according to IFRS 9 include holdings in subsidiaries, associated companies and joint ventures, leases, rights under employment contracts, treasury shares, financial instruments as described in IFRS 2, and rights and responsibilities within IFRS 15 except for the rights in IFRS 15 where an impairment requirement according to IFRS 9 applies. All financial instruments, including derivatives,

Note 1. Continued

are recognized as a financial asset or financial liability in the statement of financial position when the entity becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognized in and derecognized from the statement of financial position using trade date accounting. A financial asset is derecognized from the statement of financial position when the contractual rights to cash flows from the financial asset expire or when the entity transfers the contractual rights to receive cash flows from the financial asset or retains the contractual rights to receive cash flows, but assumes a contractual obligation to pay cash flows to one or more recipients. A financial liability is derecognized from the statement of financial position only when the contractual obligation is fulfilled, canceled or expires.

Presentation of financial assets is based on the entity's business model and the contractual cash flows of the asset.

A financial asset is measured at amortized cost if the asset is held within the framework of a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and the cash flows on specified dates are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if the asset is held according to a business model the objective of which can be achieved both by collecting contractual cash flows and selling financial assets, and the cash flows are solely payments of principal and interest on the principal amount outstanding. A financial asset is measured at fair value though profit or loss if it is not measured at amortized cost or at fair value through other comprehensive income.

All financial liabilities are measured at amortized cost with the exception of:

a) financial liabilities measured at fair value through profit or loss (such liabilities, including derivatives that are liabilities, are thereafter to be measured at fair value);
b) financial liabilities arising when a transfer of a financial asset does not meet the criteria for derecognition from the statement of financial position or where a continued commitment is appropriate;
c) financial guarantee contracts;
d) a loan commitment with interest that is below the market interest rate; and
e) a contingent consideration acknowledged by an acquiring party in connection with a business combination covered by IFRS 3 (such contingent consideration is thereafter measured at fair value with changes recognized through profit or loss).

An entity is only entitled to reclassify all relevant financial assets when the entity changes its business model for managing financial assets. Reclassification of financial liabilities is not permitted.

Financial assets and liabilities are initially measured at fair value plus or minus transaction costs upon acquisition of a financial asset or financial liability, for a financial asset or financial liability that is not measured at fair value through profit or loss. Trade receivables that do not contain a significant financing component are measured upon initial recognition at their transaction price (as defined in IFRS 15). After initial recognition, financial assets are measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. Subsequent measurement of financial liabilities is at amortized cost or fair value through profit or loss.

An entity is to apply the impairment requirement to expected credit losses on financial assets and a loss provision for these is to be recognized as a deduction from the asset. On every closing day the loss provision is to be equivalent to an amount reflecting the expected credit losses for the remaining time until maturity if the credit risk has increased significantly since it was initially recognized. If the credit risk has not increased significantly since it was first recognized, the loss provision is to be equivalent to 12 months of expected credit losses. For trade receivables, contractual assets and lease receivables, the loss provision is always to be at an amount equivalent to the remaining time to maturity. An entity is to measure expected credit losses taking into account an objective and probability-weighted amount, the time value of money, reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The purpose of hedge accounting is so that, in its financial statements, an entity can report the effect of its risk management where financial instruments are used to manage exposure from specific risks that would impact results. A derivative that is measured at fair value through profit or loss can be identified as a hedging instrument. A financial asset or liability that is not a derivative measured at fair value through profit or loss can be identified as a hedging instrument unless it is a financial liability identified as measured at fair value through profit or loss for which the amount of the change in fair value arising from changes in credit risk for the liability is recognized in other comprehensive income. In hedge accounting, only contracts with an external party outside the Group can be identified as hedging instruments. A hedged item may be a recognized asset or liability, an unrecognized binding commitment, a highly likely forecast transaction or a net investment in foreign operations. A hedging relationship only qualifies for hedge accounting when the following criteria have been met: the hedging relationship consists only of eligible hedging instruments and eligible hedged items, where there is a formal designation and documentation for the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, and where the effectiveness requirement for the hedges has been met. The effectiveness requirement is met when there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from the economic relationship, and the hedge ratio of the hedging relationship is the same as the ratio between the quantity of the hedged item that the entity actually hedges and the quantity that the entity actually uses to hedge that quantity of hedged items.

Skanska uses hedge accounting for cash flow hedging and hedging of net investment in foreign operations. Hedge accounting is used for cash flow hedges when a future cash flow is attributable to a recognized asset or liability or a highly probable future transaction. Hedge accounting for hedging of net investments in foreign operations is applied when the net investment is in line with IAS 21.

A cash flow hedge is recognized as follows:

a) the separate component in equity, cash flow hedge reserve, which is linked to the hedged item is to be adjusted to the lower of the following: the cumulative gains or losses from the hedging instrument from the date the hedge was entered into or the cumulative change in fair value for the hedged item from the date the hedge was entered into;
b) the portion of the gain or loss for a hedging instrument that has been determined to be an effective hedge is recognized in other comprehensive income;
c) the remaining gain or loss for the hedging instrument is hedging ineffectiveness that is to be recognized through profit or loss;
d) the amount accumulated in the cash flow hedge reserve derived from the cash flow hedged in accordance with a) is to be recognized as follows:
   i) if a hedged forecast transaction subsequently leads to recognition of a non-financial asset or liability, or a hedged forecast transaction for a non-financial asset or liability becomes a binding commitment for which hedge accounting of fair value is used, the entity is to deduct this from the reserve originating from the cash flow hedge and include it directly in the initial cost or other recognized value for the asset or liability;
   ii) for all cash flow hedges except those covered by i) this amount is to be reclassified from the reserve originating from the cash flow hedge to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss;
   iii) if this amount is a loss and an entity is expecting all or part of the loss not to be recovered during one or more future periods, the amount not expected to be recovered is to be immediately reclassified to profit or loss as a reclassification adjustment.

Hedging of net investments in foreign operations, including a hedge

Note 1. Continued

of a monetary item that is recognized as part of a net investment, is to be recognized in a similar way to cash flow hedges: the portion of the gain or loss for the hedging instrument that is determined to be an effective hedge is to be recognized through other comprehensive income, and the remainder is to be recognized through profit or loss. The cumulative gain or loss for the hedging instrument that is attributable to the effective portion of the hedge and that has accumulated in the currency translation reserve is to be reclassified from equity to profit or loss upon disposal or partial disposal of the foreign operations.

IFRS 7 Financial Instruments: Disclosures

The company provides disclosures that enable the evaluation of the significance of financial instruments for the entity's financial position and performance. The disclosures also enable an evaluation of the nature of financial instruments and risks associated with them to which the company has been exposed during the period and is exposed to at the end of the reporting period. These disclosures also provide a basis for assessing how these risks are managed by the company. This standard supplements the principles for recognizing, measuring and classifying financial assets and liabilities in IAS 32 and IFRS 9.

The standard applies to all types of financial instruments, with the primary exception of holdings in subsidiaries, associated companies and joint ventures, as well as obligations for employee benefit plans in accordance with IAS 19, such as pension plans. The disclosures that are provided thus include accrued interest income, deposits and accrued interest expense. Accrued income relating to contracting assignments is not a financial instrument.

The disclosures provided are supplemented by reconciliation with other items in the income statement and in the statement of financial position.

Disclosures in accordance with this accounting standard are presented in Note 6.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

"Government assistance" refers to action by the government designed to provide an economic benefit specific to one company or a category of companies that qualify based on certain criteria. Government grants are assistance from the government in the form of transfers of resources to a company in return for past or future compliance with certain conditions relating to its operations.

Government grants are recognized as prepaid income or a reduction of an investment when there is reasonable assurance that the grants will be received and that the Group will meet the criteria for receiving the grant.

The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups

The recommendation specifies what further disclosures must be provided in order for the annual accounts to comply with Sweden's Annual Accounts Act. The additional information mainly relates to disclosures on employees.

Disclosures on the number of employees, gender distribution and distribution among countries are provided in Note 36. The number of employees during the year was calculated as an average of the average number of employees during the quarters in the year. In this calculation, part-time employment is equivalent to 60 percent of full-time employment. Employees belonging to operations divested during the year are included up until the date of divestment. Employees of acquired companies are included from the date of acquisition.

Information on the gender distribution among senior executives refers to the situation on the closing day. "Senior executives" in the various subsidiaries refers to the members of the management teams of the respective business units. This information is provided in Notes 36 and 37.

In addition to Board members and the President and CEO, all other persons in the Group Leadership Team must be included in the group for which a separate account is to be provided of the total amounts of salaries and other remuneration, as well as expenses and obligations related to pensions and similar benefits. Furthermore, the same disclosures must be provided individually for each of the Board members and for the President and CEO, as well as individuals previously holding these positions. Employee representatives are exempted.

Note 36 provides information about loans, assets pledged and contingent liabilities on behalf of Board members and of Presidents and CEOs within the Group.

Information must also be provided on fees to auditors and the accounting firms where the auditors work. See Note 38.

Order bookings and order backlog

In contracting assignments, an order booking refers to a written order confirmation or signed contract, provided that financing has been arranged and construction is expected to commence within 12 months. If a previously received order is canceled in a subsequent quarter, the cancellation is recognized as a negative item when reporting order bookings for the quarter when the cancellation occurs. Reported order bookings also include orders from Residential Development and Commercial Property Development, which presupposes that building permits are in place and construction is expected to begin within three months. For services related to fixed-price work, the order booking is recorded when the contract is signed, and for services related to cost-plus work, the order booking corresponds to revenue. For service agreements, a maximum of 24 months of future revenue is included.

No order bookings are reported in Residential Development and Commercial Property Development.

Order backlog refers to the difference between order bookings for a period and accrued revenue (accrued project expenses plus accrued project revenue adjusted for loss provisions) plus order backlog at the beginning of the period.

The order backlog in the accounts of acquired subsidiaries on the date of acquisition is not reported as order bookings, but is included in order backlog amounts.

Market appraisal

Commercial Property Development

Note 22 provides the estimated market value of Skanska's current-asset properties. For completed commercial properties and for development properties, the market value for the majority of properties has been calculated in cooperation with external appraisers. The value of ongoing projects is measured internally. The calculated market value of ongoing projects refers to each property once it is completed and fully occupied.

Residential Development

In appraising properties in Residential Development, market value is calculated taking into account the value that can be obtained within the usual economic cycle and refers to properties once they are completed.

PPP portfolio

Skanska obtains an estimated value for the PPP portfolio by discounting estimated future cash flows in the form of dividends and repayments of loans and equity by a discount rate based on country, risk model and project phase for the various projects. The discount rate chosen is applied to all future cash flows starting on the appraisal date. This is based on the most recently updated financial model. This financial model describes all cash flows in the project and serves as the ultimate basis for financing, which is carried out with full project risk and without guarantees from Skanska.

An estimated value is stated solely for projects that have reached contractual and financial close. All flows are appraised: investments in the project (equity and subordinated debenture loans), interest on repayments of subordinated loans, as well as dividends to and from the project company. Today all investments except New Karolinska Solna are denominated in currencies other than Swedish kronor, and there is thus also an exchange rate risk.

Estimated values have in part been calculated in cooperation with external appraisers and are stated in Note 20 B.

Note 1. Parent Company accounting and valuation principles

The Parent Company has prepared its annual accounts in compliance with the Annual Accounts Act and the Swedish Financial Reporting Board's Recommendation RFR 2, "Accounting for Legal Entities." According to RFR 2, the annual accounts of the legal entity must apply the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB), to the extent these have been approved by the EU, as well as the interpretations by the IFRS Interpretations Committee and its predecessor the Standing Interpretations Committee (SIC), as far as this is possible within the framework of the Annual Accounts Act and taking into account the connection between accounting and taxation. A presentation of the various accounting standards can be found in the Group Note 1. The statements of the Swedish Financial Reporting Board must also be applied.

Important differences compared to consolidated accounting principles

In accordance with RFR 2, IFRS 9 is not applied to financial guarantee agreements benefiting subsidiaries, associated companies and joint ventures. Instead, IAS 37 is applied, which normally means that provisions for these measures are not recognized since it is unlikely that an outflow of resources will be required to settle the obligation.

In compliance with RFR 2, IFRS 16 is not applied to leases. Instead the lease payments are recognized on a straight-line basis over the term of the lease, unless a different systematic approach better reflects the economic benefit over time.

Group contributions are recognized in accordance with the general rule in RFR 2.

The Seop 3 and Seop 4 employee ownership programs are recognized as share-based payment settled with equity instruments, in accordance with IFRS 2. The portion of the Group's expense for these employee ownership programs that relates to employees of subsidiaries is recognized in the Parent Company as an increase in the carrying amount of holdings in subsidiaries and an increase in equity. When the amount to be debited to the subsidiary is established, a transfer is made to "Receivables from subsidiaries." Where compensation from subsidiaries for shares that have been allocated deviates from the previously reported increase in the carrying amount of holdings in subsidiaries, the carrying amount of holdings in subsidiaries is reduced to the portion of the amount that does not exceed the previously reported increase. Any remaining portion of the compensation is recognized directly in equity.

The income statement and balance sheet conform to the presentation formats in the Annual Accounts Act.

Defined-benefit pension plans are reported according to the regulations in the Pension Obligations Vesting Act. Pension obligations secured by assets in pension funds are not recognized in the balance sheet.

Note 2. Key estimates and judgments

Key estimates and judgments

The Group Leadership Team has discussed with the Board and the Audit Committee the developments and disclosures relating to the Group's important accounting principles and estimates, as well as the application of these principles and estimates.

Some important accounting-related estimates that were made when applying the Group's accounting principles are described below.

Goodwill impairment testing

When calculating the recoverable amount of cash-generating units to determine if there is any goodwill impairment, several assumptions about future conditions and estimates of parameters have been made. These are presented in Note 18. As understood from the description in this note, important changes in the basis for these assumptions and estimates might have a substantial effect on the value of goodwill.

Pension assumptions

Skanska has defined-benefit pension plans in a number of countries. The plans are recognized according to IAS 19, which means that pension commitments are calculated using actuarial assumptions and that plan assets are measured at market value on the closing day. The effects of changed actuarial assumptions and changes in the market value of plan assets are recognized as remeasurements in other comprehensive income. The remeasurements impact interest-bearing pension liabilities and equity.

The assumptions and prerequisites that provide the basis for recognition of pension liability, including a sensitivity analysis, are presented in Note 28.

Revenue recognition over time

Skanska applies revenue recognition over time in the Construction business stream. This means that, based on projected final project results, income is recognized successively during the course of the project according to degree of completion. In order to do this, project revenue and project expenses must be able to be reliably determined. This in turn requires that the Group has efficient, coordinated systems for calculation, forecasting and revenue/expense reporting. The method also requires consistent assessment (forecasts) of the final outcome of the project, including analysis of deviations from earlier assessments. This critical assessment is performed at least once every quarter. However, actual future project outcomes may deviate, either positively or negatively, from this assessment.

Disputes

Although management's best judgment is used in reporting disputed amounts, the actual future outcomes may deviate from the judgment made. See Note 33 and Note 29.

Investments in the PPP portfolio

The estimated investment amounts are provided in Note 20 B. Estimated market value is based on discounting anticipated cash flows for each respective investment. Estimated yield requirements on investments of this type have been used as discount rates. Changes in anticipated cash flows, which in a number of cases extend 20 to 30 years into the future, and/or changes in yield requirements, may materially affect both estimated values and carrying amounts for each investment.

Current-asset properties

The stated combined market value in Note 22 is calculated on the basis of prevailing price levels in the respective location of the individual properties. Changes in the supply of similar properties, as well as changes in demand due to changed yield requirements, may materially affect both estimated market values and carrying amounts for each property.

In Commercial Property Development, the estimated market value for ongoing projects is assessed for each property once it is completed and fully occupied.

In Residential Development the supply of capital and the price of capital for financing home buyers' investments are critical factors. The market value assessed here too is the value of the properties once they are completed and taking into account the value that may be added in a normal economic cycle. The accounting principle applied to the sale of properties via the divestment of companies is stated in Note 1.

Prices of goods and services

In the Skanska Group's operations, there are many different forms of contractual mechanisms. The degree of risk associated with the price of goods and services varies greatly depending on the contract type.

Sharp increases in material prices may pose a risk, particularly to long-term projects with fixed-price commitments. A shortage of human resources and certain inputs may also adversely impact operations. Delays in the design phase or changes in design are other circumstances that may adversely affect projects.

Note 3. Effects of changes in accounting principles

As of January 1, 2019 the IFRS accounting rules have changed for lease recognition (IFRS 16 replaces the previous IAS 17). As of January 1, 2018 the accounting rules have changed for revenue recognition (IFRS 15 replaces the previous IAS 11, IAS 18 and IFRIC 15) and recognition of financial assets and liabilities (IFRS 9 replaces the previous IAS 39).

The accounting principles were changed in accordance with the transition rules.

IFRS 16

For Skanska, IFRS 16 involves expanding the balance sheet to include lines for property, plant and equipment right of-use assets, current-asset properties right of-use assets and lease liabilities.

The effects of IFRS 16 were reported upon its implementation on January 1, 2019 and are presented in the following table.

Leases ending within twelve months were treated in the same way as short-term leases, see Note 1.

Initial direct expenses prior to the implementation date were eliminated in the measurement of the right-of-use assets on the date of first application.

Effect on the Group, January 1, 2019

SEK M	Before the change	Change	After the change
Property, plant and equipment	7,645	–282	7,363
Non-current right-of-use assets	–	4,762	4,762
Current right-of-use assets	–	2,865	2,865
Current financial receivables	7,117	18	7,135
Deferred tax asset	1,933	15	1,948
Other operating receivables	27,243	–49	27,194
Total assets	**43,938**	**7,329**	**51,267**
Equity	29,347	–67	29,280
Non-current financial liabilities	3,912	–280	3,632
Lease liabilities	–	7,769	7,769
Current financial liabilities	7,310	–2	7,308
Other operating liabilities	38,072	–91	37,981
Total equity and liabilities	**78,641**	**7,329**	**85,970**

The transition from operating leases according to IAS 17 to lease liabilities according to IFRS 16 is shown below. The large difference between undertakings for operating leases of SEK 22.0 billion and future discounted minimum lease payments of SEK 8.6 billion is primarily due to real property right-of-use assets. These types of right-of-use assets often have a longer term which means there is a significant difference between the nominal amount and the discounted present value.

Transition from operating leases according to IAS 17 to lease liabilities according to IFRS 16, SEK billion

	2018
Undertakings for operating leases as of December 31, 2018	21,981
Future minimum lease payments for non-cancellable operating leases, discounted at the rates set out in the table below.	8,626
Minus short-term leases	–549
Minus leases where the underlying asset has a low value	–458
Minus leases reclassified as service agreements	–344
Plus finance leases reclassified	282
Plus leases with a purchase option that is certain to be exercised	1
Plus leases with variable lease payments that depend on an index or a rate	219
Minus amounts not expected to be payable under residual value guarantees	–8
Lease liabilities according to IFRS 16	**7,769**

Skanska's expected marginal interest rates on loans used upon transition to IFRS 16, broken down by currency and lease, are as follows:

Country (currency)	Discount rate, %						
Lease term	**1 year**	**2 years**	**3 years**	**5 years**	**10 years**	**15 years**	**30 years**
Czech Republic (CZK)	3.4	3.6	3.6	3.7	4.0	4.4	4.9
– Czech Republic (EUR)[1]	0.9	1.1	1.2	1.5	2.4	3.0	3.7
Denmark (DKK)	0.8	0.9	1.1	1.4	2.3	2.9	3.7
Finland (EUR)	0.8	1.0	1.1	1.4	2.3	2.9	3.6
Hungary (HUF)	2.3	2.8	3.1	3.6	4.8	5.6	6.3
– Hungary (EUR)[1]	1.0	1.2	1.3	1.6	2.5	3.1	3.8
Norway (NOK)	2.4	2.6	2.7	3.0	3.6	3.9	4.6
Poland (PLN)	3.0	3.1	3.4	3.7	4.4	4.9	5.5
– Poland (EUR)[1]	0.9	1.1	1.2	1.5	2.4	3.0	3.7
Romania (RON)	4.6	4.9	5.1	5.4	6.1	6.8	7.5
– Romania (EUR)[1]	1.0	1.2	1.3	1.6	2.5	3.1	3.8
Sweden (SEK)	0.9	1.1	1.3	1.7	2.6	3.2	3.9
UK (GBP)	2.2	2.3	2.4	2.6	3.1	3.4	4.0
USA (USD)	4.1	4.2	4.3	4.3	4.7	5.0	5.4

1 If the functional currency is EUR.

Note 3. Continued

IFRS 15

For Skanska, IFRS 15 involved a reclassification from contract liabilities and from other operating liabilities to provisions for losses, on the line "Current provisions." This standard will not require any change in segment reporting for Residential Development and Commercial Property Development.

IFRS 15 was implemented with full retrospective effect, i.e. the consolidated financial statements were restated for 2017 due to the implementation of IFRS 15.

The effects on the opening balance for 2017 are presented in the following table.

Effect on the Group, January 1, 2017

SEK M	Before the change	Change	After the change
Contract liabilities (Gross amount due to customers for contract work)	18,473	–151	18,322
Other operating liabilities	36,080	–236	35,844
Current provisions	7,227	387	7,614

IFRS 9

IFRS 9 requires a new impairment model for anticipated credit losses due to the possible future inability of customers to pay.

The effects of IFRS 9 were reported upon its implementation on January 1, 2018 and are presented in the following table.

Effect on the Group, January 1, 2018

SEK M	Before the change	Change	After the change
Deferred tax assets	1,757	40	1,797
Current financial assets	6,671	–30	6,641
Other operating receivables	27,778	–150	27,628
Equity	27,185	–140	27,045

Note 4. Operating segments

Skanska's business streams – Construction, Residential Development and Commercial Property Development are recognized as operating segments. As of January 1, 2019, Infrastructure Development is no longer a separate business stream but is reported under Central. These business streams coincide with Skanska's operational organization used by the Group Leadership Team to monitor operations. The Group Leadership Team is also Skanska's "chief operating decision maker."

Each business stream carries out distinct types of operations associated with different risks. Construction includes both building construction and civil construction.

Residential Development develops residential projects for immediate sale. Homes are adapted for selected customer categories. The units in this segment are responsible for planning and selling projects. The construction assignments are performed by construction units in the Construction business stream in each respective market. Commercial Property Development initiates, develops, leases and divests commercial property projects. Project development focuses on office buildings, retail and logistics properties. Construction assignments are performed in most markets by Skanska's Construction segment.

Construction assignments are performed by the construction units where Skanska has construction operations. Intra-Group pricing between operating segments occurs on market terms. The segment "Central" includes the cost of Group headquarters, earnings of central companies and operations that are being discontinued. Eliminations consist mainly of profits in Construction operations related to property projects. See also Note 1.

Revenue and expenses by operating segment

Each business stream has operating responsibility for its income statement down through "operating income."

Assets and liabilities by operating segment

Each business stream has operating responsibility for its capital employed. The capital employed by each business stream consists of its total assets minus tax assets and intra-Group receivables invested in Skanska's treasury unit (internal bank) less non-interest-bearing liabilities excluding tax liabilities. In the calculation of capital employed, a capitalized interest expense is removed from total assets for the Residential Development and Commercial Property Development segments.

Acquisition goodwill has been reported in the business stream to which it belongs.

Cash flow by segment is presented as a separate statement: Consolidated operating cash flow statement and change in interest-bearing net receivables.

Note 4. Continued

2019	Construction	Residential Development	Commercial Property Development	Total operating segments	Central	Eliminations	Total segments	Difference in accounting principles	Total IFRS
External revenue	146,000	12,431	17,773	176,204	578		176,782	–3,936	172,846
Revenue from internal customers	13,579	52	77	13,708	362	–14,070	0		0
Total revenue	**159,579**	**12,483**	**17,850**	**189,912**	**940**	**–14,070**	**176,782**	**–3,936**	**172,846**
Cost of sales	–149,142	–10,497	–13,749	–173,388	–350	14,005	–159,733	3,193	–156,540
Gross income	**10,437**	**1,986**	**4,101**	**16,524**	**590**	**–65**	**17,049**	**–743**	**16,306**
Selling and administrative expenses	–6,702	–791	–960	–8,453	–1,028	12	–9,469		–9,469
Income from joint ventures and associated companies	37		146	183	50	15	248	343	591
Operating income	**3,772**	**1,195**	**3,287**	**8,254**	**–388**	**–38**	**7,828**	**–400**	**7,428**
of which depreciation/amortization	–2,846	–25	–86	–2,957	–86		–3,043		–3,043
of which impairment losses/reversals of impairment losses									
Goodwill	–367	–110	–70	–547			–547		–547
Other assets	35	–188	–19	–172			–172		–172
of which gains from sale of commercial properties			4,275	4,275		240	4,515	–677	3,838
of which gains from sale of PPP portfolio					72		72		72
Employees	33,225	551	427	34,203	553		34,756		
Gross margin, %	6,5	15,9							
Selling and administrative expenses, %	–4,2	–6,3							
Operating margin, %	2,4	9,6							
Assets, of which									
Property, plant and equipment	11,730	90	423	12,243	127	–12	12,358		12,358
Intangible assets	4,319	334	14	4,667	255		4,922		4,922
Investments in joint ventures and associated companies	284	743	245	1,272	2,177	–7	3,442		3,442
Current-asset properties	11	17,041	33,977	51,029		–676	50,353		50,353
Capital employed	–2,640	12,954	34,495	44,809	11,129		55,938		55,938
Investments	–2,542	–9,437	–12,946	–24,925	–47	3	–24,969		–24,969
Divestments	1,039	11,793	13,713	26,545	105	–55	26,595		26,595
Net investments	**–1,503**	**2,356**	**767**	**1,620**	**58**	**–52**	**1,626**		**1,626**
Reconciliation from segment reporting to IFRS									
Revenue according to segment reporting – upon signing of contracts	159,579	12,483	17,850	189,912	940	–14,070	176,782		
Plus properties sold before the period		13,247	5,708	18,955		79	19,034		
Less properties not yet occupied by the buyer on closing day		–13,520	–9,285	–22,805		–49	–22,854		
Plus revenue of joint ventures in Residential Development		–532		–532		232	–300		
Exchange-rate differences		191	–7	184			184		
Revenue according to IFRS – handover	**159,579**	**11,869**	**14,266**	**185,714**	**940**	**–13,808**	**172,846**		
Operating income according to segment reporting – upon signing of contracts	3,772	1,195	3,287	8,254	–388	–38	7,828		
Plus properties sold before the period		2,012	888	2,900		43	2,943		
Less properties not yet occupied by the buyer on closing day		–2,001	–1,492	–3,493		–35	–3,528		
Plus operating income of joint ventures in Residential Development		200		200			200		
New intra-Group profits						–37	–37		
Exchange-rate differences		29	–6	23		–1	22		
Operating income according to IFRS – handover	**3,772**	**1,435**	**2,677**	**7,884**	**–388**	**–68**	**7,428**		

Note 4. Continued

2018	Con-struction	Residential Develop-ment	Commercial Property Develop-ment	Total operating segments	Central	Eliminations	Total segments	Difference in accounting principles	Total IFRS
External revenue	143,264	10,739	16,248	170,251	243		170,494	1,236	171,730
Revenue from internal customers	14,630		23	14,653	412	–15,065	0		0
Total revenue	**157,894**	**10,739**	**16,271**	**184,904**	**655**	**–15,065**	**170,494**	**1,236**	**171,730**
Cost of sales	–149,849	–8,558	–12,335	-170,742	-744	14,994	–156,492	–973	–157,465
Gross income	**8,045**	**2,181**	**3,936**	**14,162**	**-89**	**–71**	**14,002**	**263**	**14,265**
Selling and administrative expenses	–6,998	–676	–928	-8,602	-872		–9,474	1	–9,473
Income from joint ventures and associated companies	52		61	113	181	5	299	556	855
Operating income	**1,099**	**1,505**	**3,069**	**5,673**	**-780**	**–66**	**4,827**	**820**	**5,647**
of which depreciation/ amortization	–1,700	–1	–6	-1,707	-73		–1,780		–1,780
of which impairment losses/ reversals of impairment losses									
Goodwill	–393			-393			–393		–393
Other assets	–102	–72	–107	-281	-9	6	–284		–284
of which gains from sale of commercial properties			4,005	4,005		321	4,326	150	4,476
of which gains from sale of PPP portfolio				0	58		58		58
Employees	37,006	542	414	37,962	688		38,650		
Gross margin, %	5,1	20,3							
Selling and administrative expenses, %	–4,4	–6,3							
Operating margin, %	0,7	14,0							
Assets, of which									
Property, plant and equipment	7,570	7	20	7,597	61	–13	7,645		7,645
Intangible assets	4,598	421	9	5,028	271		5,299		5,299
Investments in joint ventures and associated companies	244	470	337	1,051	2,252	–15	3,288		3,288
Current-asset properties	11	16,712	26,301	43,024		–633	42,391		42,391
Capital employed	–6,148	13,636	26,672	34,160	12,027		46,187		46,187
Investments	–2,526	–10,542	–11,452	-24,520	-111	91	–24,540		–24,540
Divestments	430	12,146	15,275	27,851	168	–179	27,840		27,840
Net investments	**–2,096**	**1,604**	**3,823**	**3,331**	**57**	**–88**	**3,300**	**0**	**3,300**
Reconciliation from segment reporting to IFRS									
Revenue according to segment reporting – upon signing of contracts	157,894	10,739	16,271	184,904	655	–15,065	170,494		
Plus properties sold before the period		14,646	5,116	19,762			19,762		
Less properties not yet occupied by the buyer on closing day		–13,247	–5,708	-18,955		–79	–19,034		
Plus revenue of joint ventures in Residential Development		–160		-160		303	143		
Exchange-rate differences		228	137	365			365		
Revenue according to IFRS – handover	**157,894**	**12,206**	**15,816**	**185,916**	**655**	**–14,841**	**171,730**		
Operating income according to segment reporting – upon signing of contracts	1,099	1,505	3,069	5,673	-780	–66	4,827		
Plus properties sold before the period		2,315	1,274	3,589		30	3,619		
Less properties not yet occupied by the buyer on closing day		–2,012	–888	-2,900		–43	–2,943		
Plus operating income of joint ventures in Residential Development		36		36			36		
New intra-Group profits						27	27		
Exchange-rate differences		33	48	81			81		
Operating income according to IFRS – handover	**1,099**	**1,877**	**3,503**	**6,479**	**-780**	**–52**	**5,647**		

Note 4. Continued

External revenue according to IFRS by geographical area

	Sweden		UK		USA		Norway		Other[1]		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Construction	29,210	29,932	20,458	22,161	66,951	61,936	15,910	14,232	13,703	15,306	146,232	143,567
Residential Development	5,725	6,684					1,942	2,064	4,149	3,379	11,816	12,127
Commercial Property Development	3,178	3,845	746		5,245	4,301	1,481	437	3,570	7,211	14,220	15,794
Central and eliminations	252	17		22	44	38		64	282	101	578	242
Total operating segments	**38,365**	**40,478**	**21,204**	**22,183**	**72,240**	**66,275**	**19,333**	**16,797**	**21,704**	**25,997**	**172,846**	**171,730**

1 No geographical area with revenue accounting for 10 percent or more of the Group's total revenue is included.

The Group has no customers that account for 10 percent or more of its revenue.

Non-current assets and current-asset properties by geographical area

	Property, plant and equipment		Intangible assets		Investments in joint ventures and associated companies		Current-asset properties	
	2019	2018	2019	2018	2019	2018	2019	2018
Norway	2,683	1,496	1,338	1,379	86	156	3,706	4,034
Poland	329	327	6	13			1,407	5,884
Sweden	3,146	2,326	545	668	1,402	1,392	14,231	12,609
UK	1,420	205	1,252	1,503	116	65	52	418
USA	2,948	2,362	655	653	1,751	1,588	12,277	9,543
Other[1]	1,832	929	1,126	1,083	87	87	18,680	9,903
	12,358	**7,645**	**4,922**	**5,299**	**3,442**	**3,288**	**50,353**	**42,391**

1 No geographical area with revenue accounting for 10 percent or more of the Group's total items is included.

Note 5. Non-current assets held for sale and discontinued operations

Non-current assets held for sale and discontinued operations are recognized in accordance with IFRS 5, see Note 1. No operations were recognized as discontinued in 2019 or 2018.

At the end of 2019, there were no non-current assets that were recognized in accordance with IFRS 5 as current assets and specified as assets held for sale. Nor were there any such non-current assets in 2018.

Note 6. Financial instruments and financial risk management

Financial instruments are reported in accordance with IFRS 9 Financial Instruments, IFRS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures.

Skanska's contract assets and contract liabilities are not recognized as a financial instrument and the risk associated with these receivables and liabilities is thus not reported in this note either.

Risks in partly-owned joint venture companies in the PPP portfolio are managed within each respective joint venture company. Skanska's aim is to ensure that financial risk management within these companies is equivalent to that which applies to the Group's wholly owned companies. As the contract period in many cases amount to decades, management of the interest rate risk in financing is essential in each joint venture company. This risk is managed with the help of long-term interest rate swaps. These holdings are reported according to the equity method of accounting. As a result, the financial instruments in each joint venture company are included under the item "Income from joint ventures and associated companies." Disclosures on financial instruments in joint ventures and and associated companies are not included in the following disclosures.

Financial risk management

Through its operations, aside from business risk, Skanska is exposed to various financial risks such as credit risk, liquidity risk and market risk. These risks are associated with the Group's reported financial instruments such as cash and cash equivalents, interest-bearing receivables, trade accounts receivable, trade accounts payable, borrowings and derivatives.

Objectives and policy

The Group endeavors to achieve a systematic assessment of both financial and business risks. To do this a common risk management model is used. The risk management model does not involve avoidance of risk but is instead aimed at identifying and managing the risks.

Through the Group's Financial Policy, each year the Board of Directors establishes guidelines, objectives and limits for financial management and administration of financial risk within the Group. The Financial Policy regulates the distribution of responsibility among Skanska's Board, the Group Leadership Team, Skanska Financial Services (Skanska's Group Function for financial services) and the business units.

Within the Group, Skanska Financial Services has operational responsibility for securing Group financing and for managing liquidity, financial assets and financial liabilities. A centralized financial unit enables Skanska to take advantage of economies of scale and synergies.

The objectives and policy for each type of risk are described in the respective sections below.

Credit risk

Credit risk describes the Group's risk from financial assets and arises if a counterparty does not fulfill its contractual payment obligations to Skanska. Credit risk is divided into financial credit risk, which is risk associated with interest-bearing assets and derivatives, and customer credit risk, which is risk relating to trade accounts receivable.

Financial credit risk – risk in interest-bearing assets and derivatives

Financial credit risk is the risk that the Group is exposed to in its relationships with financial counterparties when investing surplus funds and with respect to bank account balances and investments in financial assets. Credit risk in the form of counterparty risk also arises when using derivatives and is the risk that a potential gain will not be realized if the counterparty does not fulfill its part of the contract.

According to the policy, Skanska must limit its exposure to financial counterparties by using banks and financial institutions assigned a high credit rating by rating agencies Standard & Poor's, Moody's or Fitch. The permitted exposure volume per counterparty is dependent on the counterparty's credit rating and the maturity of the exposure. To reduce the credit risk associated with derivative instruments, the Group has also signed standardized netting agreements (ISDA agreements) with all financial counterparties with whom Skanska has entered into derivative contracts.

When investing in surplus funds the objective is to always achieve good risk diversification. As of the end of the year surplus funds were primarily invested with larger banks with a global presence, mainly from the Nordic region, Europe, USA and Japan. Skanska currently uses around 10 banks for derivative transactions.

Maximum exposure is equivalent to the fair value of the assets and amounts to SEK 16,618 M (19,272).The average maturity of interest-bearing assets amounted to 0.3 (0.3) years as of December 31, 2019.

The Group's financial interest-bearing assets as of December 31, 2019, primarily consisting of bank balances and investments in short-term debt instruments, were still considered to have a low credit risk as of the closing day as the assets have a high credit rating and thus the lost provision for the assets is based on 12 months of expected credit losses.

Interest-bearing assets and derivatives	Dec 31, 2019	Dec 31, 2018
Maximum exposure in outstanding receivables	16,618	19,272
of which derivatives	128	72
Less adjustment from fair value	–14	–8
Loss provision for expected credit losses according to IFRS 9	–21	–25
Carrying amount	**16,583**	**19,239**

Change in impairment losses on interest-bearing assets and derivatives	2019	2018
January 1	25	0
Changed accounting principle, Note 3		30
Adjusted amount at beginning of year	**25**	**30**
Adjustment loss provision according to IFRS 9	–4	–5
December 31	**21**	**25**

Customer credit risk – risk in trade accounts receivable

Customer credit risk is managed through Skanska Group's common procedures for identifying and managing risk: Skanska Tender Approval Procedure (STAP) and Project Scrutiny and Approval Procedure (PSAP).

Skanska's credit risk with regard to trade accounts receivable has a high degree of risk diversification due to the large number of projects of varying sizes and types with numerous different customer categories – many of which are in the public sector – in a large number of geographical markets.

The portion of Skanska's operations related to construction projects extends only limited credit, since projects are invoiced in advance as much as possible. In other operations, the extension of credit is limited to customary invoicing periods.

The impairment loss on trade accounts receivable amounts to SEK 379 M (447), of which SEK 150 M (150) is for the loss provision for expected credit losses according to IFRS 9.

Note 6. Continued

Trade accounts receivable	Dec 31, 2019	Dec 31, 2018
Outstanding receivables	20,592	20,726
Impairment losses	–379	–447
Carrying amount	**20,213**	**20,279**

Change in impairment losses, trade accounts receivable	2019	2018
January 1	447	435
Changed accounting principle, Note 3		150
Adjusted amount at beginning of year	**447**	**585**
Impairment losses for the year	44	40
Reversals of impairment losses		–3
Impairment losses settled	–121	–189
Exchange-rate differences	9	14
December 31	**379**	**447**

Risk in other operating receivables including shares

Other financial operating receivables consist of receivables for properties divested, accrued interest income, deposits etc.

On the closing day no operating receivables were past due and there were no impairment losses.

Holdings with less than 20 percent of voting power in a company are reported as shares. Their carrying amount is SEK 44 M (41).

Other financial operating receivables are reported by time interval with respect to when the amounts fall due in the future.

	2019	2018
Due within 30 days	14	57
Due in over 30 days but within one year	116	147
Due after one year	25	151
Total	**155**	**355**

Liquidity and refinancing risk

Liquidity and financing risk is defined as the risk of Skanska not being able to meet its payment obligations due to lack of liquidity or due to difficulties in obtaining or rolling over external loans.

The Group uses liquidity forecasting as a means of identifying and managing the fluctuations in short-term liquidity.

Surplus liquidity is, if possible, to be used primarily to repay the principal on loan liabilities.

Financing

Skanska has several borrowing programs, both committed bank credit facilities and market funding programs, which provide good preparedness for temporary fluctuations in the Group's short-term liquidity requirements and ensure long-term funding.

In 2019 Skanska's first green bond, which was issued in 2014, matured. Due to the strong liquidity situation, the maturing bond was not refinanced.

To cover the temporary borrowing need in the second half of the year, EUR 50 M of Skanska's green Revolving Credit Facility (RCF) totaling EUR 200 M was used for seven months. Other short-term liquidity needs due to seasonal variations in cash flow were covered during the year through short-term bank loans in SEK.

The final extension option was exercised for Skanska's syndicated credit facility totaling EUR 600 M and the new final maturity date is May 23, 2024.

At the end of the year the central debt portfolio amounted to SEK 3.5 (4.3) billion. The unutilized credit facilities of just over SEK 8.8 billion (8.6) in combination with interest-bearing net receivables excluding cash and cash equivalents with restrictions, lease liabilities and net pension liabilities if SEK 3.2 M (2.1) ensure that the Group has sufficient financial capacity.

				2019		2018	
	Maturity	Currency	Limit in currency	Limit in SEK	Utilized	Limit in SEK	Utilized
Market funding programs							
Commercial paper (CP) program, maturities 0–1 years		SEK/EUR	SEK 6,000 M	6,000		6,000	
Medium-term note (MTN) program, maturities 1–10 years		SEK/EUR	SEK 8,000 M	8,000	1,001	8,000	1,852
				14,000	**1,001**	**14,000**	**1,852**
Committed credit facilities							
Green syndicated bank loan	2020	SEK/EUR/USD	EUR 200 M	2,089		2,051	
Syndicated bank loan	2024	SEK/EUR/USD	EUR 600 M	6,268		6,152	
Bilateral loan agreement	2020	EUR	EUR 60 M	627	627	615	615
Bilateral loan agreements	2023/2024	USD	USD 200 M	1,864	1,864	1,786	1,786
Other credit facilities				455	5	428	17
				11,303	**2,496**	**11,031**	**2,418**

At year-end 2019, the Group's unutilized confirmed credit facilities amounted to SEK 8,807 M (8,613).

Note 6. Continued

Liquidity reserve and maturity structure

The objective is to have a liquidity reserve of at least SEK 4 billion available within one week in the form of cash liquidity or unutilized confirmed credit facilities. At year-end, cash and bank balances and unutilized confirmed credit facilities amounted to SEK 18 (19) billion, of which SEK 12 (14) billion is, or is expected to be, available within one week.

The Group's policy is for the central borrowing portfolio's maturity structure to be distributed over time and to have a weighted average residual term of three years, including unutilized committed credit facilities, with authorization to deviate within a two to four year interval. On December 31, 2019 the average maturity of the borrowing portfolio was 3.4 (3.6) years, if unutilized credit facilities are taken into account.

Including interest payments, the maturity structure of the Group's financial interest-bearing liabilities, derivatives and lease liabilities are distributed over the next few years according to the following table. For lease liabilities the future payments are in undiscounted amounts.

2019				Maturity			
Maturity period		Carrying amount	Future payment amount	Within 3 months	After 3 months within 1 year	After 1 year within 5 years	After 5 years
Interest-bearing financial liabilities		7,721	8,085	37	4,693	3,193	162
Derivatives: Currency forward contracts	Inflow		–7,254	–7,208	–46		
	Outflow	50	7,292	7,245	47		
Derivatives: Interest rate swaps	Inflow		–2			–2	
	Outflow	2	5	1	1	3	
Lease liabilities		8,921	30,575	234	597	2,235	27,509
Trade accounts payable		15,854	15,825	15,825			
Other operating liabilities		399	399	287	48	64	
Total		**32,947**	**54,925**	**16,421**	**5,340**	**5,493**	**27,671**

2018				Maturity			
Maturity period		Carrying amount	Future payment amount	Within 3 months	After 3 months within 1 year	After 1 year within 5 years	After 5 years
Interest-bearing financial liabilities		11,744	12,238	70	7,381	3,152	1,635
Derivatives: Currency forward contracts	Inflow		–8,661	–8,661			
	Outflow	39	8,698	8,698			
Derivatives: Interest rate swaps	Inflow		–4			–4	
	Outflow	12	16	2	10	4	
Lease liabilities		–	–	–	–	–	–
Trade accounts payable		16,262	16,262	16,262			
Other operating liabilities		322	322	311	9	2	
Total		**28,379**	**28,873**	**16,684**	**7,400**	**3,154**	**1,635**

The average maturity for interest-bearing liabilities excluding lease liabilities and unutilized committed credit facilities was 1.9 years (1.7).

Market risk

Market risk is the Group's risk that the fair value of financial instruments or future cash flows from financial instruments will fluctuate due to changes in market prices. The main market risks in the consolidated accounts are interest rate risk and foreign exchange rate risk.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the Group's financial items and cash flow (cash flow risk) or the fair value of financial assets and liabilities (fair value interest rate risk).

To limit the risk, the interest-rate maturities for financial assets and liabilities are to match to the greatest extent possible in the respective borrowing currencies.

When calculating the Group's sensitivity to changes in interest rates, all interest-bearing assets, liabilities and derivatives are included, with the exception of pensions and taxes. For interest rate risk related to pensions, see Note 28. The analysis is based on the assumption that the position as of December 31, 2019 will remain the same in terms of the size of net debt, the ratio of fixed and variable interest rates, and the percentage of financial instruments in foreign currencies.

Fair value sensitivity is measured using three different scenarios: a base scenario with an interest rate increase of one percentage point across all maturities, or an increase or decrease in the base scenario rate of one half of a percentage point over all maturities. According to this policy, the change in fair value may not exceed SEK 150 M for any of these interest scenarios.

As of December 31, 2019 the change in fair value estimated using the scenarios above would impact net financial items in the range of SEK 45–88 M (35–56) and other comprehensive income in the range of SEK 1–2 M (5–7) where hedge accounting is applied. All amounts are stated before tax. Equity would thus be affected by SEK 36–70 M (28–45) taking tax into account.

The Group's cash flow risk must not exceed SEK 150 M over a 12-month period in the event of an increase of one percentage point in market interest rates. Assuming the volume and fixed interest period are the same at year-end, an average increase in the market interest rate of one percentage point from the level at the end of the year would result in an estimated positive effect on the Group's financial items of around SEK 39 M (38) for 2019.

Both the deviation of cash flow risk and fair value interest rate risk are within the authorized limits for the Group as of December 31, 2019.

Note 6. Continued

The average fixed interest period for all of the Group's interest-bearing assets was 0.1 (0.1) years, taking derivatives into account. The interest rate for these was 0.84 (0.83) percent at year-end. Of the Group's total interest-bearing financial assets, 61 (43) percent carry fixed interest rates and 39 (57) percent variable interest rates.

The average fixed interest period for all interest-bearing liabilities, taking into account derivatives but excluding lease liabilities and pension liabilities, was 0.2 (0.3) years. The interest rate for interest-bearing liabilities amounted to 1.89 (1.52) percent at year-end. Taking into account derivatives, the interest rate was –0.01 (1.59) percent. Large volumes of currency swaps over the turn of the year, mainly EUR/USD, have generated a positive net interest effect which has reduced the interest rate temporarily to –0.01 percent. Of total interest-bearing financial liabilities, after taking into account derivatives, 14 (17) percent carry fixed interest rates and 86 (83) percent variable interest rates.

As of December 31, 2019 there were outstanding interest rate swap contracts amounting to a nominal SEK 918 M (1,610). All of the contracts were entered into in order to swap the Group's borrowing from variable to fixed interest.

Hedge accounting is applied for interest rate swaps with terms that match the hedged loan with respect to nominal amounts, reference interest rate, date of maturity, and the payment and interest rate adjustment date. The efficiency is evaluated when the hedging relationship is entered into and on an ongoing basis. Inefficiency may arise if the creditworthiness of the contracting party affects fair value changes to the hedge and the hedged loan differently.

As of December 31, 2019 Skanska is applying hedge accounting for three interest rate swaps in a nominal amount of SEK 418 M. These meet the efficiency criteria. The fair value of these hedges amounts to SEK –0,4 M (–8), and this is recognized in other comprehensive income.

The fair value of interest rate swaps for which hedge accounting is not applied totaled SEK –2 M (–4) on December 31, 2019. For these interest rate swaps, changes in fair value are recognized through profit or loss.

There were also interest rate swap contracts in partly owned joint venture companies and hedge accounting is applied for all of these.

Foreign exchange rate risk

Foreign exchange rate risk is defined as the risk of a negative impact on the Group's income statement and statement of financial position due to fluctuations in exchange rates. This risk can be divided into transaction exposure, i.e., net operating and financial (interest/principal payment) flows, and translation exposure related to net investments in foreign subsidiaries.

Transaction exposure

Transaction exposure arises in a local unit when the unit's inflows and outflows of foreign currencies are not matched.

Although the Group has a large international presence, its operations are mainly of a local nature in terms of foreign exchange rate risks, because project revenue and costs are mainly denominated in the same currency. If this is not the case, the objective is for each respective business unit to hedge its exposure in contracted cash flows against its functional currency in order to minimize the effect on earnings caused by shifts in exchange rates. The main tool for this purpose is currency forward contracts.

The foreign exchange rate risk for the Group may amount to a total of SEK 50 M, with risk calculated as the effect on earnings of a 5 percentage point shift in exchange rates. As of December 31, 2019 foreign exchange rate risk accounted for SEK 15 M (29) of transaction exposure before tax, which would affect other comprehensive income in the amount of SEK 12 M (23) after tax.

Contracted net flows in currencies – as well as hedges for these – that are foreign to the respective Group company break down into currencies and maturities as follows.

On Dec 31, 2019	The Group's contracted net foreign currency flows			Hedging of foreign currency flows			
SEK M[1]	2020	2021	2022 and later	SEK M	2020	2021	2022 and later
PLN	–2,510			PLN	1,883	414	
EUR	–1,318	–330	–5	EUR	1,305	280	28
CZK	–178	–36	–6	CZK	185	36	6
HUF	–148			HUF	140		
SEK	–43			SEK	46		
RON	–20			RON			
NOK	–1			NOK	1		
USD	69	–5		USD	–59	5	
GBP	196			GBP	–196		
Total equivalent value	**–3,953**	**–371**	**–11**	**Total equivalent value**	**3,305**	**735**	**34**

On Dec 31, 2018	The Group's contracted net foreign currency flows			Hedging of foreign currency flows			
SEK M[1]	2019	2020	2021 and later	SEK M	2019	2020	2021 and later
PLN	–3,768	–165		PLN	3,202	281	0
EUR	–992	–102	1	EUR	1,008	84	1
CZK	–331	–109		CZK	370	53	
HUF	–193	–44		HUF	197	51	
RON	–17	–1		RON			
GBP	–2			GBP	2		
USD	37			USD	–26		
Other currencies	3	1		Other currencies			
Total equivalent value	**–5,262**	**–421**	**1**	**Total equivalent value**	**4,753**	**469**	**1**

1 Flows in PLN, CZK, HUF and RON are mainly related to property development project expenses. Flows in EUR are mainly attributable to construction operations in Sweden and Norway.

Note 6. Continued

Skanska hedges foreign currency flows by matching critical terms such as nominal amount, currency and maturity date. A qualitative evaluation of the relationship's efficiency is made in this way. The efficiency of a hedge is evaluated when the hedging relationship is entered into and on an ongoing basis. A currency hedge may become inefficient if the timing of the transaction differs from what was initially estimated and if the credit risk associated with the derivative counterparty is changed.

Skanska mainly uses hedge accounting to hedge expenses in currencies other than EUR in its European property development operations. The fair value of these hedges totaled SEK 59 M (15) on December 31, 2019. The hedges fulfill efficiency requirements, which means that unrealized gains or losses are recognized in "Other comprehensive income." As of December 31, 2019 the fair value of currency hedges for which hedge accounting is not applied totaled SEK –13 M (4), including the fair value of embedded derivatives. Changes in fair value for these are recognized through profit or loss.

Information on the changes recognized in the consolidated income statement and in other comprehensive income during the period can be found in the table "Impact of financial instruments on the consolidated income statement, other comprehensive income and equity" on page 132.

Translation exposure

Skanska's policy stipulates that net investments in Commercial Property Development and the PPP portfolio are to be currency-hedged since the intention is to sell these assets over time. These hedges consist of forward currency contracts and/or foreign currency loans. The positive fair value of the forward currency contracts amounted to SEK 2 M (6) and their negative fair value amounted to SEK 0 M (0). In 2019 no foreign currency loans were used for hedging. The fair value of foreign currency loans amounted to SEK 626 M as of December 31, 2018.

Net investments in other foreign subsidiaries are not normally hedged, unless the Board of Directors of Skanska AB decides otherwise.

At year-end 2019, 0 percent (5) of net investments in foreign currency was currency hedged. A change in the exchange rate where the Swedish krona falls/rises by 10 percent against other currencies would have an effect of SEK +/– 2.3 billion (2.2) on other comprehensive income after tax and taking hedges into account.

Hedging of net investments outside Sweden

	2019					2018				
Currency	**Net investments**	**Hedges[1]**	**Hedged portion, %**	**Net investments[2]**	**Net investments %[2]**	**Net investments**	**Hedges[1]**	**Hedged portion, %**	**Net investments[2]**	**Net investments %[2]**
CZK	2,393			2,393	7	2,292			2,292	8
DKK	834			834	3	882			882	3
EUR	4,214			4,214	13	4,602	–966	21	3,636	12
GBP	1,435	–86	6	1,349	4	1,628	–90	6	1,538	5
NOK	5,512			5,512	17	4,447			4,447	15
PLN	57			57		–516			–516	–2
USD	10,420	40		10,460	32	9,127			9,127	31
Other foreign	197			197	1	63			63	
Total foreign currencies	**25,062**	**-46**	**0**	**25,016**	**76**	**22,525**	**–1,056**	**5**	**21,469**	**73**
SEK and eliminations				7,908	24				7,781	27
Total				**32,924**	**100**				**29,250**	**100**

1 Hedged amount before subtracting tax portion.
2 After subtracting hedged portion.

Hedge accounting is applied in cases where hedging of net investments takes place outside Sweden. The hedges fulfill efficiency requirements, which means that gains or losses on the hedges are recognized in "Other comprehensive income" until the hedged transaction takes place, at which point the accumulated changes in value are transferred to the income statement.

The efficiency of the hedge is evaluated on an ongoing basis to ensure that the relationship meets the criteria. Inefficiency may arise in connection with a change in net investments and if the credit risk associated with the derivative counterparty is changed.

Information on the changes recognized in the consolidated income statement and in other comprehensive income during the period can be found in the table "Impact of financial instruments on the consolidated income statement, other comprehensive income and equity" on page 132.

See also Note 34.

Note 6. Continued

The significance of financial instruments for the group's financial position and income

Financial instruments in the statement of financial position

The table below shows the carrying amount and fair value of financial instruments by category, as well as a reconciliation with total assets and liabilities in the statement of financial position.

See also Note 21, Note 24, Note 27 and Note 30.

Fair value relating to hedged transaction exposure is reported under "Contract assets/contract liabilities" or under "Other operating receivables/liabilities."

Fair value

There are three different levels for establishing fair value. The first level uses the official price quotation in an active market. The second level, which is used when a price quotation in an active market does not exist, calculates fair value by discounting future cash flows based on observable market interest rates for each respective maturity and currency. The third level uses substantial input data not observable in the market.

All fair value items in the tables below have been calculated at the second level above, except a portion of the liabilities for the contingent considerations which are measured at fair value according to level three. See footnote 1 under the table for financial liabilities below. In calculating fair value in the borrowing portfolio, Skanska takes into account current market interest rates which include the credit risk premium that Skanska is estimated to pay for its borrowing.

The fair value of financial instruments with option elements is calculated using the Black-Scholes model. As of December 31, 2019, Skanska had no instruments with option elements.

The fair value of financial instruments recognized at amortized cost: cash and bank balances, shares, trade accounts receivable, other operating receivables, trade accounts payable and other operating liabilities, is considered the same as the carrying amount.

Assets	Hierarchy level	At fair value through profit/loss	At fair value in other comprehensive income	At amortized cost	Total carrying amount	Total fair value
2019						
Financial instruments						
Interest-bearing assets and derivatives						
Financial assets[1]	2	128		7,710	7,838	7,873
Cash and bank balances	–			8,745	8,745	8,745
		128	**0**	**16,455**	**16,583**	**16,618**
Trade accounts receivable[2]				**20,213**	**20,213**	**20,362**
Other operating receivables including shares						
Shares[3]	–			44	44	44
Other operating receivables[2, 4]	–			155	155	155
		0	**0**	**199**	**199**	**199**
Total financial instruments		**128**	**0**	**36,867**	**36,995**	**37,179**
2018						
Financial instruments						
Interest-bearing assets and derivatives						
Financial assets[1]	2	72		8,445	8,517	8,550
Cash and bank balances	–			10,722	10,722	10,722
		72	**0**	**19,167**	**19,239**	**19,272**
Trade accounts receivable[2]				**20,279**	**20,279**	**20,429**
Other operating receivables including shares						
Shares[3]	–			41	41	41
Other operating receivables[2, 4]	–			355	355	355
		0	**0**	**396**	**396**	**396**
Total financial instruments		**72**	**0**	**39,842**	**39,914**	**40,097**

1 The carrying amount of financial assets excluding shares, totaling SEK 7,838 M (8,517), is presented in Note 21.
2 See Note 24.
3 Shares are reported in the consolidated statement of financial position among financial assets. See also Note 21.
4 In the consolidated statement of financial position, SEK 27,213 M (27,243) was reported as other operating receivables. See Note 24. Of this amount, trade accounts receivable accounted for SEK 20,213 M (20,279). These were reported as financial instruments. The remaining amount is SEK 7,000 M (6,964) and breaks down as SEK 155 M (355) for financial instruments and SEK 6,845 M (6,609) for non-financial instruments. The amount reported as financial instruments includes accrued interest income, deposits etc. Amounts reported as non-financial instruments include, for example, interim items other than accrued interest, VAT receivables, pension-related receivables and other employee-related receivables.

Note 6. Continued

Reconciliation with statement of financial position	Dec 31, 2019	Dec 31, 2018
Assets		
Financial instruments according to the categories in IFRS 9	36,995	39,914
Other assets		
Property, plant and equipment and intangible assets	12,664	12,944
Property, plant and equipment, right-of-use assets	4,616	–
Investments in joint ventures and associated companies	3,442	3,288
Net assets in funded pension plans	1,545	904
Tax assets	2,532	2,329
Current-asset properties	46,373	42,391
Current-asset properties right- of- use assets	3,980	–
Inventories	1,128	1,256
Receivables from customers for contract work	5,898	6,661
Other operating receivables[1]	6,845	6,609
Total assets	**126,018**	**116,296**

1 In the consolidated statement of financial position, SEK 27,213 M (27,243) was reported as other operating receivables. See Note 24. Of this amount, trade accounts receivable accounted for SEK 20,213 M (20,279). These were reported as financial instruments. The remaining amount is SEK 7,000 M (6,964) and breaks down as SEK 155 M (355) for financial instruments and SEK 6,845 M (6,609) for non-financial instruments. The amount reported as financial instruments includes accrued interest income, deposits etc. Amounts reported as non-financial instruments include, for example, interim items other than accrued interest, VAT receivables, pension-related receivables and other employee-related receivables.

Liabilities	Hierarchy level	At fair value through profit/loss	At amortized cost	Total carrying amount	Total fair value
2019					
Financial instruments					
Interest-bearing liabilities and derivatives					
Financial liabilities[1]	2, 3	405	7,368	7,773	7,828
		405	**7,368**	**7,773**	**7,828**
Operating liabilities					
Trade accounts payable	–		15,854	15,854	15,854
Other operating liabilities[2]	–		399	399	399
		0	**16,253**	**16,253**	**16,253**
Total financial instruments		**405**	**23,621**	**24,026**	**24,081**
2018					
Financial instruments					
Interest-bearing liabilities and derivatives					
Financial liabilities[1]	2, 3	391	11,404	11,795	11,825
		391	**11,404**	**11,795**	**11,825**
Operating liabilities					
Trade accounts payable	–		16,262	16,262	16,262
Other operating liabilities[2]	–		322	322	322
		0	**16,584**	**16,584**	**16,584**
Total financial instruments		**391**	**27,988**	**28,379**	**28,409**

1 The carrying amount for financial liabilities totaling SEK 7,773 M (11,795) is reported in the statement of financial position along with financial liabilities of SEK 7,182 M (11,222) from Note 27 and contingent consideration of SEK 591 M (573) from Note 29. Contingent consideration is included in financial liabilities measured at fair value at SEK 353 M (340) and in financial liabilities measured at amortized cost at SEK 238 M (233). In 2019 SEK 0 M (263) of the contingent consideration was paid out and SEK 41 (47) accrued as interest expense, an additional SEK 15 M (9) was added as contingent consideration, and an adjustment of SEK –38 M (–58) was made.

2 Other financial operating liabilities, totaling SEK 16,253 M (16,584), are reported in the statement of financial position together with trade accounts payable of SEK 15,854 M (16,262) and other financial instruments of SEK 399 M (322). The total item in the statement of financial position amounts to SEK 37,979 M (38,072). See Note 30. Accrued interest expense, checks issued but not cashed, liabilities for unpaid properties etc. are recognized as other financial operating liabilities. Other non-financial operating liabilities are, for example, interim items other than accrued interest, VAT liabilities, pension-related liabilities and other employee-related liabilities. Operating liabilities are measured at amortized cost.

Note 6. Continued

Reconciliation with statement of financial position	Dec 31, 2019	Dec 31, 2018
Equity and liabilities		
Financial instruments	24,026	28,379
Other liabilities		
Equity	33,021	29,347
Pensions	6,866	5,669
Lease liabilities	8,921	–
Tax liabilities	1,609	1,326
Provisions	9,430	9,349
Contract liabilities	20,419	20,738
Other operating liabilities[1]	21,726	21,488
Total equity and liabilities	**126,018**	**116,296**

1 Other financial operating liabilities, totaling SEK 16,253 M (16,584), are reported in the statement of financial position together with trade accounts payable of SEK 15,854 M (16,262) and other financial instruments of SEK 399 M (322). The total item in the statement of financial position amounts to SEK 37,979 M (38,072). See Note 30. Accrued interest expense, checks issued but not cashed, liabilities for unpaid properties etc. are recognized as other financial operating liabilities. Other non-financial operating liabilities are, for example, interim items other than accrued interest, VAT liabilities, pension-related liabilities and other employee-related liabilities. Operating liabilities are measured at amortized cost.

	2019		2018	
Disclosures concerning offsetting of financial instruments	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**
Gross amounts	36,995	24,026	39,914	28,379
Amounts offset				
Recognized in balance sheet	**36,995**	**24,026**	**39,914**	**28,379**
Amounts covered by netting arrangements	–23	–23	–42	–42
Net amount after netting arrangements	**36,972**	**24,003**	**39,872**	**28,337**

Note 6. Continued

Impact of financial instruments on the consolidated income statement, other comprehensive income and equity

Revenue and expenses from financial instruments recognized in the income statement	2019	2018
Recognized in operating income		
Interest expense on financial liabilities at cost		
Cash flow hedges removed from equity and recognized in the income statement	148	154
Total income and expenses in operating income	**148**	**154**
Recognized in financial items		
Interest income on assets measured at amortized cost	14	6
Interest income on cash and bank balances	138	138
Dividends	32	32
Changes in market value of financial assets measured at fair value through profit or loss	4	13
Changes in market value of financial liabilities measured at fair value through profit or loss		5
Total income in financial items	**188**	**194**
Interest expense on financial liabilities measured at fair value through profit or loss	43	–52
Interest expense on financial liabilities measured at amortized cost	–252	–283
Changes in market value of financial liabilities measured at fair value through profit or loss		–2
Net exchange rate differences	–15	
Expenses for borrowing programs	–14	–14
Bank-related expenses and other	11	–26
Total expenses in financial items	**–227**	**–377**
Net income and expenses from financial instruments recognized in the income statement	**109**	**–29**
of which interest income on financial assets not measured at fair value through profit or loss	152	144
of which interest expense on financial liabilities not measured at fair value through profit or loss	–252	–283

Reconciliation with financial items	2019	2018
Total income from financial instruments in financial items	188	194
Total expense from financial instruments in financial items	–227	–377
Net interest income on pensions	–84	–103
Interest expense for lease liabilities	–272	–
Capitalized interest expense	307	325
Total financial items	**–88**	**39**

See also Note 14.

Income and expenses from financial instruments recognized under other comprehensive income	2019	2018
Cash flow hedges recognized directly in equity	–160	88
Cash flow hedges removed from equity and recognized in the income statement	150	154
Translation differences	672	1,299
Hedging of exchange rate risk in foreign operations	4	–183
Total	**666**	**1,358**
of which recognized in cash flow hedge reserve	–10	242
of which recognized in translation reserve	676	1,116
	666	**1,358**

Collateral

The Group has provided collateral (assets pledged) in the form of financial receivables amounting to SEK 891 M (824). Also see Note 33.

These assets may be utilized by customers if Skanska does not fulfill its obligations according to the respective construction contract.

To a varying extent, the Group has obtained collateral for trade accounts receivable in the form of guarantees issued by banks and insurance companies and, in some cases, in the form of guarantees from the parent companies of customers.

Note 7. Business combinations

Business combinations are reported in accordance with IFRS 3 Business Combinations, see Note 1.

2019

Two acquisitions were made during the year, one in Finland and one in Poland.

According to IFRS 10, Skanska has a controlling influence over the company. See Note 1.

Skanska will therefore consolidate the company as a subsidiary in the consolidated accounts.

Acquisition in Finland

In March 2019 an additional 53 percent of the shares in the Finnish company Sipoonranta Oy were acquired. Skanska now owns 100 percent. Sipoonranta OY runs a residential development business in Sipoo, Finland. The acquisition is included in the Residential Development business stream. In connection with the acquisition SEK 26 M was allocated to intangible assets, of which SEK 8 M in goodwill has been reported for Skanska. A goodwill impairment loss was reported on the acquisition. See Note 13.

The fair value of the previously owned shares amounted to SEK –4 million immediately before the acquisition date.

Reported loss due to revaluation amounted to SEK -4 million and is included in the amount for impairment of goodwill.

The consolidated income statement for 2019 included the net sales of Sipoonranta OY of SEK 12 M and a net loss of SEK –13 M. If the acquisition had taken place on January 1 the company's net sales and net earnings would have changed marginally. There were no direct acquisition expenditures in connection with the acquisition.

Acquisition in Poland

In March 2019 an additional 60 percent of the shares in the company Business Link were acquired. Skanska now owns 100 percent of the shares. Business Link is a company that rents out office space in Poland. The acquisition is included in the Commercial Property Development business stream. In connection with the acquisition a total of SEK 69 M was allocated to intangible assets consisting of goodwill that has been reported for Skanska. Due to a necessary restructuring process, Skanska has decided to report a goodwill impairment loss. See Note 13. Restructuring was carried out to make the company better suited to the market's needs.

The fair value of the previously owned shares amounted to SEK –17 million immediately before the acquisition date.

Reported loss due to revaluation amounted to SEK –17 million and is included in the amount for impairment of goodwill.

The consolidated income statement for 2019 included the net sales of Business Link of SEK 73 M and a net loss of SEK –39 M. If the acquisition had taken place on January 1 the company's net sales and net earnings would have changed marginally. There were no direct acquisition expenditures in connection with the acquisition.

Acquisition analysis

Below is information on acquired net assets and goodwill per acquisition:

	Finland	Poland	Total
Consideration	0	26	26
Fair value of net assets	–8	–44	–52
Goodwill	8	70	78

Below is information on acquired assets and liabilities as well as surplus value, excluding goodwill, per acquisition in SEK M.

	Finland			Poland			
Assets	Acquired balance sheet	Surplus value	The total	Acquired balance sheet	Surplus value	The total	Total acquisitions
Intangible assets		18	18			0	18
Property, plant and equipment			0	88		88	88
Property, plant and equipment, right-of-use assets			0	281		281	281
Current-asset properties	90		90			0	90
Non-interest-bearing assets	4		4	34		34	38
Cash and cash equivalents	2		2	18		18	20
Total	**96**	**18**	**114**	**421**	**0**	**421**	**535**
Liabilities							
Lease liabilities			0	371		371	371
Interest-bearing liabilities	56		56	76		76	132
Non-interest-bearing liabilities	66		66	18		18	84
Total	**122**	**0**	**122**	**465**	**0**	**465**	**587**
Net assets	–26	18	–8	–44	0	–44	–52

2018

On January 8, 2018 Skanska acquired 60 percent of the shares in the Norwegian company LA Pukk AS. According to IFRS 10, Skanska has a controlling influence over the company. See Note 1. Skanska will therefore consolidate the company as a subsidiary in the consolidated accounts. The portion included in other shareholders' holdings is recognized as a non-controlling interest. LA Pukk AS operates a stone crushing company in Løiten, Norway. With this acquisition Skanska will strengthen its Norwegian mining materials operations. The acquisition is included in the Construction business stream.

In connection with the acquisition SEK 21 M was allocated to intangible assets in the form of withdrawal rights. No goodwill has been reported for Skanska.

The total investment was SEK 16 M, with a consideration of NOK 10 M and a contingent consideration of NOK 6 M. As of December 31, 2018 the entire consideration of NOK 16 M had been paid.

Note 7. Continued

Acquired assets and liabilities on the acquisition date as well as surplus value in SEK M

Assets	Acquired balance sheet	Surplus value	The total
Intangible assets		21	21
Property, plant and equipment	7		7
Non-interest-bearing assets	1		1
Cash and cash equivalents			0
Total	**8**	**21**	**29**
Liabilities			
Interest-bearing liabilities	7		7
Non-interest-bearing liabilities	1	5	6
Total	**8**	**5**	**13**
Net assets	0	16	16

The consolidated income statement for 2018 included net sales of SEK 26 M and net profit of SEK 2 M for LA Pukk AS. If the acquisition had occurred on January 1, the net sales and net profit of the business would have remained the same.

Direct acquisition expenditures amounting to SEK 0.3 M, consisting of attorney and consultant expenses, have been charged to selling and administrative expenses in the consolidated income statement.

Note 8. Revenue

Revenue is recognized according to IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, see Note 1. For revenue according to IFRS 15, see also Note 9. Revenue from contracts with customers amounted to SEK 172,103 M (171,201) and rental income from leases amounted to SEK 743 M (529). As for other types of revenue, dividends and interest income are recognized in financial items. See Note 14 .

Revenue by business stream	2019	2018
Construction	159,579	157,894
Residential Development	11,869	12,206
Commercial Property Development	14,266	15,816
Other		
Central	940	655
Eliminations, see below	–13,808	–14,841
Total	**172,846**	**171,730**

Reported as eliminations

	2019	2018
Intra-Group construction for		
Construction	–253	–449
Residential Development	–4,365	–5,220
Commercial Property Development	–8,602	–8,479
Intra-Group property divestments	–52	–91
Other[1]	–536	–602
Total	**–13,808**	**–14,841**

1 Construction includes SEK 7,223 M (8,173) in intra-Group construction for joint ventures in the PPP portfolio. Elimination does not occur since this revenue consists of invoices issued to joint ventures, which are recognized according to the equity method of accounting.

Other

For transactions with related parties, see Note 39.

Note 9. Contract assets and contract liabilities

Contract assets and contract liabilities are recognized according to IFRS 15 Revenue from Contracts with Customers, see Note 1.

For risks in ongoing assignments, see Note 2 and the Report of the Directors.

Information from the income statement

Revenue recognized during the year amounts to SEK 143,705 M (136,340).

Information from the statement of financial position	2019	2018
Contract assets	5,898	6,661
Contract liabilities	20,419	20,738

Contract assets	2019	2018
January 1	6,661	6,997
Revenue accrued during the year, not yet invoiced	5,287	6,964
Revenue accrued during the year, invoiced during the year	47,811	35,892
Invoiced revenue	–54,336	–43,466
Reclassification	168	
Exchange rate differences for the year	307	274
Carrying amount, December 31	**5,898**	**6,661**

Assets arising from expenses to obtain or complete a contract with a customer are included in “Contract assets” and amount to SEK 0 M (0).

Depreciation amounted to SEK 0 M (0) and impairment losses, which are charged to the project, to SEK 0 M (0).

Contract liabilities	2019	2018
January 1	20,738	16,266
Invoiced revenue	89,660	97,151
Revenue accrued during the year, invoiced during the year	–73,944	–83,348
Revenue accrued during the year, invoiced in previous year	–16,618	–10,399
Revenue adjustment	–45	263
Reclassification	45	
Exchange rate differences for the year	583	805
Carrying amount, December 31	**20,419**	**20,738**

Future revenue for remaining performance obligations breaks down between the following years.

Expected revenue recognition for remaining performance obligations

	2020	2021	2022	2023	≥2024	Total
Construction	101,386	47,075	27,066	7,468	2,375	185,370
Residential Development	7,851	3,739	1,930			13,520
Commercial Property Development	6,920	1,236	1,129			9,285
Total	**116,157**	**52,050**	**30,125**	**7,468**	**2,375**	**208,175**

Note 10. Operating expenses by category of expense

In 2019, revenue increased by SEK 1,116 M to SEK 172,846 M (171,730). Operating income increased by SEK 1,781 M to SEK 7,428 M (5,647). Personnel expenses for the year amounted to SEK –27,748 M (–27,746).

Other operating expenses adjusted for current-asset properties divested and income in joint ventures and associated companies amounted to SEK –116,548 M (–118,144).

	2019	2018
Revenue	**172,846**	**171,730**
Personnel expenses[1]	–27,748	–27,476
Depreciation/amortization	–3,043	–1,780
Impairment losses	–719	–677
Carrying amount of current-asset properties divested	–18,255	–19,000
Income from joint ventures and associated companies	591	855
Income from property, plant and equipment sold	304	139
Other operating expenses[2]	–116,548	–118,144
Total expenses	**–165,418**	**–166,083**
Operating income	**7,428**	**5,647**

1 Personnel expenses include salaries and other remuneration of 21,508 (21,619), social insurance contributions of SEK 5,695 M (5,294) recognized according to Note 36, as well as non-monetary remuneration such as company car benefits and shares received under Seop amounting to 545 (563).
2 Other operating expenses includes purchased materials, machinery rentals and subcontractors.

Note 11. Selling and administrative expenses

Selling and administrative expenses are recognized as one item, see Note 1.

Selling and administrative expenses	2019	2018
Construction	–6,702	–6,998
Residential Development	–791	–675
Commercial Property Development	–960	–928
Central expenses[1]	–1,016	–872
Total	**–9,469**	**–9,473**

1 Including eliminations.

Note 12. Depreciation/amortization

Depreciation and amortization are carried out in accordance with IAS Property, Plant and Equipment, IFRS 16 Leases and IAS 38 Intangible Assets, see Note 1.

Depreciation and amortization are presented below by business stream.

For further information about depreciation and amortization, see Note 17, Note 19 and Note 40.

Depreciation/amortization by asset class and business stream	Construction operations	Residential Development	Commercial Property Development	Central and eliminations	Total
2019					
Intangible assets	–164	–3	–1	–65	–233
Property, plant and equipment					
Buildings and land	–66			–1	–67
Plant and equipment	–1,649	–1	–28	–9	–1,687
Property, plant and equipment right-of-use assets					
Property (buildings and land)	–19				–19
Offices	–571	–6	–49	–10	–636
Cars	–176	–1	–7	–1	–185
Machinery	–156				–156
Other	–45	–14	–1		–60
Total	**–2,846**	**–25**	**–86**	**–86**	**–3,043**
2018					
Intangible assets	–150		–1	–58	–209
Property, plant and equipment					
Buildings and land	–89			–1	–90
Plant and equipment	–1,461	–1	–5	–14	–1,481
Property, plant and equipment right-of-use assets					
Property (buildings and land)					–
Offices					–
Cars					–
Plant and equipment					–
Total	**–1,700**	**–1**	**–6**	**–73**	**–1,780**

Note 13. Impairment losses/reversals of impairment losses

Impairment losses/reversals of impairment losses are recognized in accordance with IAS 36 Impairment of Assets, see Note 1. Impairment losses/reversals of impairment losses on current-asset properties are recognized in accordance with IAS 2 Inventories.

Impairment loss/reversals of impairment losses are presented below by business stream.

For further information on impairment losses/reversals of impairment losses, see Note 17, Note 18, Note 19, Note 22 and Note 40.

Impairment losses/reversals of impairment losses by asset class and business stream

	Construction	Residential Development	Commercial Property Development	Central and eliminations	Total
2019					
Recognized in operating income					
Intangible assets					
Goodwill	–367	–110	–70		–547
Other intangible assets	18	–18			0
Property, plant and equipment					
Buildings and land	1				1
Plant and equipment	6				6
Property, plant and equipment, right-of-use assets					
Site leaseholds					0
Offices	10				10
Cars					0
Plant and equipment					0
Investments in joint ventures and associated companies					0
Current-asset properties					
Commercial Property Development			–19		–19
Residential Development		–170			–170
Current-asset properties, right-of-use assets					
Commercial Property Development					0
Residential Development					0
Total	**–332**	**–298**	**–89**	**0**	**–719**

	Construction	Residential Development	Commercial Property Development	Central and eliminations	Total
2018					
Recognized in operating income					
Intangible assets					
Goodwill	–393				–393
Other intangible assets	–45				–45
Property, plant and equipment					
Buildings and land	3				3
Plant and equipment	–60				–60
Property, plant and equipment, right-of-use assets					
Site leaseholds					–
Offices					–
Cars					–
Plant and equipment					–
Investments in joint ventures and associated companies				–9	–9
Current-asset properties					
Commercial Property Development			–107	6	–101
Residential Development		–72			–72
Current-asset properties, right-of-use assets					
Commercial Property Development					–
Residential Development					–
Total	**–495**	**–72**	**–107**	**–3**	**–677**

Note 14. Financial items

	2019	2018
Financial income		
Interest income	152	144
Dividends	32	32
Change in fair value	4	11
Reversal of possible future credit losses		5
	188	**192**
Financial expense		
Interest expense	–209	–335
Interest expense for lease liabilities	–272	–
Net interest income on pensions	–84	–103
Capitalized interest expense	307	325
Net exchange rate differences	–15	
Other financial items	–3	–40
	–276	**–153**
Total	**–88**	**39**

Information on how large a portion of income and expenses in financial items comes from financial instruments is presented in Note 6.

Net interest items

Financial items amounted to SEK –88 M (39). Net interest items improved to SEK –106 M (31). Interest income increased to SEK 152 M (144). Interest expense before capitalized interest decreased to SEK –481 M (–335), which is explained by the fact that interest expense on lease liabilities is recognized in financial items as of the beginning of 2019. Interest expense excluding leases has decreased due to a positive effect from currency swaps mainly in USD and EUR. In 2019 Skanska capitalized interest expense of SEK 307 M (325) in its own ongoing projects.

Interest income was received at an average interest rate of 1.06 percent (0.94). Interest expense, excluding interest on pension liabilities, was paid at an average interest rate of 1.54 percent (1.82) during the year. The average interest rate for lease liabilities was 3.32 percent.

Net interest on pensions, which is the net amount of interest expense for defined-benefit pension obligations calculated at the beginning of the year, based on the 2019 outcome, and the return on pension plan assets, increased to SEK –84 M (–103). See also Note 28.

The Group had net interest items of SEK –1 M (0) that were recognized in operating income. See Note 1 Accounting and valuation principles.

Change in fair value

The change in market value amounted to SEK 4 M (11) and the increase is mainly due to a positive change in the market value of interest rate swap contracts entered into.

Other financial items

Other financial items amounted to SEK –3 M (–40) and mainly related to various fees for credit facilities and bank guarantees.

Note 15. Borrowing costs

Borrowing costs related to investments that require a substantial period for completion are capitalized, see Note 1.

In 2019 borrowing costs were capitalized at an interest rate of around 1.6 (1.8) percent.

	Capitalized interest during the year		Total accumulated capitalized interest included in cost	
	2019	**2018**	**2019**	**2018**
Current-asset properties	307	325	418	391
Total	**307**	**325**	**418**	**391**

Note 16. Income taxes

Income taxes are reported in accordance with IAS 12 Income Taxes. See Note 1.

Tax expense	**2019**	**2018**
Current taxes	–683	–1,623
Deferred tax expenses/income from change in temporary differences	–581	276
Deferred tax expenses/income from change in loss carryforwards	–22	155
Change in provision for tax risk		100
Total	**–1,286**	**–1,092**

Tax items recognized under other comprehensive income	**2019**	**2018**
Deferred taxes attributable to cash flow hedges	–10	7
Deferred taxes attributable to pensions	166	59
Total	**156**	**66**

Relationship between taxes calculated after aggregating nominal tax rates and recognized taxes

The Group's recognized tax rate is 18 percent (19).

The Group's aggregated nominal tax rate has been estimated at 22 percent (21).

The average nominal tax rate in Skanska's home markets in Europe is 20 percent (20), and in the USA, just over 27 percent (27), depending on the distribution of income between the different states.

The relationship between taxes calculated after aggregating nominal tax rates of 22 percent (21) and recognized taxes of 18 percent (19) is explained in the table on page 138.

Note 16. Continued

	2019	2018
Income after financial items	7,340	5,686
Tax according to aggregation of nominal tax rates, 22 percent (21)	–1,615	–1,194
Tax effect of:		
Property divestments[1]	481	522
Divestment of projects in the PPP portfolio[2]	15	12
Losses in Poland		–315
Changed tax rate in Sweden		26
Changed tax rate in Norway		23
Other	–167	–166
Recognized tax expense	**–1,286**	**–1,092**

1 In a number of the countries where Skanska operates, the sale of commercial property projects via the divestment of companies is tax-free.
2 In a number of the countries where Skanska operates, the sale of PPP projects included in the PPP portfolio via the divestment of companies is tax-free.

Income taxes paid in 2019 amounted to SEK 1,076 M (490).

Income taxes paid can vary greatly from year to year for the countries where the Group operates. Income taxes are often calculated based on different principles to those that apply to the preparation of the consolidated income statement. If the final income tax is less than the amount provisionally withdrawn in previous years, income taxes paid for the year may be substantially reduced.

The table below shows a breakdown by country of income taxes paid:

Income taxes paid

	2019		2018
Sweden	684	Sweden	325
Finland	183	Poland	132
Poland	121	Finland	109
Norway	56	Norway	97
Czech Republic	20	Czech Republic	33
Other	12	Other	–206
Total	**1,076**	**Total**	**490**

Tax assets and tax liabilities

	Dec 31, 2019	Dec 31, 2018
Tax assets	670	396
Tax liabilities	564	615
Net tax assets (+) / tax liabilities (–)	**106**	**–219**

Tax assets and tax liabilities refer to the difference between estimated income tax for the year and preliminary tax paid, as well as income taxes for prior years that have not yet been paid.

Deferred tax assets and deferred tax liabilities

	Dec 31, 2019	Dec 31, 2018
Deferred tax assets according to the statement of financial position	1,862	1,933
Deferred tax liabilities according to the statement of financial position	1,045	711
Net deferred tax assets (+) / deferred tax liabilities (–)	**817**	**1,222**

	Dec 31, 2019	Dec 31, 2018
Deferred tax assets for loss carryforwards	398	401
Deferred tax assets for other assets	484	403
Deferred tax assets for provisions for pensions	1,643	1,311
Deferred tax assets for ongoing projects	786	805
Other deferred tax assets	1,393	1,266
Total before net accounting	**4,704**	**4,186**
Net accounting of offsettable deferred tax assets/liabilities	–2,842	–2,253
Deferred tax assets according to the statement of financial position	**1,862**	**1,933**

	Dec 31, 2019	Dec 31, 2018
Deferred tax liabilities for non-current assets	264	260
Deferred tax liabilities for ongoing projects	1,935	1,477
Deferred tax liabilities for other current assets	156	127
Other deferred tax liabilities	1,532	1,100
Total before net accounting	**3,887**	**2,964**
Net accounting of offsettable deferred tax assets/liabilities	–2,842	–2,253
Deferred tax liabilities according to the statement of financial position	**1,045**	**711**

Change in net deferred tax assets (+) / liabilities (–)

	2019	2018
Net deferred tax assets, January 1	1,222	522
Changed accounting principle, Note 3	15	40
Adjusted net deferred tax assets, January 1	**1,237**	**562**
Acquisitions of companies		–5
Divestments	7	9
Recognized under other comprehensive income	156	66
Deferred tax income/expenses	-603	531
Reclassifications	6	10
Exchange-rate differences	14	49
Net deferred tax assets, December 31	**817**	**1,222**

Note 16. Continued

Deferred tax assets other than for loss carryforwards refer to temporary differences between carrying amounts for tax purposes and carrying amounts recognized in the statement of financial position. These differences arise, for example, when the Group's valuation principles deviate from those applied locally by a Group company. These deferred tax assets are mostly expected to be realized within five years.

Deferred tax assets arise, for example, when a recognized depreciation/amortization/impairment loss on assets becomes tax-deductible only in a later period, when eliminating intra-Group profits, when there are differences with respect to provisions for defined-benefit pensions between local rules and IAS 19, when the required provisions become tax-deductible in a later period and when advance payments for ongoing projects are taxed on a cash basis.

Deferred tax liabilities for other assets and other deferred tax liabilities refer to temporary differences between carrying amounts for tax purposes and carrying amounts in the statement of financial position. These differences arise, for example, when the Group's valuation principles deviate from those applied locally by a Group company. For the most part, these deferred tax liabilities are expected to be realized within five years.

For example, deferred tax liabilities arise when depreciation/amortization for tax purposes in the current period is larger than the required economic depreciation/amortization and when accrued profits in ongoing projects are taxed only when the project is completed.

Temporary differences attributable to investments in Group companies, branches, associated companies and joint ventures for which deferred tax liabilities were not recognized amount to SEK 0 M (0). In Sweden and a number of other countries, divestments of holdings in limited companies are tax-exempt under certain circumstances. Temporary differences thus do not normally exist for the shareholdings of the Group's companies in these countries.

Deferred tax liabilities for future dividends from subsidiaries amount to 0 (0) because dividends from subsidiaries in the markets where Skanska is currently active do not have any tax consequences.

Temporary differences and loss carryforwards that are not recognized as deferred tax assets

	Dec 31, 2019	Dec 31, 2018
Loss carryforwards that expire within one year	191	52
Loss carryforwards that expire in more than one year but within three years	577	411
Loss carryforwards that expire in more than three years	2,520	3,092
Total	**3,288**	**3,555**

Skanska has loss carryforwards in a number of countries. In some of these countries the likelihood that a loss carryforward will be able to be used is difficult to assess, and therefore no deferred tax asset is reported.

Note 17. Property, plant and equipment

Property, plant and equipment are reported in accordance with IAS 16 Property, Plant and Equipment, see Note 1.

Office buildings and other buildings used in the Group's operations are recognized as property, plant and equipment. Machinery and equipment are recognized as a single item.

Property, plant and equipment by asset class

	Dec 31, 2019	Dec 31, 2018
Buildings and land	1,530	1,594
Plant and equipment	6,144	5,921
Property, plant and equipment under construction	68	130
Total	**7,742**	**7,645**

Depreciation of property, plant and equipment by asset class and function

	Cost of sales		Selling and administration		Total	
	2019	2018	2019	2018	2019	2018
Buildings and land	–37	–59	–30	–31	–67	–90
Plant and equipment	–1,568	–1,302	–119	–179	–1,687	–1,481
Total	**–1,605**	**–1,361**	**–149**	**–210**	**–1,754**	**–1,571**

Impairment losses/reversals of impairment losses on property, plant and equipment

In 2019 impairment losses/reversals of impairment losses in the net amount of SEK 7 M (–57) were recognized. Impairment losses/reversals of impairment losses were recognized in Poland during the year and the comparative year. Impairment losses/reversals of impairment losses were recognized as production and management costs of SEK 7 M.

Impairment losses/ reversals of impairment losses	Property (buildings and land)		Plant and equipment		Total	
	2019	2018	2019	2018	2019	2018
Impairment losses	–1			–75	–1	–75
Reversals of impairment losses	2	3	6	15	8	18
Total	**1**	**3**	**6**	**–60**	**7**	**–57**

Amount of impairment losses/reversals of impairment losses based on	Property (buildings and land)		Plant and equipment		Total	
	2019	2018	2019	2018	2019	2018
Fair value less selling expenses/cost of disposals	1	3	6	–60	7	–57
Value in use						
Total	**1**	**3**	**6**	**–60**	**7**	**–57**

Note 17. Continued

Information about cost, accumulated depreciation and accumulated impairment losses

	Property (buildings and land)		Plant and equipment		Property, plant and equipment under construction	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Accumulated cost						
January 1	3,734	3,633	25,445	23,208	130	138
Changed accounting principle, Note 3			–282			
Adjusted amount at beginning of year	**3,734**	**3,633**	**25,163**	**23,208**	**130**	**138**
Investments	70	83	2,369	2,221	127	47
Acquisitions of companies			89	7		
Divestments	–291	–112	–646	–533	–186	–7
Reclassifications	3	–2	2	–38	–3	–46
Exchange rate differences for the year	98	132	498	580		–2
	3,614	**3,734**	**27,475**	**25,445**	**68**	**130**
Accumulated depreciation according to plan						
January 1	–1,759	–1,632	–19,270	–17,888		
Changed accounting principle, Note 3						
Adjusted amount at beginning of year	**–1,759**	**–1,632**	**–19,270**	**–17,888**		
Divestments and disposals	85	10	200	337		
Reclassifications				156		
Depreciation for the year	–67	–90	–1,687	–1,481		
Exchange rate differences for the year	–41	–47	–350	–394		
	–1,782	**–1,759**	**–21,107**	**–19,270**		
Accumulated impairment losses						
January 1	–381	–391	–254	–194		
Changed accounting principle, Note 3						
Adjusted amount at beginning of year	**–381**	**–391**	**–254**	**–194**		
Divestments	85	14	29	2		
Impairment losses for the year	–1			–75		
Reversals of impairment losses	2	3	6	15		
Exchange rate differences for the year	–7	–7	–5	–2		
	–302	**–381**	**–224**	**–254**		
Carrying amount, December 31	**1,530**	**1,594**	**6,144**	**5,921**	**68**	**130**
Carrying amount, January 1	1,594	1,610	5,921	5,126	130	138

Other

Information about capitalized interest is presented in Note 15. For information on finance leases, see Note 40. Skanska has obligations to acquire property, plant and equipment in the amount of SEK 0 M (0).

Skanska did not receive any compensation from third parties for property, plant and equipment that was damaged or lost during the year or in the comparative year.

Note 18. Goodwill

Goodwill is recognized in accordance with IFRS 3 Business Combinations, see Note 1.For key judgments, see Note 2.

Goodwill amounted to SEK 4,057 M (4,324). In 2019 goodwill decreased by SEK 267 M net due to exchange rate differences, company acquisitions and impairment losses.

Goodwill amounts by cash-generating units

	Dec 31, 2019	Dec 31, 2018	Change during the year	of which impairment losses	of which acquisitions of companies	of which exchange rate differences
Construction						
Sweden	52	51	1			1
Norway	1,001	971	30			30
Finland	458	449	9			9
Czech Republic/Slovakia	554	537	17			17
UK	1,249	1,503	–254	–367		113
USA Building	379	363	16			16
USA Civil	34	32	2			2
Residential Development						
Norway	320	408	–88	–101		13
Finland	10	10	0	–9	8	1
Commercial Property Development						
Poland	0	0	0	–70	70	0
Total	**4,057**	**4,324**	**–267**	**–547**	**78**	**202**

The goodwill recoverable amount is based exclusively on value in use. The amounts of goodwill together with other non-current assets, current-asset properties and net working capital are tested annually.

Expected cash flows are based on forecasts for the development of the construction investments and residential and commercial property development in each market in the countries where the Group has operations. The forecasts are based on the units' two-year forecasts and the established five-year business plan. Future macroeconomic development and changes in interest rates are also important variables. The forecast period is 10 years, which is the period used in models for measurement of other types of assets, for example commercial projects. When 10-year models are used it is easier to make assumptions concerning cycles and there is less reliance on residual values.

The growth rate used to extrapolate cash flow forecasts beyond the period covered by the 10-year forecasts is the normal growth rate for the industry in each respective country.

Each business unit uses a unique discount factor based on weighted average cost of capital (WACC). Parameters that affect the WACC are interest rates for borrowing, market risks and the ratio between borrowed funds and equity. The WACC interest rate is stated both before and after taxes.

The following table shows how the carrying amount relates to the recoverable amount for the respective business units for Skanska's largest goodwill items. The recoverable amount is expressed as 100. The tests are based on an assessment of anticipated development over the next 10-year period.

	Norway	Finland	Czech Republic	UK
Recoverable amount, 100	100	100	100	100
Carrying amount	45	n/a	16	n/a
Carrying amount, previous year[1]	33	n/a	12	n/a
Interest rate, percent (WACC), before taxes	10	8	9	11
Interest rate, percent (WACC), after taxes	9	7	8	7
Expected growth, %	2	2	3	1
Interest rate, percent (WACC), previous year (before taxes)	9	8	9	11
Interest rate, percent (WACC), previous year (after taxes)	8	7	8	8
Expected growth, %, previous year	2	2	3	1
Carrying amount in relation to recoverable amount, 100 in case of increase in interest rate by				
+ 1 percentage point[1]	55	n/a	19	n/a
+ 5 percentage points[1]	102	n/a	32	n/a
Carrying amount, previous year, in relation to recoverable amount 100 in case of increase in interest rate by				
+ 1 percentage point	41	n/a	15	n/a
+ 5 percentage point	91	n/a	25	n/a

1 Value > 100 indicates that the recoverable amount is less than the carrying amount and an impairment loss needs to be recognized. For Skanska's operations in Finland and the UK, the carrying amount was negative due to negative working capital exceeding the value of non-current assets.

Note 18. Continued

Goodwill impairment losses

During the year the Group reported goodwill impairment losses of SEK 547 M (393). The impairment losses were based on a calculation of value in use and reported as selling administrative expenses in the income statement. Changed market conditions for the operations in the UK and Norway have resulted in decisions on impairment of goodwill amounting to SEK 367 M in the UK and SEK 101 M in Norway. During the year the Group also reported goodwill impairment losses arising in connection with acquisitions in Poland and Finland made in the same financial year.

Note 19. Note 19 Intangible assets

Intangible assets are recognized in accordance with IAS 38 Intangible Assets. See Note 1.

Intangible assets and useful life applied

	Dec 31, 2019	Dec 31, 2018	Useful life applied
Intangible assets, externally generated	385	412	3–10 years
Intangible assets, internally generated	480	563	3–7 years
Total	**865**	**975**	

Internally generated intangible assets consist of business systems.Externally acquired intangible assets include acquired software in the USA, Sweden and Finland, and licenses and right-of-use assets in Sweden. Business systems are amortized over a maximum of seven years. Customer contracts are amortized as projects progress to completion and patents are amortized over 10 years.

Amortization of other intangible assets by function

All intangible assets are amortized as they have a limited useful life.

Amortization by function	2019	2018
Production and management	–123	–97
Selling and administration	–110	–112
Total	**–233**	**–209**

Impairment losses/reversals of impairment losses on other intangible assets

In 2019 impairment losses/reversals of impairment losses in the net amount of SEK –0 M (–45) were recognized. Impairment losses in the comparative year were reported in the UK and Poland.

Information about cost, accumulated depreciation and accumulated impairment losses

	Intangible assets, externally acquired		Intangible assets, internally generated[1]	
	2019	**2018**	**2019**	**2018**
Accumulated cost				
January 1	1,674	1,577	812	683
Investments	87	96	29	129
Acquisitions of companies	18	21		
Divestments	–199	–12		
Reclassifications		–78		
Exchange rate differences for the year	58	70		
	1,638	**1,674**	**841**	**812**
Accumulated amortization				
January 1	–1,031	–953	–249	–159
Divestments	156	6		
Depreciation for the year	–121	–119	–112	–90
Reclassifications		78		
Exchange rate differences for the year	–34	–43		
	–1,030	**–1,031**	**–361**	**–249**
Accumulated impairment losses				
January 1	–231	–186	0	0
Divestments	18			
Impairment losses for the year	–18	–64		
Reversals of impairment losses	18	19		
Exchange rate differences for the year	–10			
	–223	**–231**	**0**	**0**
Carrying amount, December 31	**385**	**412**	**480**	**563**
Carrying amount, January 1	412	438	563	524

1 Internally generated intangible assets consist of business systems.

Other

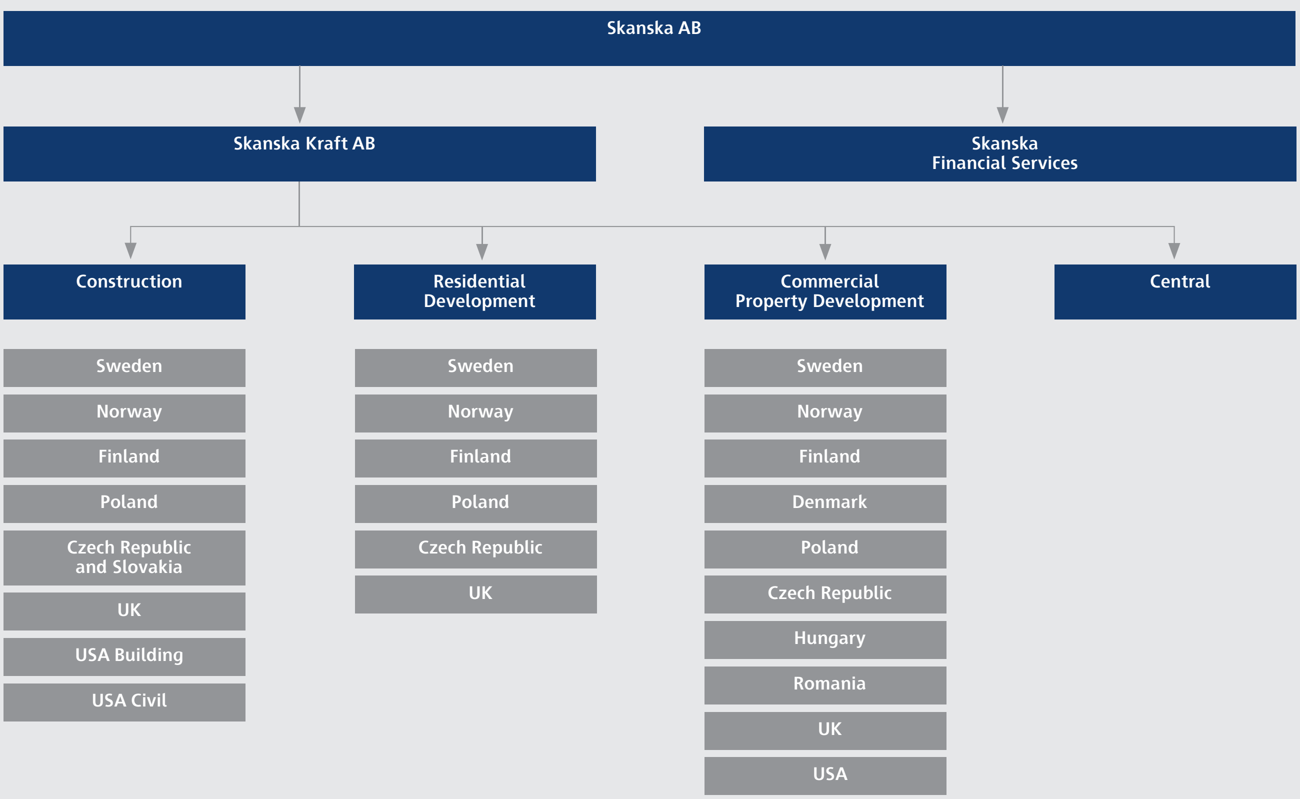
Information about capitalized interest is presented in Note 15.

Direct research and development expenses amounted to SEK 233 M (275).

Note 20 A. Subsidiaries

The Parent Company Skanska AB holds 100 percent of the shares in Skanska Financial Services AB and Skanska Kraft AB. Skanska Kraft AB in turn directly or indirectly owns the subsidiaries in the countries in which Skanska has operations. All subsidiaries are independent limited companies, partnerships or equivalent legal forms in each country. Regarding the companies' domicile, see the Parent Company notes, Note 51.

Skanska's Corporate Structure



According to Note 26, there are only minor interests in non-controlling interests.

Note 20 B. Investments in joint ventures and associated companies

For all joint arrangements an assessment is made of their legal form, agreements between the owning parties and other circumstances. In accordance with IFRS 11, the joint arrangement is reported as a joint venture if the owning parties only have rights to the net assets. See also Note 1.

Investments in joint ventures and associated companies are reported according to the equity method of accounting. Income from joint ventures and associated companies after tax is reported on a separate line in operating income. This income consists of the Group's share of the income in joint ventures and associated companies after tax adjusted for any impairment losses on consolidated goodwill and intra-Group profits.

Income from joint ventures and associated companies is presented in the following table.

	2019	2018
Share of income in joint ventures according to the equity method	521	822
Share of income in associated companies according to the equity method		
Divestments of joint ventures	70	42
Impairment losses in joint ventures		–9
Total	**591**	**855**

The carrying amount according to the statement of financial position and the change that occurred can be seen in the following table.

	2019			2018		
	Joint ventures	**Associated companies**	**Total**	**Joint ventures**	**Associated companies**	**Total**
January 1	3,267	21	3,288	3,291	23	3,314
New acquisitions	104		104	99		99
Divestments	–165		–165	–56		–56
Reclassifications	287		287	152		152
Exchange rate differences for the year	95	1	96	160		160
The year's reversal of provision for intra-Group profit on contracting work	1		1			0
Change in fair value of derivatives	–41		–41	272		272
Impairment losses for the year			0	–9		–9
The year's change in share of income in joint ventures and associated companies after subtracting dividends received	–129	1	–128	–642	–2	–644
Carrying amount, December 31	**3,419**	**23**	**3,442**	**3,267**	**21**	**3,288**

Joint ventures

Joint ventures are recognized in accordance with IAS 28 Investments in Associates and Joint Ventures. See Note 1.

The Group has holdings in joint ventures with a carrying amount of SEK 3,419 M (3,267).

The PPP portfolio includes carrying amounts in joint ventures totaling SEK 2,174 M (2,248).

Income from joint ventures

The share of income in joint ventures, after tax, is recognized in operating income, because these holdings are an element of Skanska's business.

Share of income in joint ventures according to the equity method comes mainly from operations within the PPP portfolio.

PPP-portfolio

Public-private partnerships (PPP) are a type of public procurement where a project company owned by a private company has overall responsibility for developing, financing, building, operating and maintaining public facilities.

The type of payment for the investments may either be based on market risk, for example road fees, or based on accessibility, IFRIC 12, Note 1. The concession periods for current investments varies between 30 and 58 years and the portions owned in the current portfolio are between 32 and 50 percent. At this time the PPP portfolio has investments in Sweden, the UK and USA.

Note 20 B. Continued

Specification of major holdings of shares and participations in joint ventures					Consolidated carrying amount[1]		of which cash flow hedges	
Company	Type	Country	Percentage of capital	Percentage of votes	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
Joint ventures within PPP portfolio[2]								
Elizabeth River Crossings LLC	Highway/tunnel	USA	50	50	0	0		
Elizabeth River Crossings Holdco LLC	Highway/tunnel	USA	50	50	1,254	1,267		
Hedmarksvegen AS[4]	Highway	Norway	50	50				–17
I-4 Mobility Partners Holdco LLC	Highway	USA	50	50	0	78	–28	–6
NPH Healthcare (Holdings) Limited shares	Healthcare	UK	50	50	40	45	–37	–27
Swedish Hospital Partners Holding AB	Healthcare	Sweden	50	50	818	819	–262	–233
LaGuardia Gateway Partners LLC	Airport	USA	32	32	62	19		
Total joint ventures in PPP portofolio					**2,174**	**2,228**	**–327**	**–283**

Specification of major holdings of shares and participations in joint ventures					Consolidated carrying amount[1]		of which cash flow hedges	
Company	Business stream	Country	Percentage of capital	Percentage of votes	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
AB Sydsten	Construction	Sweden	50	50	148	138		
Bristol LEP Ltd[3]	Construction	UK	80	80	1	8		
Essex LEP Ltd[3]	Construction	UK	70	70	20	12		
SKPR 1350 Boylston LP	Commercial Property Development	USA	50	50	0	224		
SKPR Watermark Seaport Operating Company LLC	Commercial Property Development	USA	50	50				
T-C/SK 400 Fairview Holding LLC	Commercial Property Development	USA	10	10				
Tiedemannsbyen DA	Residential Development	Norway	50	50	2	57		
Botkyrka Södra Porten Holding AB	Construction	Sweden	50	50	101	101		
Nacka 13:79 JV AB	Residential Development	Sweden	50	50	321	162		
Sjöstadsbo AB	Residential Development	Sweden	50	50	265	100		
Järvastaden AB	Residential Development	Sweden	50	50	18	53		
BCal SCD Property LP	Commercial Property Development	USA	10	10	135	0		
Ranheimsfjæra Utbyggindsselskap DA	Residential Development	Norway	50	50	60	0		
Other joint ventures					174	184		
Total joint ventures, Group					**3,419**	**3,247**	**–327**	**–283**

1 Consolidated carrying amounts represent the Group's share of equity including results achieved, Group adjustments and deductions for dividends provided.
2 Carrying amounts for joint ventures in the PPP portfolio are affected by cash flow hedges. The value of these cash flow hedges amounts to –327 (–283). When joint ventures where the carrying amount is affected by cash flow hedges are sold, the income from the sale will be affected as the effect of the cash flow hedges is rebooked against income.
3 For the companies Bristol LEP Ltd and Essex LEP Ltd shareholder agreements exist between the co-owners stating, among other things, that key issues such as budgets and investments must be determined jointly. Skanska has concluded that this means Skanska does not have a controlling interest, despite having a high percentage of the capital and voting rights.
4 Holding divested in 2019.

Unrealized development gain in PPP portfolio

SEK bn	Dec 31, 2019	Dec 31, 2018
Present value of cash flow from projects	4.9	4.7
Present value of remaining investments	–1.1	–1.1
Net present value of projects	**3.8**	**3.6**
Carrying amount before cash flow hedging	–2.5	–2.5
Unrealized development gain	**1.3**	**1.1**
Cash flow hedge	0.3	0.3
Effect in unrealized equity[1]	**1.6**	**1.4**

1 Tax effects not included.

Note 20 B. Continued

Details of Skanska's joint ventures

The majority of Skanska's joint ventures are in the PPP portfolio and all are reported in accordance with IFRIC 12, Service Concession Arrangements. Joint ventures are reported below. The amounts correspond to 100 percent of the joint venture's income statement and statement of financial position.

	PPP portfolio		Other joint ventures		Total all joint ventures	
Income statement	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	12,372	9,162	4,118	6,410	16,490	15,572
Depreciation/amortization	–220	–207	–32	–62	–252	–269
Impairment losses				–572		–572
Other operating expenses	–11,994	–8,703	–2,367	–4,105	–14,361	–12,808
Operating income	**158**	**252**	**1,719**	**1,671**	**1,877**	**1,923**
Interest income	1,132	1,428	8	6	1,140	1,434
Interest expense	–1,240	–1,413	–14	–56	–1,254	–1,469
Financial items	1	3	–658		–657	3
Income after financial items[1]	**51**	**270**	**1,055**	**1,621**	**1,106**	**1,891**
Taxes	–47	–20	–15	–13	–62	–33
Profit for the year	**4**	**250**	**1,040**	**1,608**	**1,044**	**1,858**
Comprehensive income for the year	**4**	**250**	**1,040**	**1,608**	**1,044**	**1,858**

Statement of financial position	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**
Non-current assets	56,872	51,029	327	1,511	57,199	52,540
Current assets	475	1,047	5,527	1,796	6,002	2,843
Cash and bank balances	7,962	11,390	495	537	8,457	11,927
Total assets	**65,309**	**63,466**	**6,349**	**3,844**	**71,658**	**67,310**
Equity attributable to equity holders[2]	4,419	4,493	3,127	1,612	7,546	6,105
Non-controlling interests						
Non-current financial liabilities	55,028	52,512	397	484	55,425	52,996
Other non-current liabilities			126	345	126	345
Current financial liabilities	5,862	6,223	2,280	842	8,142	7,065
Other current liabilities	0	238	419	561	419	799
Total equity and liabilities	**65,309**	**63,466**	**6,349**	**3,844**	**71,658**	**67,310**
Skanska received the following dividend[3]	64	233	584	1,230	648	1,463
Reconciliation with participations in joint ventures						
Equity attributable to the investors in joint ventures, 100%	4,419	4,493	3,127	1,612	7,546	6,105
Less equity attributable to investors other than Skanska	–2,273	–2,250	–1,875	–613	–4,148	–2,863
Skanska's portion of equity in joint ventures, adjusted for surplus value and goodwill	**2,146**	**2,243**	**1,252**	**999**	**3,398**	**3,242**
+ Losses recognized as provisions	28	14		35	28	49
– Impairment losses		–9				–9
+/– Elimination of intra-Group profit			–7	–15	–7	–15
Carrying amount of Skanska's holdings	**2,174**	**2,248**	**1,245**	**1,019**	**3,419**	**3,267**
of which cash flow hedges	–327	–283	0	0	–327	–283

1 The amount includes impairment losses in the consolidated accounts.
2 Equity includes subordinated loans from the owners.
3 Dividends include interest paid on the subordinated loans.

Note 20 B. Continued

Assets pledged

Shares in joint ventures pledged as collateral for loans and other obligations amount to SEK 2,174 M (2,229).

Other

Skanska's joint ventures are owned by Skanska and other investors. They are financed in part by capital from the owning parties, but the majority of the financing is via banks or credit institutions. The assets of the respective joint ventures are used as collateral for the liabilities. According to agreements with the banks, the ability to access bank account funds from these joint ventures is restricted.

Skanska's portion of the total investment obligations of partly owned joint ventures amounts to SEK 2,848 M (2,878), of which Skanska has remaining obligations to invest SEK 1,275 M (1,291) in Infrastructure Development in the form of equity holdings and loans. The remaining portion is expected to be financed mainly in the form of bank loans or bonds in the respective joint ventures and in the form of participations and loans from other co-owners.

Contingent liabilities for joint ventures amounted to SEK 574 M (747).

Associated companies

Associated companies are recognized in accordance with IAS 28 Investments in Associates and Joint Ventures, see Note 1.

The carrying amount of associated companies is SEK 23 M (21).

Information on the Group's share of revenue, income, assets, liabilities and equity in associated companies

	2019	2018
Revenue	25	25
Profit/loss	–2	–2
Assets	**26**	**26**
Equity[1]	23	21
Liabilities	3	5
	26	**26**

1 Reconciliation between equity and carrying amount of holdings, in accordance with the equity method of accounting.

	Dec 31, 2019	Dec 31, 2018
Equity in associated companies	23	21
Carrying amount	**23**	**21**

Other

The associated companies have no liabilities or contingent liabilities which the Group may become responsible for paying.

Nor are there any obligations for further investments.

Note 20 C. Joint operations

Skanska executes certain projects with a joint party without a separate legal company being formed for the purpose. These projects are then classified as joint operations in accordance with IFRS 11. Joint operations without the formation of a separate company are found mainly in the USA.

Skanska also executes certain projects with a joint party where a separate company is formed for the purpose. These projects are classified as joint operations provided that the other criteria in IFRS 11 are fulfilled.

Specification of significant holdings in joint operations, according to sales in current year

Name of joint operation	Type	Country	Percentage of capital
Costain Skanska Balfour Beatty A14 Joint Venture	Highway	UK	34
Costain Skanska C405 Joint Venture	Public transit	UK	50
Costain Skanska C412 Joint Venture	Public transit	UK	50
Costain Skanska HS2 South EW Joint Venture	Public transit	UK	50
Mid-Coast Transit Constructors	Public transit	USA	33
Regional Connector Constructors	Public transit	USA	63
Skanska Gates	Hospital	USA	89
Skanska/Walsh	Airport	USA	70
Skanska-Ames a Joint Venture	Highway	USA	60
Skanska-Granite-Lane A Joint Venture	Highway/bridge	USA	40
Skanska-Traylor-Shea, a Joint Venture	Public transit	USA	50
SMB Joint Venture	Water maintenance	UK	33
tRIIO	Gas maintenance	UK	50

There are 120 other small joint operations in the above countries, as well as in Sweden, Norway and the Czech Republic.

Note 21. Financial assets

Financial investments, financial receivables and shareholdings where ownership is less than 20 percent and the Group has no significant influence are recognized as non-current financial assets.

Financial investments and financial receivables are recognized as current financial assets. See also Note 6.

Non-current financial assets	Dec 31, 2019	Dec 31, 2018
Non-current financial assets at fair value through profit or loss		
Derivatives	1	2
	1	**2**
Non-current financial assets at fair value through other comprehensive income		
Shares[1]	44	41
Non-current financial assets at amortized cost		
Receivables from joint ventures	15	121
Restricted cash	768	585
Other interest-bearing receivables	155	692
	938	**1,398**
Net assets in funded pension plans	1,545	904
Total	**2,528**	**2,345**
of which interest-bearing non-current financial assets	2,483	2,302
of which non-interest-bearing non-current financial assets	45	43

Current financial assets	Dec 31, 2019	Dec 31, 2018
Current financial assets at fair value through profit or loss		
Derivatives	127	70
	127	**70**
Current financial assets at amortized cost		
Restricted cash	5,316	5,356
Receivables from joint ventures	19	74
Other interest-bearing receivables	1,437	1,617
	6,772	**7,047**
Total	**6,899**	**7,117**
of which interest-bearing current financial assets	6,772	7,047
of which non-interest-bearing current financial assets	127	70
Total carrying amount, financial assets	**9,427**	**9,462**
of which financial assets excluding shares and pensions	7,838	8,517

1 In 2019, shareholdings were affected by impairment losses of SEK 1 M (0).

Note 22. Current-asset properties/Project development

Current-asset properties are recognized in accordance with IAS 2 Inventories, see Note 1.

The allocation of items in the statement of financial position by business stream is presented below.

Business stream	Dec 31, 2019	Dec 31, 2018
Commercial Property Development	29,708	25,829
Residential Development	16,665	16,562
Total	**46,373**	**42,391**

For a further description of the respective business streams, see Note 4.

Current-asset properties are divided into completed properties, properties under construction and development properties.

Impairment losses/reversals of impairment losses

Current-asset properties are valued in accordance with IAS 2 Inventories, and are thus carried at cost or net realizable value, whichever is lower. Adjustment to net realizable value via an impairment loss is recognized, as are reversals of previous impairment losses, in the income statement under "Cost of sales."

Net realizable value is affected by the type and location of the property, and by the yield requirement in the market.

	Impairment losses		Reversals of impairment losses		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Commercial Property Development	–19	–101	0	0	–19	–101
Residential Development	–170	–72	0	0	–170	–72
Total	**–189**	**–173**	**0**	**0**	**–189**	**–173**

Carrying amounts

	Completed properties		Properties under construction		Development properties		Current-asset properties	
	Dec 31, 2019	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**
Commercial Property Development	5,025	2,127	14,882	16,247	9,801	7,455	29,708	25,829
Residential Development	567	903	7,902	8,213	8,196	7,446	16,665	16,562
Total	**5,592**	**3,030**	**22,784**	**24,460**	**17,997**	**14,901**	**46,373**	**42,391**

	Commercial Property Development		Residential Development		Total current-asset properties	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Carrying amount						
January 1	25,829	23,615	16,562	15,395	42,391	39,010
Acquisitions			89		89	
Investments	12,890	11,401	9,310	10,449	22,200	21,850
Carrying amount sold properties	–8,998	–9,620	–9,257	–9,380	–18,255	–19,000
Impairment losses	–19	–101	–170	–72	–189	–173
Reversals of impairment losses						
The year's provision for intra-Group profits in contracting work	–327	–423	–135	–121	–462	–544
Reclassifications	–265	–148	4	30	–261	–118
Exchange rate differences for the year	598	1,105	262	261	855	1,366
December 31	**29,708**	**25,829**	**16,665**	**16,562**	**46,373**	**42,391**

The carrying amount of current-asset properties is allocated between properties carried at cost and properties carried at net realizable value as shown in the following table.

	Cost		Net realizable value		Total	
	Dec 31, 2019	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**
Commercial Property Development	29,637	25,750	71	79	29,708	25,829
Residential Development	16,008	16,290	657	272	16,665	16,562
Total	**45,645**	**42,040**	**728**	**351**	**46,373**	**42,391**

Note 22. Continued

Difference between fair value and carrying amount for current-asset properties

SEK bn	Surplus value Dec 31, 2019	Surplus value Dec 31, 2018
Commercial Property Development		
Completed projects	1.6	0.2
Development properties	1.0	0.8
Ongoing projects[1]	7.1	8.2
	9.7	**9.2**
Residential Development		
Undeveloped land and ongoing projects	3.2	4.0
Total	**12.9**	**13.2**

1 Estimated market value. Internal appraisal, with valuation on respective completion dates.

Assets pledged

Current-asset properties pledged as collateral for loans and other obligations amount to SEK 0 M (0), see Note 33.

Other

Information about capitalized interest is presented in Note 15.

Skanska has committed to investing SEK 1,870 M (1,807) in current-asset properties.

Note 23. Inventories

Inventories are reported in accordance with IAS 2 Inventories.

	Dec 31, 2019	Dec 31, 2018
Raw materials and supplies	300	467
Products being manufactured	105	126
Finished products and merchandise	723	663
Total	**1,128**	**1,256**

There are no significant differences between the carrying amount for inventories and their fair value.

No portion of inventories was adjusted due to an increase in net realizable value.

No merchandise was used as collateral for loans and other obligations.

Note 24. Other operating receivables

Non-interest-bearing business receivables are reported as "Other operating receivables." Other operating receivables are part of the Group's operating cycle and are recognized as current assets.

	Dec 31, 2019	Dec 31, 2018
Trade accounts receivable	20,213	20,279
Trade and other receivables	2,982	3,500
Prepaid expenses and accrued income	4,018	3,464
Total	**27,213**	**27,243**
Of which financial instruments reported in Note 6.		
Trade accounts receivable	20,213	20,279
Other operating receivables including accrued interest income	155	355
	20,368	**20,634**
Of which non-financial instruments	6,845	6,609

Note 25. Cash and bank balances

"Cash and bank balances" consists of cash and available funds at banks and equivalent financial institutions. Cash and bank balances amount to SEK 8,745 M (10,722). The Group had no short-term investments as of the closing day, nor on the previous year's closing day.

Note 26. Equity/earnings per share

Equity is allocated between equity attributable to equity holders (shareholders) and non-controlling interests (minority interests).

Non-controlling interests account for 1 percent of total equity.

Equity changed during the year as follows:

	2019	2018
January 1	**29,347**	**27,185**
of which non-controlling interests	97	121
Changed accounting principle, Note 3	–67	–140
Adjusted opening balance	**29,280**	**27,045**
Comprehensive income for the year		
Profit for the year attributable to		
Equity holders	6,031	4,571
Non-controlling interests	23	23
Other comprehensive income		
Items that will not be reclassified to the period's profit or loss		
Remeasurement of defined-benefit pension plans[1]	–895	–478
Tax related to items that will not be reclassified to profit or loss for the period	166	59
Total	**–729**	**–419**
Items that have been or will be reclassified to profit or loss for the period		
Translation differences attributable to equity holders[2]	672	1,299
Translation differences attributable to non-controlling interests	3	3
Hedging of exchange rate risk in foreign operations[2]	4	–183
Effect of cash flow hedges[3]	–10	242
Tax related to items that have been or will be reclassified to profit or loss	–10	7
Total	**659**	**1,368**
Other comprehensive income after tax	**–70**	**949**
Comprehensive income for the year	**5,984**	**5,543**
of which attributable to equity holders	5,958	5,517
of which attributable to non-controlling interests	26	26
Other changes in equity not included in total comprehensive income for the year		
Dividend to shareholders	–2,462	–3,373
Dividend to non-controlling interests	–26	–27
Change in Group structure	0	–23
Effects of equity-settled share-based payments	245	254
Shares repurchased	0	–72
Total	**–2,243**	**–3,241**
Equity, December 31	**33,021**	**29,347**
of which non-controlling interests	97	97

1 Remeasurement of defined-benefit pension plans, SEK –895 M (–478), together with tax, SEK 166 M (59), totaling SEK –729 M (–419), constitutes the Group's total effect on other comprehensive income of remeasurement of pensions recognized in accordance with IAS 19 and is recognized in retained earnings.

2 Translation differences attributable to equity holders, SEK 672 M (–1,299), plus hedging of exchange rate risk in foreign operations, SEK 4 M (–183), totaling SEK 676 M (–1,116), constitute the change in the Group's in translation reserve.

3 Effect on cash flow hedges, SEK –10 M (242), together with taxes SEK –10 M (7), totaling SEK –20 M (249), constitutes a change in the Group's cash flow hedge reserve.

Equity attributable to equity holders is allocated as follows:

	Dec 31, 2019	Dec 31, 2018
Share capital	1,260	1,260
Paid-in capital	3,027	2,782
Reserves	3,165	2,509
Retained earnings	25,472	22,699
Total	**32,924**	**29,250**

Paid-in capital

Paid-in capital in excess of quota (par) value from historical issues of new shares is recognized as "Paid-in capital."

The change in 2019 and 2018 was attributable to share-based payments and amounted to SEK 245 M (254).

Reserves

	Dec 31, 2019	Dec 31, 2018
Translation reserve	3,551	2,875
Cash flow hedge reserve	–386	–366
Total	**3,165**	**2,509**

Reconciliation of reserves

	2019	2018
Translation reserve		
January 1	2,875	1,759
Translation differences for the year	672	1,299
Less hedging on foreign exchange rate risk in operations outside Sweden	4	–183
December 31	**3,551**	**2,875**
Cash flow hedge reserve		
January 1	-366	–615
Cash flow hedges recognized in other comprehensive income		
Hedges for the year	–160	88
Transferred to the income statement	150	154
Taxes attributable to hedging for the year	–10	7
December 31	**–386**	**–366**
Total reserves	**3,165**	**2,509**

Translation reserve

The translation reserve consists of accumulated translation differences from the translation of financial reports for foreign operations. The translation reserve also includes exchange rate differences that have arisen when hedging net investments in foreign operations. The translation reserve was reset at zero upon the transition to IFRS on January 1, 2004.

Translation differences for the year amount to SEK 672 M (1,299) and consist of positive translation differences mainly in USD For currency abbreviations, see Note 34.

In 2019 the translation reserve was affected by exchange rate differences of SEK 4 M (–183) due to currency hedging. The Group has currency hedges against net investments mainly in EUR. The accumulated translation reserve totaled SEK 3,551 M (2,875).

Note 26. Continued

Cash flow hedge reserve
Hedge accounting is applied mainly for the PPP portfolio. Unrealized gains and losses on hedging instruments are recognized in the cash flow hedge reserve. The change during the year amounts to SEK –20 (249), which is explained by changes in exchange rates where forward contracts have been entered into for future transactions in foreign currencies and hedge accounting is applied, as well as the fact that interest rate swaps have matured and been realized, which is offset to a certain extent by changes in market interest rates. The reserve at year-end amounted to SEK –386 M (–366).

Retained earnings
Retained earnings include the profit for the year plus undistributed Group profits earned in prior years. The Parent Company's statutory reserve is part of retained earnings, along with remeasurements of pension liabilities, which in accordance with IAS 19 are recognized under "Other comprehensive income."

Remeasurement of defined-benefit pension plans
Equity was affected by remeasurement of define-benefit plans in the amount of SEK –729 M (–419) after taking into account social insurance contributions and taxes. Remeasurement of pension obligations amounted to SEK –2,617 M (340) and is largely due to a decreased discount rate for pension plans in Norway and the UK. Remeasurement of plan assets during the year amounted to SEK 1 866 M (–611), which is mainly due to the actual return on shares in 2019 exceeding the expected return, see also Note 28, Pensions.

	2019	2018
Remeasurement of pension obligations	–2,617	340
Difference between expected and actual return on plan assets	1,866	–611
Social insurance contributions including special payroll tax	–144	–207
Taxes	166	59
Total	**–729**	**–419**

IFRS 2 Share-based payment
The share incentive programs introduced in 2014 and 2017 respectively are recognized as share-based payments, which are settled with an equity instrument in accordance with IFRS 2. This means that fair value is calculated on the basis of estimated fulfillment of established performance targets the fair value is established after the measurement period. After the end of the measurement period the fair value is established. This value is allocated over the three-year vesting period. There is no reappraisal after fair value is established during the remainder of the vesting period, aside from changes in the number of shares because the condition of continued employment during the vesting period is no longer fulfilled.

Dividend
After the closing day, the Board of Directors proposed a regular dividend of SEK 6.25 (6.00) per share for the 2019 financial year. The dividend for 2018 amounts to SEK 2,572 M (2,462). No dividend is paid for the Parent Company's holding of Series B shares. The total dividend amount may change by the record date, depending on share repurchase transactions and the transfer of Series B shares to participants in the long-term employee ownership programs. The dividend is subject to the approval of the Annual General Meeting on March 26, 2020.

Shares
Information on the number of shares as well as earnings and equity per share is presented in the table below.

	2019	2018
Number of shares at year-end	419,903,072	419,903,072
of which Series A shares	19,704,715	19,725,759
of which Series B shares	400,198,357	400,177,313
Average price, repurchased shares, SEK	137.54	137,54
of which repurchased during the year	0	435,000
Number of Series B treasury shares, December 31	8,394,479	10,224,634
Number of shares outstanding, December 31	411,508,593	409,678,438
Average number of shares outstanding	410,720,937	409,130,770
Average number of shares outstanding after dilution	412,585,074	411,415,278
Average dilution, %	0.45	0.56
Earnings per share, SEK	14.68	11.17
Earnings per share after dilution, SEK	14.62	11.11
Equity per share, SEK	80.01	71.40

Change in number of shares	2019	2018
Number on January 1	409,678,438	408,713,044
Number of total Series B shares repurchased	0	–435,000
Number of shares transferred to employees	1,830,155	1,400,394
Number on December 31	**411,508,593**	**409,678,438**

Dilution effect
In the employee ownership programs introduced in 2014 and 2017 the number of potential ordinary shares is calculated during the measurement period based on the estimated number of shares that will be issued upon fulfillment of the established targets. After the end of the measurement period, Skanska establishes the number of shares that may be issued, provided that the requirement of continued employment is fulfilled. The number of potential ordinary shares thus calculated is then reduced by the difference between the payment Skanska is expected to receive and the average share price during the period.

Excluding social insurance contributions, the cost of both employee ownership programs is estimated at a total of around SEK 1,626 M, allocated over the three-year vesting period, equivalent to 9,389,451 shares. The maximum dilution at the end of the vesting period is estimated at 1.07 percent.

In 2019 the cost of both programs amounted to SEK 245 M, excluding social insurance contributions. Share awards earned but not allocated by the end of 2019 totaled 1,864,137 shares. The dilution effect up to and including 2019 totaled 0.45 percent.

Capital management
Capital requirements vary between business streams. Skanska's construction projects are mainly based on customer funding. As a result, in its Construction business stream, the company can operate with free working capital (negative). The free working capital within the Construction business stream together with profits from the Group's operations, as well as the possibility of increasing borrowing through credit financing, make it possible for Skanska to finance investments in its own project development.

In light of the Construction business stream's large volumes with differentiated risk in various types of assignments and customer demands for guarantees, such as performance guarantees in publicly procured projects

Note 26. Continued

in the US market, the equity requirement is significant. It is also necessary to take into account financing of goodwill and future investments in project development.

A number of financial targets have been established that are deemed to best reflect the profitability of the operations and best demonstrate financial scope for investment and growth. The return on equity and on capital employed is a measure of how well the capital provided by the shareholders and lenders is being used. The target for 2016–2020 is a return on the Group's equity of at least 18 percent and a return on capital employed, calculated jointly for the business streams within project development, of at least 10 percent. Skanska's dividend policy is to pay out 40–70 percent of net profit for the year after tax to the shareholders, provided that the company's overall financial situation is stable.

The Board has determined that the Group's equity is at a reasonable level based on what Skanska's financial financial position and market circumstances require.

Note 27. Financial liabilities

Financial liabilities are allocated between non-current and current liabilities. Normally, a maturity date within one year is required if a liability is to be treated as current. This does not apply to discounted operating liabilities, which are part of Skanska's operating cycle and are therefore recognized as current liabilities regardless of their maturity date.

For information on financial risks and the Financial Policy, see Note 6.

Non-current financial liabilities	**Dec 31, 2019**	**Dec 31, 2018**
Financial liabilities at fair value through profit or loss		
Derivatives	2	3
Financial liabilities at amortized cost		
Liabilities to credit institutions	1,864	2,401
Other liabilities	699	1,508
Total	**2,565**	**3,912**
of which interest-bearing non-current financial liabilities	2,563	3,909
of which non-interest-bearing non-current financial liabilities	2	3
Current financial liabilities		
Financial liabilities at fair value through profit or loss		
Derivatives	50	48
Financial liabilities at amortized cost		
Construction loans, cooperative housing associations	3,430	6,242
Other liabilities	1,137	1,020
Total	**4,617**	**7,310**
of which interest-bearing non-current financial liabilities	4,567	7,262
of which non-interest-bearing non-current financial liabilities	50	48
Total carrying amount for financial liabilities	**7,182**	**11,222**

Note 28. Pensions

Pension provisions are recognized in accordance with IAS 19 Employee Benefits. See Note 1.

Pension liability according to the statement of financial position

According to the statement of financial position, interest-bearing pension liabilities amounted to SEK 6,866 M (5,669) and interest-bearing pension receivables amounted to SEK 1,545 M (904). The net amount of interest-bearing pension liabilities and interest-bearing pension receivables was SEK 5,321 M (4,765).

Skanska has defined-benefit pension plans in Sweden, Norway and the UK. The pension in these plans is mainly based on final salary or average earnings during the term of employment. The plans include a large number of employees, but Skanska also has defined-contribution plans in these countries. Group companies in other countries have pension plans reported as defined-contribution plans.

Defined-benefit plans

The pension plans mainly consist of retirement pensions. Each respective employer usually has an obligation to pay a lifetime pension. Benefits are based on the number of years of employment. The employee must belong to the plan for a certain number of years to earn a full retirement pension entitlement. For each year, the employee earns increased pension entitlements, which are reported as pension earned during the period plus an increase in pension obligation.

Pension plans are funded by securing pension obligations with assets in pension funds and provisions in the accounts.

The plan assets in Sweden and the UK are smaller than the pension obligations. The difference is therefore recognized as a liability in the statement of financial position. The plan assets in Norway exceed the pension obligations. The difference is therefore recognized as a receivable. The ceiling rule which, in some cases, limits the value of these assets in the accounts does not apply according to the existing pension foundation statutes, with the exception of one of the plans in Norway and one of the smaller plans in the UK. The carrying amount of the plan assets was reduced by SEK 4 M (18) due to the limit in the ceiling rule.

On the closing day the pension obligations amounted to SEK 27,115 M (23,275). Pension obligations during the year were affected by remeasurements. The reduced discount rate for all three countries has increased the pension obligations, which was offset to a certain extent by reduced inflation in Sweden and the UK. The remeasurements are included in other comprehensive income in the amount of SEK –2,617 M (340). Pension obligations were also affected by the cost of vested pensions and interest expense exceeding pensions paid. The pension obligations increased due to higher exchange rates for NOK and GBP.

The plan assets amounted to SEK 21,794 M (18,510). The plan assets were affected during the year by remeasurements that were made due to the actual return on equities being higher than the estimated return. The remeasurements are included in other comprehensive income in an amount of SEK 1,866 M (–611). The plan assets have increased due to higher exchange rates for NOK and GBP.

The return on plan assets recognized in the income statement amounted to SEK 519 M (491), while the real return amounted to SEK 2 ,385 M (–120). The return was higher for pension plans in all three countries.

The plan assets mainly consist of equities, interest-bearing securities, mutual fund units and investments in properties and PPP projects. No assets are used in Skanska's operations. The number of directly owned shares in Skanska AB totaled 0 (0) Series B shares. There is also an insignificant percentage of indirectly owned shares in Skanska AB via investments in various mutual funds.

There are various types of risk inherent in the company's defined-benefit pension plans. Pension obligations are mainly affected by the relevant discount rate, wage increases, inflation and life expectancy. The risk inherent in the plan assets is mainly market risk. Overall, these risks may result in volatility in the company's equity and in increased future

Note 28. Continued

pension expenses and higher than estimated pension disbursements. Skanska monitors changes in its pension obligations on an ongoing basis and updates the most significant assumptions every quarter and other assumptions at least once a year. Pension commitments are calculated by independent actuaries. The company has prepared policy documents for the management of plan assets in the form of investment guidelines regulating permitted investments and allocation frameworks for these. In addition, the company uses external investment advisors who continually monitor development of the plan assets. The long duration of the pension commitments is partly matched by long-term investments in PPP projects and property investments, and investments in long-term interest-bearing securities.

The largest defined-benefit plan for Skanska in Sweden is the ITP 2 plan, in which pensions are based on final salary on retirement. ITP 2 covers salaried employees born in 1978 or earlier. The pension commitments are secured through assets in a pension fund and through insurance with PRI Pensionsgaranti. The pension commitment is lifelong and sensitive to changes in the discount rate, pay increases, inflation and life span.

A small portion of the ITP 2 plan is secured by insurance from the retirement insurance company Alecta. This is a multi-employer insurance plan, and there is insufficient information to report these obligations as a defined-benefit plan. Pensions secured by insurance from Alecta are therefore reported as defined-contribution plans. Contributions paid in 2019 amounted to SEK 3 M (3). At the end of 2019, the collective consolidated level of defined-benefit plans in Alecta totaled a preliminary 148 percent (142). The collective consolidated level consists of assets as a percentage of actuarial obligations.

Within Skanska Norway, the largest defined-benefit pension plan is the Skanska Norge Pensionskassa pension fund. This plan covered almost all employees of Skanska in Norway and the pension is based on final salary and number of years of employment with Skanska. The pension obligations are secured through assets in the pension fund. The Skanska Norge Pensionskassa pension fund has been closed for new members since mid-2018. The pension commitment is lifelong and sensitive to changes in the discount rate, pay increases, inflation and life span.

The largest of Skanska's defined-benefit pension plans in the UK is the Skanska Pension Fund. The plan covers salaried employees and is based on average earnings over the period of employment. The pension is remeasured following changes in inflation (index-linked). The pension obligations are secured through assets in the pension fund. Skanska Pension Fund has been closed for vesting and new members since the end of the first quarter of 2018. The pension commitment is sensitive to changes in the discount rate, inflation and life span.

Net liability related to employee benefits, defined-benefit plans

	Dec 31, 2019	Dec 31, 2018
Pension obligations, funded plans, present value, December 31	27,115	23,275
Plan assets, fair value, December 31	–21,794	–18,510
Net pension liability according to the statement of financial position	**5,321**	**4,765**

Distribution of pension obligations and average duration by country

	Sweden	Norway	UK	Total
2019				
Pension obligations	11,190	4,288	11,637	27,115
Plan assets	–4,848	–5,833	–11,113	–21,794
Net pension liability according to the statement of financial position	**6,342**	**–1,545**	**524**	**5,321**
2018				
Pension obligations	9,767	3,957	9,551	23,275
Plan assets	–4,388	–4,861	–9,261	–18,510
Net pension liability according to the statement of financial position	**5,379**	**–904**	**290**	**4,765**

Interest-bearing pension liability, net

	2019	2018
Net pension liability, January 1	4,765	4,910
Pension expenses	524	632
Benefits paid by employers	–237	–229
Funds contributed by employers	–490	–533
Remeasurements[1]	751	271
Curtailments and settlements		–326
Exchange-rate differences	8	40
Net pension liability according to the statement of financial position	**5,321**	**4,765**

1 See also Note 26, which shows the tax portion and social insurance contributions recognized under in comprehensive income.

Pension obligations

	2019	2018
January 1	23,275	23,271
Pensions earned during the year	446	535
Interest on obligations	603	594
Benefits paid by employers	–237	–229
Benefits paid from plan assets	–477	–622
Remeasurements:		
– Actuarial gains (–) / losses (+) changed financial assumptions	2,941	–357
– Actuarial gains (–) / losses (+) changed demographic assumptions	–88	–279
– Experience-based changes	–236	296
Curtailments and settlements		–326
Exchange-rate differences	888	392
Pension obligations, present value	**27,115**	**23,275**

Note 28. Continued

Pension obligations and plan assets by country

	Sweden	Norway	UK
2019			
Active members' portion of obligations	41%	47%	4%
Dormant pension rights	26%	14%	56%
Pensioners' portion of obligations	33%	39%	40%
Weighted average duration	21 years	19 years	20 years
2018			
Active members' portion of obligations	39%	47%	4%
Dormant pension rights	25%	17%	57%
Pensioners' portion of obligations	36%	36%	39%
Weighted average duration	20 years	20 years	20 years

Plan assets

	2019	2018
January 1	18,510	18,361
Estimated return on plan assets	519	491
Funds contributed by employers	490	533
Funds contributed by employees	6	6
Benefits paid	–477	–622
Difference between actual return and estimated return	1,866	–611
Exchange-rate differences	880	352
Plan assets, fair value	**21,794**	**1,510**

Amounts contributed are expected to total SEK 300 M in 2020.

Plan assets not included in carrying amount due to the limit in the ceiling rule

	2019	2018
January 1	18	20
Change for the year	–14	–2
Plan assets not included in carrying amount	**4**	**18**

Plan assets and return by country

	Sweden	Norway	UK
2019			
Shares	33%	38%	31%
Interest-bearing securities	34%	43%	41%
Alternative investments	33%	19%	28%
Estimated return	2.25%	3.00%	2.75%
Actual return	9.90%	12.50%	12.20%
2018			
Shares	27%	38%	29%
Interest-bearing securities	32%	42%	37%
Alternative investments	41%	20%	34%
Estimated return	2.50%	2.75%	2.50%
Actual return	0.20%	–1.00%	–0.40%

Total plan assets by asset class

	Dec 31, 2019	Dec 31, 2018
Equities and mutual funds:		
Swedish equities and mutual funds	556	381
Norwegian equities and mutual funds	819	697
UK equities and mutual funds	1,280	967
Global mutual funds	4,612	3,692
Total equities and mutual funds	**7,267**	**5,737**
Interest-bearing securities:		
Swedish bonds	1,320	1,090
Norwegian bonds	1,038	881
UK bonds	3,520	2,155
Bonds in other countries	2,826	2,710
Total interest-bearing securities	**8,704**	**6,836**
Alternative investments:		
Hedge funds	310	322
Property investments	1,636	1,666
Projects in the PPP portfolio	1,800	1,909
Other	2,077	2,040
Total alternative investments	**5,823**	**5,937**
Total plan assets	**21,794**	**18,510**

Equities and mutual funds, interest-bearing securities and hedge funds were measured at current market prices. Property investments and PPP projects were measured by discounting future cash flows. 75 percent of total plan assets have a quoted price on an active market.

Note 28. Continued

Actuarial assumptions

	Sweden	Norway	UK
2019			
Financial assumptions			
Discount rate, January 1	2.25%	3.00%	2.75%
Discount rate, December 31	1.50%	2.50%	2.00%
Estimated return on plan assets for the period	2.25%	3.00%	2.75%
Expected pay increase, December 31	3.00%	2.25%	3.25%
Expected inflation, December 31	1.75%	1.50%	3.00%
Demographic assumptions			
Life expectancy after age 65, men	23 years	21 years	23 years
Life expectancy after age 65, women	25 years	24 years	24 years
Life expectancy table	PRI	K2013	S2 2018
2018			
Financial assumptions			
Discount rate, January 1	2.50%	2.75%	2.50%
Discount rate, December 31	2.25%	3.00%	2.75%
Estimated return on plan assets for the period	2.50%	2.75%	2.50%
Expected pay increase, December 31	3.00%	2.25%	3.50%
Expected inflation, December 31	2.00%	1.50%	3.25%
Demographic assumptions			
Life expectancy after age 65, men	23 years	21 years	23 years
Life expectancy after age 65, women	25 years	24 years	25 years
Life expectancy table	PRI	K2013	S2 2017

All three countries where Skanska has defined-benefit plans have an extensive market for high-grade long-term corporate bonds, including mortgage bonds. The discount rate is established on the basis of the market yield for these bonds on the closing day.

Sensitivity of pension obligations to changes in assumptions

	Sweden	Norway	UK	Total[1]
Pension obligations, December 31, 2019	11,190	4,288	11,637	27,115
Discount rate increase of 0.25%	–575	–200	–575	–1,350
Discount rate decrease of 0.25%	575	200	575	1,350
Increase of 0.25% in expected pay increase	150	50	0	200
Reduction of 0.25% in expected pay increase	–150	–50	0	–200
Increase of 0.25% in expected inflation	425	150	400	975
Decrease of 0.25% in expected inflation	–425	–150	–400	–975
Life expectancy increase of 1 year	475	200	425	1,100

1 Estimated change in pension obligation/pension liability if the assumption is increased or decreased for all three countries. If pension liability increases for all three countries, the Group's equity is reduced by about 90 percent of the increase in the pension liability, after taking into account deferred tax and social insurance contributions.

Sensitivity of plan assets to changes in estimated return and actual return

	Sweden	Norway	UK	Total[1]
Plan assets, December 31, 2019	4,848	5,833	11,113	21,794
Return increase of 5%	250	300	550	1,100
Return decrease of 5%	–250	–300	–550	–1,100

1 1 If the actual return exceeds the estimated return by 5 percent, the gain upon remeasurement is expected to amount to SEK 1,100 M If the actual return falls below the estimated return by 5 percent, the loss upon remeasurement is expected to amount to SEK 1,100 M.

The sensitivity analyses are based on existing circumstances, assumptions and populations. Application at other levels may produce different effects of changes.

Defined-contribution plans

These plans mainly cover retirement pension, disability pension and family pension. The premiums are paid regularly during the year by the respective Group company to separate legal entities, for example insurance companies. The size of the premium is based on salary. The pension expenses for the period are included in the income statement.

Total pension expenses in the income statement for defined-benefit plans and defined-contribution plans

	2019	2018
Defined-benefit pensions vested during the year	–446	–535
Less: Funds contributed by employees	6	6
Interest on obligations	–603	–594
Estimated return on plan assets	519	491
Curtailments and settlements		326
Pension expenses, defined-benefit plans	**–524**	**–306**
Pension expenses, defined-contribution plans	–1,849	–1,673
Social insurance contributions, defined-benefit and defined-contribution plans[1]	–179	–145
Total pension expenses	**–2,552**	**–2,124**

1 Refers to special payroll tax in Sweden and employer fee in Norway.

Allocation of pension expenses in the income statement

	2019	2018
Cost of sales	–1,984	–1,639
Selling and administrative expenses	–484	–382
Financial items	–84	–103
Total pension expenses	**–2,552**	**–2,124**

Note 29. Provisions

Provisions are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, see Note 1.

Provisions are allocated in the statement of financial position between non-current liabilities and current liabilities. Provisions are both interest-bearing and non-interest-bearing. Provisions that are part of the operating cycle are recognized as current. Interest-bearing provisions that fall due within a year are treated as current.

Current provisions

	Dec 31, 2019	Dec 31, 2018
Non-interest-bearing	10,021	9,922
Total	**10,021**	**9,922**

The change in provisions broken down into reserve for legal disputes, provisions for warranty obligations and other provisions is presented in the following table.

	Reserve for legal disputes		Provision for warranty obligations		Other provisions		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
January 1	1,327	1,377	3,236	3,300	5,359	4,454	9,922	9,131
Provisions for the year	967	555	605	1,144	1,715	2,552	3,287	4,251
Provisions utilized	–696	–455	–569	–704	–1,406	–1,676	–2,671	–2,835
Unutilized amounts that were reversed, change in value	–144	–140	–288	–446	–359	–353	–791	–939
Exchange-rate differences	32	19	78	59	104	116	214	194
Reclassifications	15	–29	14	–117	31	266	60	120
December 31	**1,501**	**1,327**	**3,076**	**3,236**	**5,444**	**5,359**	**10,021**	**9,922**

Specification of "Other provisions"

	2019	2018
Provisions for restructuring measures	332	579
Employee-related provisions	392	362
Environmental obligations	120	106
Provision for social insurance contributions for pensions and share-based payments	1,522	1,246
Contingent considerations[1]	591	573
Provisions for commitments in joint ventures	28	49
Provisions for losses	1,329	1,366
Provisions for completed projects	565	504
Damage restoration	131	140
Tax and VAT (other than corporate tax)	106	59
Other provisions	328	375
Total	**5,444**	**5,359**

1 Acquisitions of current-asset properties. These are reported as financial instruments, see Note 6.

The normal cycle time for "Other provisions" is one to three years.

Provisions for legal disputes are provisions in the Construction business stream for projects that have been completed, as well as other disputes.

Provisions for warranty obligations are for expenses that may arise during the warranty period and for rent guarantees for properties in the Commercial Property Development business stream. Such provisions in Construction are based on individual assessments of each project or average experience-based cost, expressed as a percentage of sales during a five-year period. The expenses are charged to each project on a continuous basis. Provisions for warranty obligations in other business streams are based on individual assessments of each project. The change in 2019 was mainly related to Construction.

Provisions for restructuring measures mainly consist of items related to Poland, Sweden and the discontinuation of operations in Latin America.

Employee-related provisions consist of items such as the cost of profit-sharing, certain bonus programs and other obligations to employees.

Provisions for environmental obligations include the cost of restoring gravel pits to their natural state in Swedish operations.

Note 30. Other operating liabilities

Non-interest-bearing liabilities in business operations are recognized as "Other operating liabilities." Such liabilities are part of the Group's operating cycle and are recognized as current liabilities.

	Dec 31, 2019	Dec 31, 2018
Trade accounts payable	15,854	16,262
Other operating liabilities[1]	4,988	4,855
Accrued expenses and prepaid income	17,137	16,955
Total	**37,979**	**38,072**
Of which financial instruments reported in Note 6 Financial instruments and financial risk management		
Trade accounts payable	15,854	16,262
Other operating liabilities including accrued interest expense	399	322
	16,253	**16,584**
Of which non-financial instruments	21,726	21,488

1 "Other operating liabilities" includes SEK 285 M (307) for checks issued but not yet cashed, mainly in the USA. See Note 1.

Note 31. Specification of interest-bearing net receivables/net liabilities per asset and liability

	Dec 31, 2019			Dec 31, 2018		
	Interest-bearing	Non-interest-bearing	Total	Interest-bearing	Non-interest-bearing	Total
ASSETS						
Non-current assets						
Property, plant and equipment		7,742	7,742		7,645	7,645
Property, plant and equipment, right-of-use assets		4,616	4,616		–	–
Goodwill		4,057	4,057		4,324	4,324
Other intangible assets		865	865		975	975
Investments in joint ventures and associated companies		3,442	3,442		3,288	3,288
Non-current financial assets	2,483	45	2,528	2,302	43	2,345
Deferred tax assets		1,862	1,862		1,933	1,933
Total non-current assets	**2,483**	**22,629**	**25,112**	**2,302**	**18,208**	**20,510**
Current assets						
Current-asset properties		46,373	46,373		42,391	42,391
Current-asset properties, right-of-use assets		3,980	3,980		–	–
Inventories		1,128	1,128		1,256	1,256
Current financial assets	6,772	127	6,899	7,047	70	7,117
Tax assets		670	670		396	396
Contract assets		5,898	5,898		6,661	6,661
Other operating receivables		27,213	27,213		27,243	27,243
Cash and bank balances	8,745		8,745	10,722		10,722
Total current assets	**15,517**	**85,389**	**100,906**	**17,769**	**78,017**	**95,786**
TOTAL ASSETS	**18,000**	**108,018**	**126,018**	**20,071**	**96,225**	**116,296**
LIABILITIES						
Non-current liabilities						
Non-current financial liabilities	2,563	2	2,565	3,909	3	3,912
Lease liabilities	7,843		7,843		–	–
Pensions	6,866		6,866	5,669		5,669
Deferred tax liabilities		1,045	1,045		711	711
Total non-current liabilities	**17,272**	**1,047**	**18,319**	**9,578**	**714**	**10,292**
Current liabilities						
Current financial liabilities	4,567	50	4,617	7,262	48	7,310
Lease liabilities	1,078		1,078		–	–
Tax liabilities		564	564		615	615
Current provisions		10,021	10,021		9,922	9,922
Contract liabilities		20,419	20,419		20,738	20,738
Other operating liabilities		37,979	37,979		38,072	38,072
Total current liabilities	**5,645**	**69,033**	**74,678**	**7,262**	**69,395**	**76,657**
TOTAL LIABILITIES	**22,917**	**70,080**	**92,997**	**16,840**	**70,109**	**86,949**
Total equity			**33,021**			**29,347**
EQUITY AND LIABILITIES			**126,018**			**116,296**
Interest-bearing net receivables/net liabilities	–4,917			3,231		

Note 32. Expected recovery periods of assets and liabilities

	Dec 31, 2019			Dec 31, 2018		
Amounts expected to be recovered	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
ASSETS						
Non-current assets						
Property, plant and equipment[1]	1,755	5,987	7,742	1,571	6,074	7,645
Property, plant and equipment, right-of-use assets[1]	1,056	3,560	4,616	–	–	–
Goodwill		4,057	4,057		4,324	4,324
Other intangible assets[1]	232	633	865	209	766	975
Investments in joint ventures and associated companies[2]		3,442	3,442		3,288	3,288
Non-current financial assets		2,528	2,528		2,345	2,345
Deferred tax assets[3]		1,862	1,862		1,933	1,933
Total non-current assets	**3,043**	**22,069**	**25,112**	**1,780**	**18,730**	**20,510**
Current assets						
Current-asset properties[4]	22,000	24,373	46,373	19,900	22,491	42,391
Current-asset properties, right-of-use assets[4]	260	3,720	3,980	–	–	–
Inventories	473	655	1,128	512	744	1,256
Current financial assets	6,899		6,899	7,065	52	7,117
Tax assets	670		670	396		396
Contract assets[5]	5,261	637	5,898	6,145	516	6,661
Other operating receivables[5]	24,458	2,755	27,213	24,271	2,972	27,243
Cash and bank balances	8,745		8,745	10,722		10,722
Total current assets	**68,766**	**32,140**	**100,906**	**69,011**	**26,775**	**95,786**
TOTAL ASSETS	**71,809**	**54,209**	**126,018**	**70,791**	**45,505**	**116,296**
LIABILITIES						
Non-current liabilities						
Non-current financial liabilities		2,565	2,565		3,912	3,912
Lease liabilities		7,843	7,843	–	–	–
Pensions[6]	275	6,591	6,866	258	5,411	5,669
Deferred tax liabilities		1,045	1,045		711	711
Total non-current liabilities	**275**	**18,044**	**18,319**	**258**	**10,034**	**10,292**
Current liabilities						
Current financial liabilities	3,404	1,213	4,617	4,527	2,783	7,310
Tax liabilities	564		564	615		615
Lease liabilities	1,078		1,078	–	–	–
Current provisions	3,814	6,207	10,021	3,908	6,014	9,922
Contract liabilities	17,624	2,795	20,419	18,018	2,720	20,738
Other operating liabilities	36,240	1,739	37,979	36,367	1,705	38,072
Total current liabilities	**62,724**	**11,954**	**74,678**	**63,435**	**13,222**	**76,657**
TOTAL LIABILITIES	**62,999**	**29,998**	**92,997**	**63,693**	**23,256**	**86,949**
Total equity			**33,021**			**29,347**
EQUITY AND LIABILITIES			**126,018**			**116,296**

1 In the case of amounts expected to be recovered within 12 months, the expected annual depreciation/amortization has been recognized.
2 The breakdown cannot be estimated.
3 Deferred tax assets are expected to be recovered in their entirety after 12 months.
4 Recovery of current-asset properties within one year is based on an historical assessment from the past three years. For right-of-use assets the assessment is based on the implementation of IFRS 16 on January 1, 2019.
5 Current receivables that fall due in more than 12 months' time are part of the operating cycle and are thus recognized as current.
6 "Within 12 months" refers to expected benefit payments (payments from funded plans are not included).

Note 33. Assets pledged, contingent liabilities and contingent assets

Assets pledged

	Dec 31, 2019	Dec 31, 2018
Shares and participations	2,174	2,229
Receivables	891	824
Total	**3,065**	**3,053**

Joint ventures within the PPP portfolio are reported as pledged assets when the holdings in the project company, which may be owned directly by Skanska or owned through intermediary holding companies, are provided as security for loans from banks or lenders other than the co-owners.

Assets pledged for liabilities

	Shares and receivables	
	Dec 31, 2019	**Dec 31, 2018**
Own obligations		
Other liabilities	891	824
Total own obligations	**891**	**824**
Other obligations	2,174	2,229
Total	**3,065**	**3,053**

Assets pledged for other liabilities, SEK 0.9 billion (0.8), relate predominantly to financial instruments pledged as collateral to customers in conjunction with contracting work in the US.

Contingent liabilities

Contingent liabilities are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. See Note 1.

	Dec 31, 2019	Dec 31, 2018
Contingent liabilities related to joint operations within the Construction business stream	36,550	44,286
Contingent liabilities related to other joint operations	28	31
Contingent liabilities related to joint ventures	574	747
Other contingent liabilities	1,612	2,585
Total	**38,764**	**47,649**

The Group's contingent liabilities related to contracting work executed jointly with other contractors totaled SEK 36.6 billion (44.3). This amount is the portion of the joint and several liability relating to the obligations of the joint operation in question that affect other participants in the joint operation. This type of liability is often required by the customer. To the extent it is deemed likely that Skanska will be subject to liability claims, the obligation is reported as a liability.

Contingent liabilities related to joint ventures refer mainly to guarantees issued for joint ventures belonging to the Residential Development and Commercial Property Development business streams.

In the Group's other contingent liabilities, close to SEK 1.6 billion (2.6) related mainly to obligations attributable to residential projects.

Skanska selectively forms joint operations and joint ventures when this is beneficial in view of project size and/or the type of commitments involved in the project. Combining expertise and resources with other construction companies is then a means of optimizing project planning and execution as well as managing specific project risks.

External partners in these arrangements are scrutinized in accordance with the tender approval process. For more information regarding joint operations and joint ventures, see Note 20 B and Note 20 C.

In December 2016 Skanska received a claim from the Maltese government, which in July 2018 led to commencement of arbitration, regarding the Mater Dei hospital on Malta. The Government alleges defects in certain concrete works performed in 1996 and errors in seismic design. Skanska is contesting the claims on both formal and material grounds. The arbitration tribunal has in a partial award in November 2019 found that all claims under the contract are barred due to a valid waiver agreement and due to prescription under law. The Maltese government has in January 2020 withdrawn its Notice of Arbitration and the future of the case is therefore uncertain.

A Skanska subsidiary in Finland was notified that the prosecutor requested a corporate fine in connection to a bribery investigation involving a former real estate manager in another company. A Skanska Finland manager was defendant in the case. Skanska has actively cooperated with the prosecutor and police since the start of the investigation. In October 2019 the Helsinki District Court dismissed the case against Skanska and the Finland manager. The prosecutor has in January 2020 appealed the case.

The Brazilian competition authority, the Administrative Council of Economic Defense, (CADE) and the Comptroller General of the Union (CGU) initiated in the end of 2015 administrative procedures against Skanska Brasil Limitada in relation to certain Petrobras projects. In June 2016 CGU decided that Skanska Brazil shall be excluded from public tenders during no less than two years. Skanska Brazil´s appeal is still pending. CADE has yet to decide on the cartel case.

Other authorities in Brazil have initiated legal proceedings relating to the same transactions. Skanska informed in April 2016 that the Brazilian Attorney General (AGU) commenced a lawsuit against seven companies including Skanska Brazil. The charges focused on claims of inappropriate payments by a joint venture partner. Both courts of first and second instance have rejected the claim against Skanska Brazil. AGU has appealed to the Superior Court and the appeal is pending. The Federal Audit Court (TCU) is an authority auditing public contracts, including those of Petrobras, and Skanska Brazil has some contracts under TCU review. Three former Skanska Brazil employees are subject to investigations by the Brazilian federal prosecutor for cartel related crimes.

Early 2006 tax authorities in Argentina started investigating about 120 companies, including Skanska S.A in Argentina, for use of fake invoices. Skanska cooperated with the authorities and corrected its tax returns. The Appeal Court found in 2011 no evidence of wrongdoings and no convictions were made. However, the Federal Criminal court decided in October 2017 to once again indict a large number of individuals including nine former Skanska employees. The trial is expected to begin in 2020.

Skanska sold its Argentine business in 2015, but is managing the case due to an ongoing obligation to the buyer.

Contingent assets

The Group has no contingent assets of significant importance in assessing the position of the Group. See Note 1.

Note 34. Foreign exchange rates and effect of changes in foreign exchange rates

Exchange rates are dealt with in accordance with IAS 21 The Effect of Changes in Foreign Exchange Rates. See Note 1.

Exchange rates

In 2019 the Swedish krona fluctuated against currencies in countries in which the Group does business.

		Average exchange rate			Change, %	
Currency	Country	2019	2018	2017	2018–2019	2017–2018
CZK	Czech Republic	0.412	0.400	0.366	3	9
DKK	Denmark	1.418	1.377	1.296	3	6
EUR	EU	10.584	10.260	9.638	3	6
GBP	UK	12.071	11.597	11.002	4	5
NOK	Norway	1.075	1.068	1.033	1	3
PLN	Poland	2.463	2.408	2.265	2	6
USD	USA	9.457	8.696	8.549	9	2

		Closing day exchange rate			Change, %	
Currency	Country	2019	2018	2017	2018–2019	2017–2018
CZK	Czech Republic	0.410	0.398	0.384	3	3
DKK	Denmark	1.399	1.373	1.321	2	4
EUR	EU	10.446	10.253	9.834	2	4
GBP	UK	12.240	11.352	11.081	8	2
NOK	Norway	1.059	1.027	1.000	3	3
PLN	Poland	2.453	2.383	2.355	3	1
USD	USA	9.329	8.941	8.204	4	9

Income statement

In 2019 the average exchange rate of the SEK weakened against all of the Group's other currencies. The total exchange rate effect on the Group's revenue was SEK 7,615 M (4,671), equivalent to 4.4 (3.0) percent. The total exchange rate effect on the Group's operating income was SEK 202 M (114), equivalent to 3.6 (2.5) percent. See the table below.

	USD	EUR	GBP	NOK	CZK	PLN	Other	Total
2019								
Revenue	5,943	397	848	105	172	127	23	7,615
Operating income	154	31	5	5	6	3	-2	202
Income after financial items	131	27	4	6	6	3	-2	175
Profit for the year	91	24	1	4	4	2	-1	125

	USD	EUR	GBP	NOK	CZK	PLN	Other	Total
2018								
Revenue	1,177	905	1,143	524	478	444		4,671
Operating income	13	98	29	23	6	–59	4	114
Income after financial items	8	93	28	26	5	–60	5	105
Profit for the year	4	70	27	22	3	–68	5	63

Note 34. Continued

Consolidated statement of financial position by functional currency

Consolidated total assets increased by SEK 9.7 billion, from SEK 116.3 billion to SEK 126.0 billion. The effect of changes in foreign exchange rates was SEK 3.3 billion. The closing exchange rate of the Swedish krona weakened against all currencies in countries in which the Group does business.

2019-12-31, SEK bn	USD	GBP	EUR	NOK	CZK	PLN	DKK	Other foreign currencies[1]	Hedges of foreign currency[2]	SEK	Total
Assets											
Property, plant and equipment	2.2	0.3	0.5	2.1	0.5	0.1		0.1		1.9	7.7
Property, plant and equipment right-of-use assets	0.8	1.1	0.5	0.6	0.3	0.2		–0.1		1.2	4.6
Intangible assets	0.7	1.2	0.6	1.3	0.6	0.0		0.0		0.5	4.9
Shares and participations	1.8	0.1	0.0	0.1	0.1	0.0		–0.1		1.4	3.4
Interest-bearing receivables	28.2	3.5	3.5	5.1	1.4	2.0		–31.9		–2.5	9.3
Current-asset properties	9.3	0.1	14.4	3.7	2.0	1.3	1.7	0.0		13.9	46.4
Current-asset properties right-of-use assets	2.9		0.5			0.1		0.1		0.4	4.0
Non-interest-bearing receivables	17.9	3.2	3.3	3.6	1.0	0.9	0.1	0.3		6.7	37.0
Cash and cash equivalents	1.2		0.7	0.1	0.1	0.1	0.1	0.0		6.4	8.7
Total	**65.0**	**9.5**	**24.0**	**16.6**	**6.0**	**4.7**	**1.9**	**–31.6**	**0.0**	**29.9**	**126.0**
Equity and liabilities											
Equity attributable to equity holders[3]	12.1	1.3	4.2	5.5	2.4	0.1	0.8	–3.0	0.0	8.0	32.9
Non-controlling interests					0.1						0.1
Interest-bearing liabilities	23.2	2.2	12.9	3.3	0.7	1.6	0.8	–28.6	0.0	8.3	22.9
Non-interest-bearing liabilities	29.7	6.0	6.9	7.8	2.8	3.0	0.3	0.0		13.6	70.1
Total	**65.0**	**9.5**	**24.0**	**16.6**	**6.0**	**4.7**	**1.9**	**–31.6**	**0.0**	**29.9**	**126.0**

2018-12-31, SEK bn	USD	GBP	EUR	NOK	CZK	PLN	DKK	Other foreign currencies[1]	Hedges of foreign currency[2]	SEK	Total
Assets											
Property, plant and equipment	2.4	0.2	0.5	1.5	0.5	0.3		–0.1		2.3	7.6
Property, plant and equipment right-of-use assets	–	–	–	–	–	–	–	–		–	–
Intangible assets	0.7	1.5	0.5	1.4	0.6			–0.1		0.7	5.3
Shares and participations	1.6	0.1		0.2	0.1			–0.1		1.4	3.3
Interest-bearing receivables	21.8	2.4	3.8	4.2	1.0	1.3		–23.6		–1.6	9.3
Current-asset properties	9.5	0.4	11.6	4.0	1.8	1.1	1.2	0.2		12.6	42.4
Current-asset properties right-of-use assets											–
Non-interest-bearing receivables	17.5	4.1	2.6	3.8	0.9	1.4	0.1	0.2		7.1	37.7
Cash and cash equivalents	1.4	0.1	1.3		0.3	0.1				7.5	10.7
Total	**54.9**	**8.8**	**20.3**	**15.1**	**5.2**	**4.2**	**1.3**	**–23.5**	**0.0**	**30.0**	**116.3**
Equity and liabilities											
Equity attributable to equity holders[3]	9.1	1.6	4.6	4.5	2.3	–0.5	0.9		–1.0	7.7	29.2
Non-controlling interests	–	–	–	–	0.1	–	–	–	–	–	0.1
Interest-bearing liabilities	16.7	0.9	8.9	3.0	0.8	1.1	0.1	–23.9	1.0	8.2	16.8
Non-interest-bearing liabilities	29.1	6.3	6.8	7.6	2.0	3.6	0.3	0.4		14.1	70.2
Total	**54.9**	**8.8**	**20.3**	**15.1**	**5.2**	**4.2**	**1.3**	**–23.5**	**0.0**	**30.0**	**116.3**

1 Including elimination of intra-Group receivables and liabilities.
2 Amount refers to hedges before tax deduction. Net investments abroad are currency-hedged to a certain extent through foreign currency loans and forward currency contracts. See also Note 6. Hedging of net investments through foreign currency loans mainly in GDP amounts to SEK 86. Hedging of net investments through forward currency contracts in USD amounts to SEK 40 M.
3 The respective currencies are calculated including goodwill on consolidation and the net amount of Group surpluses after deducting deferred taxes.

Note 34. Continued

Effect on the Group of a change in SEK against other currencies and change in USD against SEK

The following sensitivity analysis, based on the 2019 income statement and statement of financial position, shows the sensitivity of the Group to a unilateral 10-percent change in the SEK against all currencies, as well as a unilateral 10-percent change in the USD against the SEK (+ indicates a weakening of the Swedish krona, – indicates a strengthening of the Swedish krona).

SEK bn	+/–10%	of which USD +/–10%
Revenue	+/– 12.9	+/– 7.4
Operating income	+/– 0.5	+/– 0.2
Equity	+/– 2.3	+/– 1.2
Net receivables/net liabilities	+/– 0.2	+/– 0.6

Other items

For information on the change in the translation reserve in equity, see Note 26.

Note 35. Cash flow statement

Aside from the cash flow statement prepared in accordance with IAS 7 Statement of Cash Flows, Skanska prepares a cash flow statement based on the operations carried out by the respective business streams. This cash flow statement is called the "Consolidated operating cash flow statement." The connection between the respective cash-flow statements is explained below.

Adjustments for items not included in cash flow

	2019	2018
Depreciation/amortization and impairment losses/reversals of impairment losses	3,762	2,457
Income from divestments of non-current assets and current-asset properties	–7,044	–8,479
Income after financial items from joint ventures and associated companies	–521	–821
Dividends from joint ventures and associated companies	648	1,465
Provision for the year, intra-Group profits on contracting work	460	543
Pensions recognized as expenses but not related to payments	441	203
Pensions paid	–714	–851
Cost of Seop, employee ownership programs	245	254
Gain on joint ventures divested	–71	–42
Other items that have not affected cash flow from operating activities	70	18
Total	**–2,724**	**–5,253**

Taxes paid

Taxes paid are divided into operating activities, investing activities and financing activities. Total taxes paid for the Group during the year amounted to SEK –1,076 M (–490).

Information about interest and dividends

	2019	2018
Interest income received during the year	138	134
Interest paid during the year	287	288
Dividend received during the year	680	1,497

Cash and cash equivalents

Cash and cash equivalents in the cash-flow statement consist of cash and bank balances as well as short-term investments. The definition of cash and bank balances in the statement of financial position can be found in Note 1.

The same rule that has been used in determining cash and cash equivalents in the statement of financial position has been used in determining cash and cash equivalents according to the cash flow statement. Only amounts that can be used without restrictions are recognized as cash and bank balances.

	2019	2018
Cash and bank balances	8,745	10,722
Total	**8,745**	**10,722**

Other

At year-end, the Group's unutilized credit facilities amounted to SEK 8,812 M (8,613).

Information about assets and liabilities in acquired Group companies/businesses

	2019	2018
Assets		
Intangible assets	18	21
Property, plant and equipment	89	7
Property, plant and equipment, right-of-use assets	281	–
Current-asset properties	90	–
Non-interest-bearing assets	38	–
Cash and cash equivalents	20	1
Total	**536**	**29**
Liabilities		
Lease liabilities	371	–
Interest-bearing liabilities	132	7
Non-interest-bearing liabilities	84	6
Total	**587**	**13**
Paid consideration	–26	–16
Effect on cash and cash equivalents, acquisitions	**–26**	**–16**

Acquired Group companies/operations are described in Note 7.

Connection between consolidated operating cash flow statement and consolidated cash flow statement

The difference between the consolidated operating cash flow statement and the consolidated cash flow statement in accordance with IAS 7 Statement of Cash Flows is presented below.

The consolidated cash flow statement prepared in accordance with IAS 7 recognizes cash flow divided into:
Cash flow from operating activities
Cash flow from investing activities
Cash flow from financing activities

Note 35. Continued

The consolidated operating cash flow statement recognizes cash flow divided into:
Cash flow from operating activities
Cash flow from financing activities
Cash flow from strategic investments
Dividend etc.
Change in interest-bearing receivables and liabilities

The consolidated operating cash flow statement refers to operating activities as "business operations." Unlike the cash flow statement in accordance with IAS 7, "business operations" also includes net investments, which are regarded as an element of business operations, together with tax payments on these. Such net investments are net investments in property, plant and equipment and intangible non-current assets, as well as net investments in the PPP portfolio.

Investments of a strategic nature are recognized under cash flow from strategic investments.

Under cash flow from financing activities, the operating cash flow statement recognizes only interest and other financial items as well as taxes paid on these. Dividends are recognized separately. Loans provided and repayment of loans are also recognized separately along with changes in interest-bearing receivables at the bottom of the operating cash flow statement, resulting in a subtotal in that statement that shows cash flow before changes in interest-bearing receivables and liabilities.

Cash flow for the year

	2019	2018
Cash flow from operating activities including taxes paid according to operating cash flow	4,523	7,268
Less net investments in property, plant and equipment and intangible assets	1,453	2,157
Less tax payments on property, plant and equipment and intangible assets divested,	62	29
Cash flow from operating activities	**6,038**	**9,454**
Cash flow from strategic investments according to operating cash flow	–6	–16
Net investments in property, plant and equipment and intangible assets	–1,453	–2,157
Increase and decrease in interest-bearing receivables	307	–165
Taxes paid on property, plant and equipment and intangible assets	–62	–29
Cash flow from investing activities	**–1,214**	**–2,367**
Cash flow from financing activities according to operating cash flow statement, including change in interest-bearing receivables and liabilities excluding lease liabilities	–4,103	–202
Increase and decrease in interest-bearing liabilities	–307	165
Dividend etc.[1]	–2,488	–3,472
Cash flow from financing activities	**–6,898**	**–3,509**
Cash flow for the year	**–2,074**	**3,578**
1 Of which shares repurchased		–72

Relationship between the Group's investments in the cash flow statement and investments in the operating cash flow statement

Total net investments are recognized in the cash flow statement divided into operating activities and investing activities, taking into account the settlement of payments for investments and divestments.

Purchases and sales of current-asset properties are recognized under operating activities, while other net investments are recognized under investing activities.

	2019	2018
Net investments in operating activities	3,294	5,434
Net investments in investing activities	–1,459	–2,173
	1,835	**3,261**
Less accrual adjustments, cash flow effect of investments	–209	39
Total net investments	**1,626**	**3,300**

The consolidated operating cash flow statement recognizes net investments divided into net investments in operations and strategic net investments as follows.

Investments/divestments

	2019	2018
Operations – investments		
Intangible assets	–116	–225
Property, plant and equipment	–2,566	–2,351
Shares	–108	–99
Current-asset properties	–22,173	–21,849
of which Residential Development	–9,308	–10,449
of which Commercial Property Development	–12,865	–11,400
	–24,963	**–24,524**
Operations – divestments		
Intangible assets	25	6
Property, plant and equipment	1,028	428
Shares	284	84
Current-asset properties	25,258	27,322
of which Residential Development	11,740	12,068
of which Commercial Property Development	13,518	15,254
	26,595	**27,840**
Net investments in operations	1,632	3,316
Strategic investments		
Business combinations	–6	–16
Net strategic investments	**–6**	**–16**
Total net investments	**1,626**	**3,300**

The change in interest-bearing liabilities belonging to financing activities is presented in the following table.

Interest-bearing liabilities

	2019	2018
January 1	11,171	11,323
Change in accounting principle	7,487	
Items affecting cash flow from financing activities	–5,008	–146
Acquisitions of companies	503	7
Other change in leases	1,695	
Reclassification	–70	
Exchange-rate differences	273	–13
December 31	**16,051**	**11,171**

Note 36. Personnel

Wages, salaries, other remuneration and social insurance contributions

	2019	2018
Wages, salaries and other remuneration		
Board members, Presidents, Executive Vice Presidents and other executive team members[1]	590	551
of which variable remuneration	239	209
Other employees	20,918	21,068
Total wages, salary and other remuneration	**21,508**	**21,619**
Social insurance contributions	5,695	5,294
of which pension expenses	2,468	2,021

1 The amount related to Board members, Presidents, Executive Vice Presidents and other executive team members includes remuneration to former Board members, Presidents and Executive Vice Presidents in all Group companies during the financial year.

Of the Group's total pension expenses, SEK 56 M (43) relates to the category "Board members, Presidents, Executive Vice Presidents and other executive team members." The amount includes remuneration to former Board members, Presidents and Executive Vice Presidents.

Average number of employees

The number of employees is calculated as an average number of employees, see Note 1.

	2019	of which men	%	of which women	%	2018	of which men	%	of which women	%
Sweden	9,167	7,246	79	1,921	21	9,458	7,328	77	2,130	23
Norway	3,849	3,463	90	386	10	3,855	3,474	90	381	10
Denmark	22	13	59	9	41	17	10	59	7	41
Finland	2,156	1,805	84	351	16	2,176	1,840	85	336	15
UK	5,543	4,249	77	1,294	23	5,650	4,364	77	1,286	23
Poland	2,815	2,028	72	787	28	4,306	3,278	76	1,028	24
Czech Republic	2,385	2,000	84	385	16	2,652	2,226	84	426	16
Slovakia	791	699	88	92	12	830	732	88	98	12
USA	7,862	6,609	84	1,253	16	8,957	7,653	85	1,304	15
Other countries	166	93	56	73	44	749	663	89	86	11
Total	**34,756**	**28,205**	**81**	**6,551**	**19**	**38,650**	**31,568**	**82**	**7,082**	**18**

The number of employees at the end of the year was 33,585 (37,450).

Men and women on Boards of Directors and in executive teams on the closing day

	Dec 31, 2019		Dec 31, 2018	
	of which men, %	of which women, %	of which men, %	of which women, %
Number of Board members	80	18	82	18
Number of Presidents and members of executive teams of business units	74	23	77	23

Other

No loans, assets pledged or contingent liabilities have been provided for the benefit of any Board member or President within the Group.

Note 37. Remuneration to senior executives and Board members

The Group Leadership Team consisted of the President and CEO and the five other members of the Group Leadership Team. Of these six individuals at the end of 2019, two were women and four were men.

Senior executives are defined as the members of the Group Leadership Team.

Preparation and decision-making processes

Principles for senior executive remuneration are established annually by the Annual General Meeting. Salary and other benefits for the President and CEO are established by the Board of Directors of Skanska AB following recommendations from the Board's Compensation Committee. The Committee sets salaries, variable remuneration and other benefits for the Group Leadership Team. The President and CEO regularly informs the Compensation Committee about the salaries, variable remuneration and other benefits of the heads of group functions and business units. In 2019 the Compensation Committee consisted of Hans Biörck, Chairman of the Board, and Board members Pär Boman and Jayne McGivern. The Compensation Committee met six times during the year. The Annual General Meeting approves the directors' fees and remuneration for committee work for members of the Board, following recommendations from the Nomination Committee.

Senior executive remuneration

Principles for remuneration

The 2019 Annual General Meeting approved the following principles for salary and other remuneration to senior executives:

Senior executives include the CEO and other members of the Group Leadership Team.

Remuneration to the senior executives in Skanska AB (publ) shall consist of fixed salary, variable remuneration, if any, other customary benefits, and pension. The combined remuneration for each senior executive must be market-related and competitive in the labor market in which the senior executive is placed, and distinguished performance should be reflected in the total remuneration.

Fixed salary and variable remuneration shall be related to the senior executive's responsibility and authority. The variable remuneration shall be payable in cash and/or shares and it shall be capped and related to the fixed salary. Distribution of shares shall have a vesting period of three years and be part of a long-term incentive program. The variable remuneration must be based on results in relation to established targets and be designed to increase the alignment between the shareholders and senior executives of the company. The terms for variable remuneration should be structured so that the Board, if exceptional economic conditions prevail, has the possibility to limit or refrain from paying variable remuneration, if such a payment is considered unreasonable and incompatible with the company's responsibility in general to the shareholders, employees and other stakeholders. For annual bonus, there should be a possibility to limit or refrain from paying variable remuneration if the Board considers that this is appropriate for other reasons.

To the extent that a Board member performs work for the company, besides the Board membership, consultant fee and other remuneration may be granted for such work.

In the event of employment termination by the company, the normal period of notice is six months combined with severance pay corresponding to a maximum of 18 months fixed salary or, alternatively, a period of notice of maximum of 12 months combined with severance pay corresponding to a maximum of 12 months fixed salary.

Pension benefits should be defined-contribution schemes and should entitle the senior executive to the right to receive a pension from the age of 65. However, a pension at age of earliest 60 years may be granted in individual cases. For defined benefit plans, years of service required for fully earned benefits shall normally corespond to the years of service required for general pension plans in the same jurisdiction. Variable salary shall not be included in pensionable salary, except when it follows from rules under a general pension plan (like the Swedish ITP plan).

The Board may deviate from these principles for salary and other remuneration to senior executives, if special reasons for doing so exist in any individual case.

Matters related to salary and other remuneration to the CEO are prepared by the Compensation Committee and resolved on by the Board. Matters related to salary and other remuneration to other senior executives are decided by the Compensation Committee.

Financial targets for variable salary components 2019

	Measure of earnings	Starting point	Outperform	Outcome	Percentage fulfilled[2]
Group	Income after financial items, SEK bn[1]	4.5	6.6	7.8	100%
Construction	Operating income, SEK bn	2.9	4.3	3.8	66%
	Operating margin, %	2.1	3.0	2.6	64%
Residential Development	Operating income, SEK bn	0.9	1.3	1.2	85%
	Return on capital employed, %	7	10	11	87%
	Units sold, thousands	3.2	4.5	3.9	40%
Commercial Property Development	Operating income, SEK bn	1.4	2.3	3.3	99%
	Return on capital employed, %[3]	6	8	10	100%
	Leasing, thousands of sqm[3]	156	371	388	95%
	Leasing cluster, thousands of sqm[3]	156	371	388	100%

1 The income excludes eliminations at the Group level. The outperform target at the Group level constitutes 95 percent of the business stream's total outperform target and the starting point target constitutes 105 percent of the business stream's total starting point target.
2 Percentage fulfilled is based on the outcomes for the respective business units, which are weighed together. As the amount fulfilled per business unit cannot be less than 0 percent, negative earnings from the business units may affect the comparison with the business stream's total earnings.
3 Encompasses the Commercial Property Development business units in the Nordic region, Europe and the USA.

Note 37. Continued

Targets and performance relating to variable remuneration

Variable remuneration may consist of two parts: cash-based annual variable remuneration and the share incentive program, which provides compensation in the form of shares.

The long-term share programs are described in the sections under the headings "Long-term share programs" and "Previous long-term share programs" in this note. The table on page 167 presents, by business stream, the starting point and outperform targets that were decided by the Board for the 2019 cash-based variable remuneration.

In addition to the financial performance targets, the members of the Group Leadership Team have non-financial targets that may reduce the outcome measured only according to the financial targets. The non-financial targets mainly relate to strategic initiatives linked to the business plan. The outcome is reduced in cases where the operations for which the person is responsible have not reached the non-financial targets.

Annual variable remuneration for the Group Leadership Team, excluding the President and CEO, is mainly tied to the Group targets and/or to the business units they are directly responsible for. The non-financial targets are connected to the business units and/or operations for which the members of the Group Leadership Team are responsible. The preliminary outcome for the other senior executives averaged 78 percent (34) of fixed annual salary. This calculation is preliminary insofar as any deductions as a consequence of non-financial targets have not yet been taken into account. The Board will determine the final outcome of variable remuneration in the first quarter of 2020 after reviewing operational performance.

Targets and performance related to variable remuneration for the President and CEO

The financial targets for the President and CEO were the same as the Group targets according to the table on the previous page. The Board has the option of reducing the final outcome of variable remuneration measured solely on the financial targets by a maximum of 50 percent, based on the outcome of the Group's non-financial targets. The preliminary outcome for the President and CEO's variable remuneration (i.e., excluding the employee ownership program) shows an outcome of 75 percent (22) of fixed annual salary, based on financial targets with a target fulfillment of 100 (29) percent. This calculation is preliminary insofar as any deductions as a consequence of non-financial targets have not yet been taken into account. The Board will determine the final outcome in the first quarter of 2020 after reviewing operational performance.

Pension benefits

The retirement age for members of the Group Leadership Team is 65 years. Employees in Sweden are entitled to pension benefits according to the ITP occupational pension plan. The ITP plan encompasses the defined-contribution ITP 1 pension system and the defined-benefit ITP 2 pension system. Employees outside Sweden are covered by local pension plans. The ITP 1 contribution is 4.5 percent of gross cash salary up to 7.5 base amounts of income per year and 30 percent of gross cash salary above that. The defined-benefit ITP 2 plan guarantees a lifetime pension from age 55. The pension amount is a certain percentage of the employee's final salary, and the service period to qualify for a full pension is 30 years. The pension entitlement is 10 percent for salary components up to 7.5 base amounts, 65 percent for components between 7.5 and 20 base amounts and 32.5 percent for salary components between 20 and 30 base amounts. For salary components exceeding 30 base amounts, this ITP 2 group is covered by a supplementary pension entitlement, with a premium of 20 percent.

Severance pay

The notice period for the members of the Group Leadership Team, in the case of termination by the company, is six months with retention of fixed salary and benefits, excluding variable remuneration. After the notice period, severance pay is disbursed for 12 to 18 months. When payments are disbursed after the notice period other income must normally be subtracted from the amount payable.

A mutual notice period of 12 months applies between Skanska and the President and CEO, with retention of fixed salary and benefits, excluding variable remuneration. After the notice period, severance pay is disbursed for 12 months. When payments are disbursed after the notice period other income must normally be subtracted from the amount payable.

Board of Directors

	Director's fee		Audit Committee		Compensation Committee		Project Review Committee		Total	
SEK thousand	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Chairman of the Board										
Hans Biörck	2,100	2,040	165	158	110	110	210	205	2,585	2,513
Other Board members										
Nina Linander	–	680	–	158	–	0	–	205	–	1,043
Fredrik Lundberg	700	680	0	0	0	0	210	205	910	885
Charlotte Strömberg	700	680	230	220	0	0	210	205	1,140	1,105
Pär Boman	700	680	165	158	105	105	210	205	1,180	1,148
Jayne McGivern	700	680	0	0	105	105	210	205	1,015	990
Catherine Marcus	700	680	0	0	0	0	210	205	910	885
Jan Gurander	700	–	165	–	0	–	210	–	1,075	–
Board of Directors	**6,300**	**6,120**	**725**	**693**	**320**	**320**	**1,470**	**1,435**	**8,815**	**8,568**

Note 37. Continued

Group Leadership Team

	Annual salary		Variable remuneration[1]		Allocated value of employee ownership programs[2]		Other remuneration and benefits		Pension expense		Total	
SEK thousand	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
President and CEO												
Anders Danielsson	11,550	10,500	8,663	2,318	7,990	0	101	375	4,043	3,675	32,347	16,868
Other members of the Group Leadership Team (5 individuals)	28,474	26,419	22,260	8,990	18,939	583	1,247	1,126	7,277	5,899	78,197	43,017
Total	**40,024**	**36,919**	**30,923**	**11,308**	**26,929**	**583**	**1,348**	**1,501**	**11,320**	**9,574**	**110,543**	**59,885**

1 Variable remuneration relating to the 2019 financial year is preliminary and will be finally determined and disbursed after the outcome is established in the first quarter of 2020. The variable remuneration agreements include a general clause stipulating that the Board and the Compensation Committee are entitled to wholly or partly reduce variable remuneration. The amounts included under the heading "Variable remuneration" for 2018 in the table above refer to actual disbursements for the 2018 financial year.
2 The value stated refers to a preliminary allotment of matching shares and performance shares for 2019's invested shares, at the share price on December 30, 2019 (SEK 212). The senior executives will receive an estimated 5,300 (4,134) matching shares and 121,903 (0) performance shares. The Board will determine the final outcome in the first quarter of 2020 after reviewing operational performance. In order to receive matching shares and performance shares, an additional three years of service are required. The total cost has not yet been expensed as the cost is allocated over three years in accordance with IFRS 2. See the section under the heading "Long-term share programs." The President and CEO as well as some other members of the Group Leadership Team received remuneration related to the 2016 financial year. After a three-year lock-up period as part of the previous employee ownership program Seop 3, the President and CEO received 13,657 (12,683) shares, equivalent to SEK 2,891,000 (1,788,000), in 2019 for shares allocated during the 2016 financial year. In 2019, as part of Seop 3, the other senior executives, after a three-year lock-up period, received 29,700 (24,338) Series B Skanska shares, equivalent to SEK 6,288,000 (3,432,000), for shares allotted during the 2016 financial year.

Remuneration and benefits recognized as expenses in 2019

Directors' fees

The 2019 Annual General Meeting resolved that fees would be paid to the Board members elected by the Meeting totaling SEK 8,815,000 (8,568,000), including a special allowance for committee work. See the table on the previous page.

Chairman of the Board

During the financial year the Chairman of the Board, Hans Biörck, received a director's fee totaling SEK 2,585,000 (2,513,000), of which SEK 485,000 (473,000) was for committee work.

Board members

Members of the Board did not receive any remuneration for their role as Board members beyond their regular directors' fees and remuneration for committee work.

For Board members appointed by the employees, no disclosures are made concerning salaries and remuneration or pensions as they do not receive these in their capacity as Board members. For Board members who were employees of the company before the beginning of the financial year, disclosures are made concerning pension obligations in their former role as employees.

President and CEO

In 2019, the President and CEO Anders Danielsson received a fixed salary of SEK 11,550,000 (10,500,000) plus an estimated variable salary component of SEK 8,663,000 (2,318,000) based on a preliminary figure of financial targets being 100 percent (29) fulfilled. Variable remuneration is maximized at 75 percent of fixed annual salary. The final outcome of variable remuneration for the President and CEO will be established by the Board in the first quarter of 2020 following a review of operational performance. The preliminary outcome was equivalent to 75 percent (22) of fixed annual salary. Disbursement normally occurs in May of the year following the performance year.

The President and CEO is also participating in the Group's ongoing employee ownership program, Seop 4, which involves an allocation of matching shares and performance shares. See the section under the heading "Long-term share programs" in this note. Within the framework of Seop 4, Anders Danielsson acquired 6,290 (6,486) Series B Skanska shares, which is expected to result in the allocation of 1,573 matching shares equivalent to SEK 333,000 (0). An estimated 36,169 (0) performance shares may be allocated, at a value of SEK 7,657,000 (0), since the outperform targets were preliminarily 100 percent (0) fulfilled. The amount stated is based on the share price on December 30, 2019 (SEK 212). The allocation of matching and performance shares will be finally determined in the first quarter of 2020 after reviewing operational performance.

Annual pension provisions will total 35 percent of fixed annual salary. The cost in 2019 amounted to SEK 4,043,000 (3,675,000).

Other members of the Group Leadership Team

At the end of 2019 the other members of the Group Leadership Team consisted of five individuals.

The members of the Group Leadership Team received a fixed salary and variable remuneration based on the Group's earnings and/or the earnings of the business units for which they are directly responsible. In addition, the senior executives were covered by the Group's ongoing employee ownership program, Seop 4, involving an allocation of matching shares and performance shares. See the section under the heading "Long-term share programs" in this note. A total of 14,910 (16,535) Series B Skanska shares were purchased by the senior executives under the Seop 4 program, which resulted in 3,728 (4,134) matching shares, equivalent to SEK 789,000 (583,000). An estimated 85,735 (0) performance shares may be allocated, at a value of SEK 18,150,000 (0), since the outperform targets were preliminarily 100 percent (0) fulfilled. The amount stated is based on the share price on December 30, 2019 (SEK 212). Variable remuneration and the outcome of performance shares for 2019 are preliminary. The final outcome will be established in the first quarter of 2020 after a review of operational performance. Disbursement of the cash-based variable remuneration normally occurs in May of the year following the performance year.

All above-mentioned remuneration and benefits were charged to Skanska AB, except for SEK 28,279,000 (10,948,000) to other senior executives, which was charged to other Group companies.

Pension obligations to current and former senior executives

In 2019, outstanding pension obligations to Presidents and CEOs, including former Presidents and CEOs, amounted to SEK 163,517,000 (158,067,000). Outstanding obligations to other current and former senior executives amounted to SEK 114,367,000 (107,411,000).

Note 37. Continued

Long-term share programs

Share incentive program – Skanska employee ownership program, Seop 4 (2017–2019)

In 2016 the Annual General Meeting approved the introduction of the Seop 4 long-term employee ownership program for employees of the Group. This is essentially an extension of the earlier Seop 3 employee ownership program that ran from 2014 to 2016. The terms and conditions are the same in all material respects as those of the earlier Seop 3 program.

The program is aimed at about 40,000 permanent employees of the Skanska Group, of whom some 2,000 are key employees and about 300 are executives, including the President and CEO and other senior executives.

The program offers employees, key employees and executives the opportunity – provided they have made their own investment in Series B Skanska shares during a given financial year – to receive Series B Skanska shares from Skanska free of charge. For each four Series B investment shares purchased, the employee will be entitled, after a three-year lock-up period, to receive one Series B Skanska share free of charge (“matching share”). In addition, after the lock-up period, the employee will be able to receive additional Series B Skanska shares free of charge contingent upon the fulfillment of certain earnings-based performance criteria during the purchase period (“performance shares”).

The purchase period covers the years 2017–2019 and the lock-up period runs for three years from the month in which the investment shares are acquired. For each four investment shares purchased, employees may, in addition to one matching share, receive a maximum of three performance shares. For each four investment shares, key employees may, in addition to one matching share, receive a maximum of seven performance shares. For each four investment shares, executives (split into three subcategories) may, in addition to one matching share, receive a maximum of 15, 19 or 23 performance shares. The maximum number of investment shares that each employee participating in the program may acquire, through monthly saving, depends on the employee’s salary and whether the employee is participating in the program as an employee, a key employee or an executive.

To qualify to receive matching and performance shares, a participant must be employed within the Group throughout the lock-up period and must have retained his or her investment shares during this lock-up period.

The program has two cost ceilings. The first ceiling depends on the extent to which financial Seop-specific outperform targets are met, which limits Skanska’s total cost per year to SEK 208–655 M, related to fulfillment of the financial Seop-specific outperform targets at the Group level. The first cost ceiling is adjusted in accordance with the Consumer Price Index, with 2016 as the base year for Seop 4. The other cost ceiling is that Skanska’s total cost per year may not exceed 15 percent of earnings before interest and taxes (EBIT) at the Group level. The actual cost ceiling will be the lower of these two cost ceilings. The cost for the outcomes of stock purchase programs from previous years is included in annually established performance targets. In addition to the cost ceilings, the number of shares that may be repurchased as part of the three-year program is also limited to 13,500,000 shares.

The table below shows Seop 4 target fulfillment in 2019 for each business stream.

In the Skanska Group, a total of 37 percent (34) of permanent employees participated in Seop 4 in 2019.

Excluding social insurance contributions, the cost of Seop 4 for investments in 2019 is preliminarily estimated at around SEK 791 M, of which SEK 174 M was expensed in 2017–2018 while this year’s cost is around SEK 208 M. The remaining cost of Seop 4 up to and including 2022 is estimated at about SEK 409 M.

The dilution effect through 2019 of Seop 4 for the 2019 program is estimated at 1,864,137 shares or 0.45 percent of the number of Series B Skanska shares outstanding. Maximum dilution for the program in 2019 is expected to be 4,462,294 shares or 1.07 percent.

The number of issued shares will not change; instead the matching and performance shares will be allocated from repurchased shares.

Share incentive program – Skanska employee ownership program, Seop 5 (2020–2022)

In 2019 the Annual General Meeting approved the introduction of the Seop 5 long-term employee ownership program for employees of the Group. This is essentially an extension of the earlier Seop 4 employee ownership program that ran from 2017 to 2019. The terms and conditions are the same in all material respects as those of the earlier Seop 4 program. Under the terms of Seop 5, however, executives cannot receive any matching shares. The maximum number of performance shares that may be allocated to the participants in each subcategory of executives has been increased to 16, 20 and 24 respectively for each four investment shares acquired.

Previous long-term share programs

Share incentive program – Skanska employee ownership program, Seop 3 (2014–2016)

Shares for the previous Skanska employee ownership program, which ran from 2014 to 2016, were distributed in 2019. These were shares that were earned in 2016, which, after a three-year lock-up period, were distributed to those who had been employed by the Group throughout the lock-up period and who had retained their investment shares during this lock-up period. Excluding social insurance contributions, the cost of Seop 3 is estimated to amount to SEK 835 M, of which SEK 797 M was expensed in 2014–2018, while the cost for 2019 amounts to around SEK 38 M.

Local incentive programs

Salaries and other remuneration are established taking into account conditions prevailing in the rest of the construction industry and customary practices in each local market. The Skanska Group applies a remuneration model for the relevant executives and managers that consists of a fixed annual salary plus variable remuneration based on financial targets reached.

Financial targets for the employee ownership program, Seop 4, 2019[1]

	Measure of earnings	Starting point	Outperform	Outcome	Percentage fulfilled[2]
Group	Earnings per share, SEK[3]	13.0	13.7	15.5	100%
Construction	Operating income, SEK bn	3.7	4.5	3.8	57%
Residential Development	Operating income, SEK bn	1.1	1.4	1.2	70%
	Return on capital employed, %[4]	7	11	12	100%
Commercial Property Development	Operating income, SEK bn	1.9	2.5	3.3	99%
	Leasing, thousands of sqm[5]	156	371	388	95%

1 For further information, see the table “Financial targets for variable salary components” in Note 37 on page 167.
2 Percentage fulfilled is based on the outcomes for the respective business units, which are weighed together. As the amount fulfilled per business unit cannot be less than 0 percent, negative earnings from the business units may affect the comparison with the business stream’s total earnings.
3 Profit for the period attributable to equity holders, divided by the average number of outstanding shares during the year.
4 Encompasses the Residential Development business units in Central Europe and BoKlok.
5 Encompasses the Commercial Property Development business units in the Nordic region, Europe and the USA.

Note 38. Fees and other remuneration to auditors

EY	2019	2018
Audit assignments	54	50
Audit work in addition to the audit assignment	2	3
Tax advisory services	3	2
Other services	1	3
Total	**60**	**58**

For the Parent Company, fees for audit assignments during the year amounted to SEK 6 M and audit work in addition to the audit assignment amounted to SEK 1 M.

"Audit assignments" refers to the statutory audit of the annual accounts and accounting documents as well as of the administration of the company by the Board of Directors and the President and CEO, and audit and other review work conducted according to agreements or contracts. This includes other tasks that are incumbent upon the company's auditors as well as advisory services or other assistance required as a result of observations made during such review work or the completion of such other tasks.

"Other services" refers to advisory services relating to accounting issues, advisory services concerning the divestment and acquisition of businesses and advisory services relating to processes and internal control.

Note 39. Related party disclosures

Joint ventures and associated companies are companies related to Skanska. Information on transactions with these is presented in the following tables.

Information on remuneration and transactions with senior executives is found in Note 36 and Note 37.

Transactions with joint ventures	2019	2018
Sales to joint ventures	7,275	8,249
Purchases from joint ventures	62	85
Dividends from joint ventures	648	1,463
Receivables from joint ventures	34	194

Transactions with associated companies	2019	2018
Receivables from associated companies	1	
Liabilities to associated companies	29	

L E Lundbergföretagen AB group has assigned Skanska to undertake five construction contracts for a total order backlog of SEK 0 M (51). Sales in 2019 amounted to SEK 65 M (245) and order bookings amounted to SEK 14 M (50).

Skanska's pension fund owns 0 (0) shares in Skanska directly. There is an insignificant percentage of indirectly owned shares via investments in various mutual funds.

In 2019, Skanska Trean Allmän Pensionsstiftelse acquired 50 percent of Skanska's Rv3 project for SEK 31 M. Skanska has received reimbursement from the pension funds and other services performed by Skanska were charged for.

Note 40. Leases

Leases are managed in accordance with IFRS 16 Leases, see Note 1.

When Skanska is a lessee, the lease assets are recognized as a right-of-use asset in the statement of financial position, while the future obligation to the lessor is recognized as a liability in the statement of financial position.

As a lessee Skanska has both both finance and operating leases.

Skanska is a lessee of a finance lease which is due to a sublease for external office space.

As an operating lessor, Skanska leases properties to tenants mainly within its Commercial Property Development business stream.

A. Skanska as a lessee

Right-of-use assets by asset class

	Dec 31, 2019	Dec 31, 2018
Buildings and land	120	–
Offices	3,596	–
Cars	405	–
Machinery	386	–
Other	109	–
Total property, plant and equipment, right-of-use assets[1]	**4,616**	**–**
Right-of-use assets, ground leases	3,980	–
Total right-of-use current assets[1]	**3,980**	**–**

1 Short-term leases and leasing of assets of low value are not included as these are expensed directly.

The cost of short-term leases amounts to SEK 560 M (–) and the cost of leasing assets of low value amounts to SEK 919 M (–).

For information on depreciation/amortization, see Note 12.

Impairment losses/reversals of impairment losses on right-of-use assets

In 2019 impairment losses/reversals of impairment losses were recognized in the net amount of SEK 10 M. Impairment losses/reversals of impairment losses have during the year been made in Poland.

Impairment losses/reversals of impairment losses were recognized as cost of sales.

Note 40. Continued

Impairment losses/reversals of impairment losses	Impairment losses		Reversals of impairment losses		Total	
	2019	2018	2019	2018	2019	2018
Buildings and land		–		–	0	–
Offices		–	10	–	10	–
Cars		–		–	0	–
Machinery		–		–	0	–
Other		–		–	0	–
Total property, plant and equipment, right-of-use assets	**0**	**–**	**10**	**–**	**10**	**–**
Right-of-use assets, ground leases		–		–	0	–
Total right-of-use current assets	**0**	**–**	**0**	**–**	**0**	**–**

Carrying amount

	Buildings and land		Offices		Cars		Machinery		Other right-of-use assets, non-current		Right-of-use assets, current	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
January 1	–	–	–	–	–	–	–	–	–	–	–	–
Changed accounting principle, Note 3	153	–	3,297	–	542	–	649	–	121	–	2,865	–
Adjusted amount at beginning of year	**153**	**–**	**3,297**	**–**	**542**	**–**	**649**	**–**	**121**	**–**	**2,865**	**–**
New leases	7	–	658	–	86	–	282	–	48	–	1,356	–
Remeasurement	7	–	–9	–	–39	–		–	–1	–	–65	–
Leases sold	–19	–	–115	–	–14	–	–397	–	–1	–	–257	–
Acquisitions of companies		–	281	–		–		–		–		–
Divestments		–		–		–		–		–		–
Depreciation	–19	–	–636	–	–185	–	–156	–	–60	–		–
Impairment losses		–		–		–		–		–		–
Reversals of impairment losses		–	10	–		–		–		–		–
Reclassifications	–12	–	4	–		–	–20	–		–		–
Exchange rate differences for the year	3	–	106	–	15	–	28	–	2	–	81	–
December 31	**120**	**–**	**3,596**	**–**	**405**	**–**	**386**	**–**	**109**	**–**	**3,980**	**–**

Lease liabilities

Lease liabilities amount to SEK 8,921 M (–) for a maturity analysis of the undiscounted liabilities, see Note 6.

For information on interest expense, see Note 14.

The cost of variable lease payments that are not included in the measurement of the lease liability amount to SEK 0 M (–).

For total lease payment cash flow, see the consolidated cash flow statement.

Future cash flows not reflected in lease liabilities amount to SEK 778 M (–). These relate to options to extend and cancel, and to leases that have not yet started but that Skanska has committed to.

Other

Revenue from subleasing of right-of-use assets consists mainly of leasing of offices and amounts to SEK 9 M (–).

Profit in connection with sale and leaseback transactions after eliminations amounts to SEK 23 M (–).

Skanska UK has sold the property 51 Moorgate to one of Deka Immobilien's property funds and Skanska is leasing back offices for 15 years starting in July 2019.

The effect on cash flow of the sale and leaseback transaction amounts to SEK 686 M.

There are no leases containing special restrictions or special terms and conditions.

Note 40. Continued

B. Skanska as lessor

Finance leases

Skanska Poland has an external lease that is subleased and recognized as a financial receivable of SEK 12 M.

Operating leases

Operating leases in the form of property leases are mainly entered into by the Commercial Property Development business stream. These properties are recognized as current assets in the statement of financial position. See Note 22.

Lease income for Commercial Property Development in 2019 amounted to SEK 684 M (494).

The Group's variable lease income for operating leases for the year amounts to SEK 18 M (161), which is not dependent on an index or an interest rate.

The due dates of future undiscounted payments relating to operating leases break down as follows:

Income, due	2019	2018
Within one year	525	349
Later than one year but within five years	4,834	3,314
Later than five years	7,593	6,817
Total	**12,952**	**10,480**

Note 41. Events after the reporting period

There were no events after the end of the reporting period.

Note 42. Five-year Group financial summary

Income statements, in accordance with IFRS

	2019	2018	2017	2016	2015
Revenue	172,846	171,730	157,877	145,365	153,049
Cost of sales	–156,540	–157,465	–145,103	–131,119	–139,160
Gross income	**16,306**	**14,265**	**12,774**	**14,246**	**13,889**
Selling and administrative expenses	–9,469	–9,473	–9,851	–9,152	–8,869
Income from joint ventures and associated companies	591	855	1,655	2,126	1,270
Operating income	**7,428**	**5,647**	**4,578**	**7,220**	**6,290**
Financial items	–88	39	45	–119	–314
Income after financial items	7,340	**5,686**	**4,623**	**7,101**	**5,976**
Taxes	–1,286	–1,092	–512	–1,366	–1,185
Profit for the year	**6,054**	**4,594**	**4,111**	**5,735**	**4,791**
Profit for the year attributable to					
Equity holders	6,031	4,571	4,095	5,722	4,780
Non-controlling interests	23	23	16	13	11
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurement of defined-benefit pension plans	–895	–478	–399	–1,127	785
Tax on items that will not be reclassified to profit or loss for the period	166	59	69	189	–175
	–729	**–419**	**–330**	**–938**	**610**
Items that have been or will be reclassified to profit or loss for the period					
Translation differences attributable to equity holders	672	1,299	–599	1,165	71
Translation differences attributable to non-controlling interests	3	3	8	8	–3
Hedging of exchange rate risk in foreign operations	4	–183	–125	36	–21
Effect of cash flow hedges	31	–30	138	31	54
Share of other comprehensive income of joint ventures and associated companies	–41	272	83	855	281
Tax related to items that have been or will be reclassified to profit for the period	–10	7	–25	–4	–15
	659	**1,368**	**–520**	**2,091**	**367**
Other comprehensive income after tax	**–70**	**949**	**–850**	**1,153**	**977**
Comprehensive income for the year	**5,984**	**5,543**	**3,261**	**6,888**	**5,768**
Comprehensive income for the year attributable to					
Equity holders	5,958	5,517	3,237	6,867	5,760
Non-controlling interests	26	26	24	21	8
Cash flow					
Cash flow from operating activities	6,038	9,454	2,846	–883	8,584
Cash flow from investing activities	–1,214	–2,367	1,590	–1,593	–1,385
Cash flow from financing activities	–6,898	–3,509	–2,817	–4,090	–4,544
Cash flow for the year	**–2,074**	**3,578**	**1,619**	**–6,566**	**2,655**

Note 42. Continued

Income statement, in accordance with Segment Reporting

	2019	2018	2017	2016	2015
Revenue					
Construction	159,579	157,894	150,050	138,001	140,648
Residential Development	12,483	10,739	13,237	13,264	12,298
Commercial Property Development	17,850	16,271	11,440	10,226	9,034
Central and eliminations	–13,130	–14,410	–13,904	–10,184	–7,045
Group	**176,782**	**170,494**	**160,823**	**151,307**	**154,935**
Operating income					
Construction	3,772	1,099	1,205	3,546	3,874
Residential Development	1,195	1,505	1,716	1,605	1,174
Commercial Property Development	3,287	3,069	2,714	2,336	1,947
Central	–388	–780	–19	678	–483
Eliminations	–38	–66	–112	34	–51
Operating income	**7,828**	**4,827**	**5,504**	**8,199**	**6,461**
Financial items	–103	36	45	–118	–313
Income after financial items	**7,725**	**4,863**	**5,549**	**8,081**	**6,148**
Taxes	–1,353	–934	–615	–1,555	–1,219
Profit for the year	**6,372**	**3,929**	**4,934**	**6,526**	**4,929**
Earnings per share, segment, SEK	15.46	9.55	12.01	15.89	11.96
Earnings per share after dilution, segment, SEK	15.39	9.49	11.94	15.80	11.87

Not 42. Continued

Statements of financial position

	Dec 31, 2019	Restated Jan 1, 2019[4]	Dec 31, 2018	Restated Jan 1, 2018[5]	Restated Dec 31, 2017	Restated Jan 1, 2017[6]	Dec 31, 2016	Dec 31, 2015
ASSETS								
Non-current assets								
Property, plant and equipment	7,742	7,363	7,645	6,874	6,874	6,837	6,837	6,504
Property, plant and equipment right-of-use assets	4,616	4,762						
Goodwill	4,057	4,324	4,324	4,554	4,554	5,270	5,270	5,256
Intangible assets	865	975	975	962	962	1,034	1,034	754
Investments in joint ventures and associated companies	3,442	3,288	3,288	3,314	3,314	4,160	4,160	2,852
Non-current financial assets[1,3]	2,528	2,345	2,345	2,276	2,276	1,016	1,016	1,357
Deferred tax assets	1,862	1,948	1,933	1,797	1,757	1,649	1,649	1,384
Total non-current assets	**25,112**	**25,005**	**20,510**	**19,777**	**19,737**	**19,966**	**19,966**	**18,107**
Current assets								
Current-asset properties[2]	46,373	42,391	42,391	39,010	39,010	33,678	33,678	27,020
Current-asset properties right-of-use assets	3,980	2,865						
Inventories	1,128	1,256	1,256	1,058	1,058	1,042	1,042	944
Current financial assets[3]	6,899	7,135	7,117	6,641	6,671	10,095	10,095	7,496
Tax assets	670	396	396	1,188	1,188	784	784	691
Contract assets	5,898	6,661	6,661	6,997	6,997	5,751	5,751	5,692
Other operating receivables	27,213	27,194	27,243	27,628	27,778	29,759	29,759	25,877
Cash and bank balances	8,745	10,722	10,722	6,998	6,998	5,430	5,430	11,840
Total current assets	**100,906**	**98,620**	**95,786**	**89,520**	**89,700**	**86,539**	**86,539**	**79,560**
TOTAL ASSETS	**126,018**	**123,625**	**116,296**	**109,297**	**109,437**	**106,505**	**106,505**	**97,667**
of which interest-bearing	18,000	20,089	20,071	15,770	20,071	16,318	16,318	20,511
EQUITY								
Equity attributable to equity holders	32,924	29,183	29,250	26,924	27,064	27,350	27,350	24,079
Non-controlling interests	97	97	97	121	121	156	156	127
Total equity	**33,021**	**29,280**	**29,347**	**27,045**	**27,185**	**27,506**	**27,506**	**24,206**

Not 42. Continued

Statements of financial position cont.

	Dec 31, 2019	Restated Jan 1, 2019[4]	Dec 31, 2018	Restated Jan 1, 2018[5]	Restated Dec 31, 2017	Restated Jan 1, 2017[6]	Dec 31, 2016	Dec 31, 2015
LIABILITIES								
Non-current liabilities								
Non-current financial liabilities[3]	2,565	3,632	3,912	3,857	3,857	3,656	3,656	3,874
Lease liabilities	7,843	6,953						
Pensions	6,866	5,669	5,669	5,603	5,603	4,901	4,901	3,969
Deferred tax liabilities	1,045	711	711	1,235	1,235	1,491	1,491	1,286
Non-current provisions						1	1	
Total non-current liabilities	**18,319**	**16,965**	**10,292**	**10,695**	**10,695**	**10,049**	**10,049**	**9,129**
Current liabilities								
Current financial liabilities[3]	4,617	7,308	7,310	7,624	7,624	6,681	6,681	6,555
Lease liabilities	1,078	816						
Tax liabilities	564	615	615	312	312	489	489	560
Current provisions	10,021	9,922	9,922	9,131	9,131	7,614	7,227	6,432
Contract liabilities	20,419	20,738	20,738	16,266	16,266	18,322	18,473	15,821
Other operating liabilities	37,979	37,981	38,072	38,224	38,224	35,844	36,080	34,964
Total current liabilities	**74,678**	**77,380**	**76,657**	**71,557**	**71,557**	**68,950**	**68,950**	**64,332**
TOTAL EQUITY AND LIABILITIES	**126,018**	**123,625**	**116,296**	**109,297**	**109,437**	**106,505**	**106,505**	**97,667**
of which interest-bearing	22,917	24,327	16,840	16,926	16,296	15,099	15,099	14,194
1 Of which shares	44	41	41	42	42	44	44	61
2 Current-asset properties								
Commercial Property Development	29,708	25,829	25,829	23,615	23,615	19,728	19,728	16,650
Residential Development	16,665	16,562	16,562	15,395	15,395	13,950	13,950	10,370
	46,373	42,391	42,391	39,010	39,010	33,678	33,678	27,020
3 Items related to non-interest-bearing unrealized changes in the value of derivatives/securities are included as follows:								
Non-current financial assets	1	2	2	6	6	2	2	1
Current financial assets	127	70	70	97	97	177	177	120
Non-current financial liabilities	2	3	3	21	21	116	116	173
Current financial liabilities	50	48	48	137	137	49	49	72

4 Restated due to implementation of IFRS 16. For effects of changes in accounting principles, see Note 3.
5 Restated due to implementation of IFRS 9. For effects of changes in accounting principles, see Note 3.
6 Restated due to implementation of IFRS 15. For effects of changes in accounting principles, see Note 3.

Note 42. Continued

Financial ratios[7]

	Dec 31, 2019	Restated Jan 1, 2019[4]	Dec 31, 2018	Restated Jan 1, 2018[5]	Restated Dec 31, 2017	Restated Jan 1, 2017[6]	Dec 31, 2016	Dec 31, 2015
Order bookings[8]	145,818		151,719		151,811		170,244	122,104
Order backlog[8]	185,370		192,042		188,411		196,254	158,248
Average number of employees	34,756		38,650		40,759		42,903	48,470
Regular dividend per share, SEK[9]	6.25		6.00		8.25		8.25	7.50
Earnings per share, SEK	14.68	11.17	11.17	10.00	10.00	13.96	13.96	11.63
Earnings per share after dilution, SEK	14.62	11.11	11.11	9.94	9.94	13.88	13.88	11.53
Capital employed	55,938	53,607	46,187	43,971	44,111		42,605	38,400
Interest-bearing net receivables/net liabilities	–4,917	–4,238	3,231	–1,156	–1,126		1,219	6,317
Equity per share, SEK	80.01		71.40		66.22		66.82	58.58
Equity/assets ratio, %	26.2	23.7	25.2		24.8		25.8	24.8
Debt/equity ratio	0.1	0.1	–0.1		0.0		0.0	–0.3
Interest cover	100.6		–245.8		288		88.7	57.9
Return on equity, %	20.3	16.5	16.4		15.5		24.9	21.9
Return on capital employed, %	14.3	12.7	13.0		11.1		19.2	17.4
Return on equity, segments, %	21.4	14.1	14.1		18.6		28.3	22.5
Return on capital employed in project development units, segments, %	10.3	11.9	12.0		13.6		14.8	12.8
Operating margin, %	4.3		3.3		2.9		5.0	4.1
Operating margin, Construction, %	2.4		0.7		0.8		2.6	2.8
Cash flow per share, SEK	3.26		9.51		–2.44		–10.16	11.90
Number of shares at year-end	419,903,072		419,903,072		419,903,072		419,903,072	419,903,072
of which Series A shares	19,704,715		19,725,759		19,755,414		19,793,202	19,859,200
of which Series B shares	400,198,357		400,177,313		400,147,658		400,109,870	400,043,872
Average price, repurchased shares	137.54		137.54		137.31		132.18	121.02
Number of Series B shares repurchased during the year	0		435,000		2,350,000		4,345,000	2,340,000
Number of Series B treasury shares, December 31	8,394,479		10,224,634		11,190,028		10,594,644	8,866,223
Number of shares outstanding, December 31	411,508,593		409,678,438		408,713,044		409,308,428	411,036,849
Average number of shares outstanding	410,720,937		409,130,770		409,447,407		409,896,419	411,059,056
Average number of shares outstanding after dilution	412,585,074		411,415,278		411,905,245		412,174,095	414,445,854
Average dilution, %	0.45		0.56		0.60		0.55	0.82

4 Restated due to implementation of IFRS 16. For effects of changes in accounting principles, see Note 3.
5 Restated due to implementation of IFRS 9. For effects of changes in accounting principles, see Note 3.
6 Restated due to implementation of IFRS 15. For effects of changes in accounting principles, see Note 3.
7 For definitions, see Note 43.
8 Refers to Construction.
9 Proposed by the Board of Directors: Regular dividend of SEK 6.25 per share.

Note 43. Definitions

Return on equity

Profit attributable to equity holders as a percentage of average visible equity attributable to equity holders.

Return on equity segment, SEK M

Profit attributable to equity holders as a percentage of average equity attributable to equity holders.
6,349 / 29,675 = 21,4%

Consolidated return on capital employed

Operating income plus financial income as a percentage of average capital employed.

Return on capital employed, business streams, markets and business/reporting units

Operating income, financial income minus interest income from Skanska's treasury unit (internal bank) and other financial items as a percentage of average capital employed. For the Residential Development and Commercial Property Development segments, capitalized interest expense is removed from operating income so that the return reflects the return before mortgages.

Return on capital employed in Residential Development segment, SEK M

Operating income	1,195
+ capitalized interest expense	82
+/– financial income and other financial items	11
– interest income from internal bank	–7
Adjusted profit	1,281
Average capital employed[1]	13,117
Average capital employed in Residential Development	9,8%

1) Average capital employed

Q4 2019	12,954	x 0.5	6,477	
Q3 2019	13,444		13,444	
Q2 2019	12,854		12,854	
Q1 2019	12,873		12,873	
Q4 2018	13,636	x 0.5	6,818	
			52,466 / 4	**13,117**

Return on capital employed in Commercial Property Development segment, SEK M

Operating income	3,287
+ capitalized interest expense	232
+/– financial income and other financial items	3
– interest income from internal bank	–1
Adjusted profit	3,521
Average capital employed[1]	33,689
Return on capital employed in Commercial Property Development	10.5%

1) Average capital employed

Q4 2019	34,495	x 0.5	17,248	
Q3 2019	36,744		36,744	
Q2 2019	34,600		34,600	
Q1 2019	32,828		32,828	
Q4 2018	26,672	x 0.5	13,336	
			134,756 / 4	**33 689**

Return on capital employed in the project development units segment, SEK M

Calculated as the sum of the adjusted profit in Residential Development and Commercial Property Development divided by the aggregate amount of capital employed, average, for Residential Development and Commercial Property Development.

The total return on capital employed in Residential Development and Commercial Property Development

	Adjusted profit	Capital employed, average	Return on capital employed
Residential Development	1,281	13,117	9.8%
Commercial Property Development	3,521	33,689	10.5%
	4,802	**46,806**	**10.3%**

Note 43. Continued

Gross income	Revenue minus cost of sales.
Gross margin	Gross income as a percentage of revenue.
Equity per share	Visible equity attributable to equity holders divided by the number of shares outstanding at year-end.
Net financial items	The net of interest income, financial net pension cost, interest expense, capitalized interest expense, change in fair value and other financial items.
Free working capital	Non-interest-bearing receivables less non-interest-bearing liabilities excluding taxes.

Average free working capital in Construction SEK M

Calculated on the basis of five measurement points.

Q4 2019	–26,401	x,0.5	–13,201	
Q3 2019	–24,371		–24,371	
Q2 2019	–24,332		–24,332	
Q1 2019	–25,526		–25,526	
Q4 2018	–25,641	x,0.5	–12,821	
			–100,251 / 4	**–25 063**

Selling and administrative expenses, %

Selling and administrative expenses as a percentage of revenue.

Equity average attributable to equity holders, SEK M

Calculated on the basis of five measurement points.

Q4 2019	32,924	x,0.5	16,462	
Q3 2019	30,204		30,204	
Q2 2019	29,474		29,474	
Q1 2019	27,935		27,935	
Q4 2018	29,250	x,0.5	14,625	
			118,700 / 4	**29 675**

Revenue, segments

Revenue, segments is the same as revenue IFRS in all streams except for Residential Development and Commercial Property Development, where revenue is recognized when signing a binding agreement for the sale of homes and properties. As segment reporting of joint ventures in Residential Development applies the proportional method, revenue, segment is affected by this.

Adjusted equity attributable to equity holders, SEK bn

Equity attributable to equity holders	32.9
Unrealized surplus value in land, Residential Development	3.2
Unrealized development gains, Commercial Property Development	9.8
Effect on unrealized equity in PPP portfolio	1.6
Less standard corporate tax, 10%	–1.4
Adjusted equity	**46.1**

Cash flow per share	Cash flow before change in interest-bearing receivables and liabilities divided by the average number of shares outstanding.
Net divestments/investments	Total investments minus total divestments.
Cash flow from operations	Cash flow from operating activities including taxes paid and cash flow from financing activities. See also Note 35.

Order bookings

Contracting assignments: Upon written order confirmation or signed contract, where financing has been arranged and construction is expected to begin within 12 months. If a previously received order is canceled in a subsequent quarter, the cancellation is recognized as a negative item when reporting order bookings for the quarter when the cancellation occurs.Reported order bookings also include orders from Residential Development and Commercial Property Development, which assumes that a building permit has been obtained and construction is expected to begin within three months.

Services: For fixed-price assignments, upon signing of contract. For cost-plus assignments, order bookings coincide with revenue. For service agreements, a maximum of 24 months of future revenue is included.

No order bookings are reported in Residential Development and Commercial Property Development.

Note 43. Continued

Order bookings in relation to revenue in Construction, rolling 12-month basis	Order bookings as a percentage of Construction revenue, rolling 12-month basis.
Unrealized development gains, Commercial Property Development	Market value minus investment value upon completion for ongoing projects, completed projects, and undeveloped land and development properties. Excluding projects sold according to segment reporting.
Order backlog	Contracting assignments: The difference between order bookings for the period and accrued revenue (accrued project costs plus accrued project income adjusted for loss provisions) plus order backlog at the beginning of the period. Services: The difference between order bookings and accrued revenue plus order backlog at the beginning of the period.
Income after financial items	Operating income minus net financial items.
Earnings per share, segments	Profit for the period, segments, attributable to equity holders divided by the average number of shares outstanding.
Earnings per share	Profit for the period attributable to equity holders divided by the average number of shares outstanding.
Earnings per share after dilution	Profit for the year attributable to equity holders divided by the average number of shares outstanding after dilution.
Interest-bearing net receivables/net liabilities	Interest-bearing assets minus interest-bearing liabilities.
Interest-bearing net receivables/net liabilities, adjusted	Interest-bearing net receivables/liabilities excluding cash and cash equivalents with restrictions, lease liabilities and interest-bearing net pension liabilities.
Interest cover	Operating income and financial income plus depreciation/amortization divided by net interest items.
Operating income	Revenue minus cost of sales, selling and administrative expenses and income from joint ventures and associated companies.
Operating income, segments	Revenue minus cost of sales, selling and administrative expenses and income from joint ventures and associated companies, according to segment reporting and where Residential Development uses the proportional method for joint ventures.
Operating income, rolling 12-month basis	Revenue minus cost of sales, selling and administrative expenses and income from joint ventures and associated companies, rolling 12-month basis.
Operating margin	Operating income as a percentage of revenue.
Net debt/equity ratio	Interest-bearing net liabilities divided by equity including non-controlling interests.
Equity/assets ratio	Equity including non-controlling interests as a percentage of total assets.
Capital employed, average	Calculated on the basis of five measurement points, see Return on capital employed.
Capital employed, consolidated	Total assets minus non-interest-bearing liabilities.
Capital employed, markets, business streams and business/reporting units	Total assets less tax assets, deposits in Skanska's internal bank and pension receivables minus non-interest-bearing liabilities excluding tax liabilities. Capitalized interest expense is also deducted from total assets for the Residential Development and Commercial Property Development segments.

Note 43. Continued

Capital employed Residential Development, SEK M

Total assets	20,929
– tax assets	–286
– deposits in internal bank	–549
– pension receivables	–29
– non-interest-bearing liabilities (excluding tax liabilities)	–7,030
– capitalized interest expense	–81
	12,954

Capital employed Commercial Property Development, SEK M

Total assets	38,747
– tax assets	–445
– deposits in internal bank	–19
– pension receivables	
– non-interest-bearing liabilities (excluding tax liabilities)	–3,452
– capitalized interest expense	–336
	34,495

Comprehensive income

Change in equity not attributable to transactions with owners.

Other comprehensive income

Comprehensive income minus profit according to the income statement. The item includes translation differences, hedging of exchange-rate risk in foreign operations, remeasurements of defined-benefit pension plans, effects of cash flow hedges and tax attributable to other comprehensive income.

Parent Company's notes including accounting and valuation principles

Note 44. Financial instruments, Parent Company

Financial instruments are presented in accordance with IFRS 7 Financial Instruments: Disclosures. This note contains figures for the Parent Company's financial instruments. See also the notes to the consolidated financial statements: Note 1, Note 6 and financial risk management.

Financial instruments in the balance sheet	Dec 31, 2019	Dec 31, 2018
Assets		
Non-current receivables in Group companies	318	301
Current receivables in Group companies	28	12
Total financial instruments, assets	**346**	**313**
Liabilities		
Non-current liabilities to Group companies	2,816	3,500
Trade accounts payable and current liabilities to Group companies	42	44
Total financial instruments, liabilities	**2,858**	**3,544**

The fair value of the Parent Company's financial instruments does not deviate significantly in any case from the carrying amount. All assets belong to the category "At amortized cost". No assets have been carried at fair value through profit or loss. All financial liabilities belong to the category "Carried at amortized cost".

Reconciliation with the balance sheet	Dec 31, 2019	Dec 31, 2018
Assets		
Financial instruments	346	313
Other assets		
Property, plant and equipment and intangible assets	11	14
Holdings in Group companies, joint ventures and other securities	11,321	11,286
Other non-current receivables	107	107
Tax assets	72	88
Other current receivables and accrued receivables	121	123
Total assets	**11,978**	**11,931**
Equity and liabilities		
Financial instruments	2,858	3,544
Other liabilities		
Equity	8,788	7,996
Provisions	254	315
Other current liabilities and accrued liabilities	78	76
Total equity and liabilities	**11,978**	**11,931**

Impact of financial instruments on the Parent Company income statement

Financial income and expenses recognized in financial items	2019	2018
Interest expense on financial liabilities carried at amortized cost	–33	–51
Total	**–33**	**–51**

The Parent Company has no income or expense from financial instruments that is recognized directly in equity.

Risks attributable to financial instruments

The Parent Company holds financial instruments almost exclusively in the form of intra-Group receivables and liabilities. All external management of lending, borrowing, interest and currencies is handled by the Group's treasury unit (internal bank), the subsidiary Skanska Financial Services AB. See also Note 6 to the consolidated financial statements.

Credit risk

The carrying amount of financial instruments, assets, corresponds to the maximum credit exposure on the closing day.

There were no impairment losses on financial instruments as of the closing day. There is no provision for expected future credit losses according to IFRS 9 as the Parent Company's trade accounts receivable – with only one small exception – are Group company receivables over which Skanska AB exercises control. The credit risk is therefore minimal.

Note 45. Revenue, Parent Company

The Parent Company's revenue consists mainly of amounts billed to Group companies.

The amount includes SEK 726 M (736) in sales to subsidiaries. For other transactions with related parties, see Note 62.

Note 46. Financial items, Parent Company

	Earnings from holdings in Group companies	Interest expense and similar items	Total
2019			
Dividend	2,896		2,896
Interest expense		–33	–33
Total	**2,896**	**–33**	**2,863**
2018			
Dividend	3,982		3,982
Interest expense		–51	–51
Total	**3,982**	**–51**	**3,931**

Dividends

The amount for dividends consists of dividends as decided by the Annual General Meeting, amounting to SEK 3,000 M (4,000), less SEK –104 M (–18) in Group contributions paid.

Net interest items

Of interest expense, SEK –33 M (–51) relates to Group companies.

Note 47. Income taxes, Parent Company

	2019	2018
Current taxes	–11	
Tax due to changed taxation		
Deferred tax expenses/income from change in temporary differences	–10	–3
Total	**–21**	**–3**

The Swedish tax rate of 21.4 percent in relation to taxes recognized is explained in the table below.

	Dec 31, 2019	Dec 31, 2018
Income after financial items	3,059	3,973
Tax at tax rate of 21.4 percent (22.0)	–655	–874
Tax effect of:		
Dividends from subsidiaries	642	880
Effect of changed corporate tax rate in Sweden on deferred tax assets		–4
Non-deductible expenses	–8	–5
Recognized tax expense/income	**–21**	**–3**

Non-deductible expenses refers mainly to employee-related costs and costs for the Group's foreign operations.

Deferred tax assets	2019	2018
Deferred tax assets for employee-related provisions	64	74
Total	**64**	**74**

Change in deferred taxes in balance sheet	2019	2018
Deferred tax assets, January 1	74	77
Deferred tax expense/income	–10	–3
Deferred tax assets, December 31	**64**	**74**

The Parent Company expects to be able to utilize deferred tax assets to offset Group contributions from Swedish operating subsidiaries.

Note 48. Intangible assets, Parent Company

Intangible assets are recognized in accordance with IAS 38 Intangible Assets. See Note 1. Amortization of intangible assets for the year according to plan amounts to SEK –2 M (–3) and is included in selling and administrative expenses. In determining the amortization amount, the Parent Company has paid particular attention to estimated residual value at the end of useful life.

	Intangible assets	
	2019	2018
Accumulated cost		
January 1	27	27
	27	**27**
Accumulated amortization according to plan		
January 1	–14	–11
Amortization for the year	–2	–3
	–16	**–14**
Accumulated impairment losses		
January 1		0
	0	**0**
Carrying amount, December 31	**11**	**13**
Carrying amount, January 1	13	16

Note 49. Property, plant and equipment, Parent Company

Property, plant and equipment are reported in accordance with IAS 16 Property, Plant and Equipment. See Note 1. Machinery and equipment owned by the Parent Company are recognized as property, plant and equipment.

Depreciation on property, plant and equipment for the year according to plan amounts to SEK –1 M (–1).

	Plant and equipment	
	2019	2018
Accumulated cost		
January 1	7	7
	7	**7**
Accumulated amortization according to plan		
January 1	–6	–5
Amortization for the year	–1	–1
	–7	**–6**
Carrying amount, December 31	**0**	**1**
Carrying amount, January 1	1	2

Note 50. Non-current financial assets, Parent Company

Holdings and receivables are reported as non-current financial assets. Holdings are allocated between holdings in Group companies and joint arrangements. See Note 51 and Note 52. Receivables are allocated between receivables in Group companies, deferred tax assets and other non-current receivables. Tax assets are described in Note 47 Income taxes. All receivables except deferred tax assets are interest-bearing.

	Holdings in Group companies		Holdings in joint arrangements		Other non-current holdings of securities	
Holdings	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Accumulated cost						
January 1	11,283	11,206	3	2	0	0
Share-based payments to employees of subsidiaries[1]	35	77				
Share of income				1		
	11,318	**11,283**	**3**	**3**	**0**	**0**
Accumulated impairment losses						
January 1	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**
Carrying amount, December 31	**11,318**	**11,283**	**3**	**3**	**0**	**0**
Carrying amount, January 1	11,283	11,206	3	2	0	0

1 Equivalent to the portion of the Group's cost for Seop 3 and Seop 4 related to employees of subsidiaries and recognized in the Parent Company accounts as an increase in the carrying amount of holdings in Group companies and an increase in equity.If a decision is later made requiring a subsidiary to compensate the Parent Company for the value of the shares issued, receivables are transferred to the Group company. The amount for 2019 was thus reduced by SEK 199 M (160).

	Receivables from Group companies		Other non-current receivables and deferred tax assets	
Receivables	**2019**	**2018**	**2019**	**2018**
Accumulated cost				
January 1	301	247	182	184
Receivables added/settled	17	54	–11	–2
	318	**301**	**171**	**182**
Carrying amount, December 31	**318**	**301**	**171**	**182**
Carrying amount, January 1	301	247	182	184

Note 51. Holdings in Group companies, Parent Company

Skanska AB owns shares in two subsidiaries. The subsidiary Skanska Kraft AB is a holding company that owns the Group's shareholdings in Skanska Group operating companies. Skanska Financial Services AB is the Group's treasury unit (internal bank).

	Corp. ID No.	Registered office	No. of shares	Carrying amount	
Company				**Dec 31, 2019**	**Dec 31, 2018**
Swedish subsidiaries					
Skanska Financial Services AB	556106-3834	Stockholm	500,000	66	67
Skanska Kraft AB	556118-0943	Stockholm	4,000,000	11,252	11,216
Total				**11,318**	**11,283**

Both subsidiaries are 100-percent owned by the Parent Company.

Note 52. Holdings in joint arrangements, Parent Company

Holdings in joint arrangements are reported in accordance with IFRS 11 Joint Arrangements. See Note 1.

Company	Corp. ID No.	Registered office	Percentage of capital and votes	Carrying amount Dec 31, 2019	Carrying amount Dec 31, 2018
Swedish joint arrangements					
Sundlink Contractors HB	969620-7134	Malmö, Sweden	37	3	3
Total				**3**	**3**

The company has no operations other than fulfilling guarantee undertakings.

Note 53. Prepaid expenses and accrued income, Parent Company

The Parent Company has prepaid expenses and accrued income of SEK 14 M (7). This amount consists of SEK 1 M (1) in prepaid insurance premiums and SEK 13 M (6) in other accrued receivables.

Note 54. Equity, Parent Company

Restricted and unrestricted equity

According to Swedish law, equity must be allocated between restricted and unrestricted equity. Share capital and the statutory reserve constitute restricted equity.

Unrestricted equity consists of retained earnings and profit for the year.

The equity of the Parent Company was allocated among SEK 1,260 M (1,260) in share capital, SEK 598 M (598) in the statutory reserve, SEK 3,892 M (2,168) in retained earnings and SEK 3,038 M (3,970) in profit for the year.

The Board of Directors proposes a dividend for 2020 of SEK 6.25 (6.00) per share for the 2019 financial year.

The dividend for the year is expected to amount to SEK 2,572 M (2,462).

No dividend is paid for the Parent Company's holding of Series B shares. The total dividend amount may change by the record date, depending on share repurchase transactions and the transfer of Series B shares to participants in Skanska employee ownership programs.

Number of shares	2019	2018
Average number of shares outstanding		
after share repurchase transactions and conversion	410,720,937	409,130,770
after share repurchase transactions, conversion and dilution	412,585,074	411,415,278
Total number of shares	**419,903,072**	**419,903,072**

The number of shares amounted to 419,903,072 (419,903,072), divided into 19,704,715 (19,725,759) Series A shares and 400,198,357 (400,177,313) Series B shares.

During the year 21,044 (29,655) Series A shares were converted into the same number of Series B shares.

A total of 0 (435,000) Series B shares were repurchased. After distribution of 1,830,155 (1,400,394) shares, there were 8,394,479 (10,224,634) Series B treasury shares remaining.

The quota value per share amounts to SEK 3.00 (3.00). All shares are fully paid up. Each Series A share carries 10 votes and each Series B share carries one vote. Series B shares are listed on Nasdaq Stockholm.

According to the Articles of Association, Skanska's share capital may not fall below SEK 1,200 M nor exceed SEK 4,800 M.

Note 55. Provisions, Parent Company

Provisions are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. See Note 1.

	Provisions for pensions and similar obligations		Other provisions	
	2019	2018	2019	2018
January 1	176	174	139	133
Provisions for the year	10	15	63	102
Provisions utilized	–13	–13	–121	–96
December 31	**173**	**176**	**81**	**139**

"Other provisions" consists of employee-related provisions.
The normal cycle time for "Other provisions" is about one to three years.
Employee-related provisions includes such items as social insurance contributions for share investment programs, bonus programs and other obligations to employees.

Note 56. Provisions for pensions and similar obligations, Parent Company

Provisions for pensions and similar obligations are reported in compliance with the Pension Obligations Vesting Act.

Pension liabilities according to the balance sheet

	Dec 31, 2019	Dec 31, 2018
Interest-bearing pension liabilities[1]	117	118
Other pension obligations	56	58
Total	**173**	**176**

1 Liabilities in compliance with the Pension Obligations Vesting Act.

	Dec 31, 2019	Dec 31, 2018
The company's total pension obligations	856	888
Less pension obligations secured through pension funds	–683	–712
Provisions for pensions and similar obligations[1]	**173**	**176**

1 Of which SEK 10 M (11) is secured through credit insurance. Other pension obligations are largely secured through pledged endowment policies.

Of the company's total pension obligations SEK 613 M (638) is for ITP plans No payments to pensions funds are expected to be made in 2020.

Reconciliation, provisions for pensions

	2019	2018
January 1	118	119
Pension expenses	15	23
Benefits paid	–16	–24
Provisions for pensions according to the balance sheet	**117**	**118**

Note 57. Liabilities, Parent Company

Liabilities are allocated between non-current and current liabilities in accordance with IAS 1 Presentation of Financial Statements. See Note 1.

Accrued expenses and prepaid income

The Parent Company has accrued expenses and prepaid income of SEK 73 M (70). This relates to accrued vacation pay of SEK 23 M (26), accrued special payroll tax on pensions of SEK 25 M (22), accrued social insurance contributions of SEK 8 M (9) and other accrued expenses of SEK 17 M (13).

Note 58. Expected recovery period of assets, provisions and liabilities, Parent Company

	Dec 31, 2019				Dec 31, 2018			
Amounts expected to be recovered	**Within 12 months**	**After 12 months**	**After five years (liabilities)**	**Total**	**Within 12 months**	**After 12 months**	**After five years (liabilities)**	**Total**
Intangible non-current assets[1]	**3**	**8**		**11**	**3**	**10**		**13**
Property, plant and equipment[1]				**0**		**1**		**1**
Non-current financial assets		**11,321**		**11,321**				
Holdings in Group companies and joint arrangements[2]		318		318		11,286		11,286
Receivables in Group companies[3]		107		107		301		301
Other non-current receivables		64		64		107		107
Deferred tax assets						74		74
		11,810	**0**	**11,810**	**0**	**11,768**	**0**	**11,768**
Current receivables								
Current receivables in Group companies	28			28	12			12
Tax assets	8			8	14			14
Other current receivables	107			107	116			116
Prepaid expenses and accrued income	14			14	7			7
	157	**0**	**0**	**157**	**149**	**0**	**0**	**149**
Total assets	**160**	**11,818**	**0**	**11,978**	**152**	**11,779**	**0**	**11,931**

	Dec 31, 2019				Dec 31, 2018			
Amounts expected to be paid	**Within 12 months**	**After 12 months**	**After five years (liabilities)**	**Total**	**Within 12 months**	**After 12 months**	**After five years (liabilities)**	**Total**
Provisions								
Provisions for pensions and similar obligations	13	160		173	13	163		176
Other provisions	64	17		81	117	22		139
	77	**177**	**0**	**254**	**130**	**185**	**0**	**315**
Liabilities								
Non-current liabilities								
Liabilities to Group companies[4]			2,816	2,816			3,500	3,500
	0	**0**	**2,816**	**2,816**	**0**	**0**	**3,500**	**3,500**
Current liabilities								
Trade accounts payable	21			21	18			18
Liabilities to Group companies	21			21	26			26
Tax liabilities	0			0				0
Other liabilities	5			5	6			6
Accrued expenses and prepaid income	73			73	70			70
	120	**0**	**0**	**120**	**120**	**0**	**0**	**120**
Total liabilities and provisions	**197**	**177**	**2,816**	**3,190**	**250**	**185**	**3,500**	**3,935**
Total equity				**8,788**				**7,996**
Equity and liabilities				**11,978**				**11,931**

1 1 In case of amounts expected to be recovered within 12 months, expected depreciation/amortization has been recognized.
2 No portion of the amount is expected to be recovered within 12 months.
3 No portion of the amount is expected to be recovered within 12 months, since the lending is considered to be non-current.
4 Intra-Group non-current interest-bearing liabilities are treated as having a maturity of more than five years from the closing day.

Note 59. Assets pledged and contingent liabilities, Parent Company

Assets pledged

Assets pledged by the Parent Company totaled SEK 107 M (107), which relates to assets in the form of non-current receivables.

These assets were pledged as collateral for some of the Parent Company's pension obligations.

Contingent liabilities

Contingent liabilities are reported in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Note 1, section IAS 37, describes the accounting principles.

	Dec 31, 2019	Dec 31, 2018
Contingent liabilities on behalf of Group companies	155,060	144,033
Other contingent liabilities	18,474	23,806
	173,534	**167,839**

Of the Parent Company's contingent liabilities on behalf of Group companies, almost SEK 129 billion (121) relates to obligations for construction operations, mainly guarantees provided when Group companies were awarded contracts. The remaining contingent liabilities for Group companies relate to guarantees for borrowing by Group companies from credit institutions, guarantee undertakings in connection with divestment of properties by Group companies, guaranteeing Group company undertakings to supply capital to their joint ventures and guarantees for Group company pension obligations.

Of other contingent liabilities, SEK 10.8 billion (14.6) relates to liability for external entities' portion of ongoing contracting work. Of the remaining SEK 7.7 billion (9.2), SEK 0.5 billion (0.6) is attributable to guarantees provided for financing of joint arrangements in which Group companies are co-owners and SEK 7.2 billion (8.6) is for guarantees in connection with financing of residential projects in Sweden.

The amounts in the table above include an amount of less than SEK 1 M (1) in Parent Company contingent liabilities relating to construction consortia. The company's contingent liabilities relate entirely to guarantees originating from surety provided or responsibilities as a shareholder in companies.

Note 60. Cash flow statement, Parent Company

Adjustments for items not included in cash flow

	2019	2018
Depreciation/amortization	3	4
Cost of Seop	12	16
Total	**15**	**20**

Tax paid

Total taxes paid in the Parent Company during the year amount to SEK –5 M (–6).

Information about interest and dividends

	2019	2018
Interest paid during the year	33	51

The change in interest-bearing liabilities belonging to financing activities is shown in the following table.

	2019	2018
January 1	3,500	4,177
Items affecting cash flow from financing activities	–684	–677
December 31	**2,816**	**3,500**

Note 61. Personnel, Parent Company

Wages, salaries, other remuneration and social insurance contributions

	2019		2018	
SEK M	Salaries and remuneration	Pension expenses	Salaries and remuneration	Pension expenses
Total salaries and remuneration, Board, President and other senior executives	62.0	10.9	52.0	9.2
of which variable remuneration		19.2	9.3	
of which severance related compensation				
Other employees	77.2	83.1	103.1	99.8
Less indemnification from pension fund		–79.0		–86.0
Total	**139.2**	**15.0**	**155.1**	**23.0**
Social insurance contributions		63.0		79.0
of which pension expenses		15.0		23.0

For disclosures of individual remuneration to each Board member and the President and CEO, see Note 37. For Board members appointed by the employees, no disclosures are made concerning salaries and remuneration or pensions since they do not receive these in their capacity as Board members. For Board members who were employees of the company prior to the beginning of the financial year, disclosures are made concerning pension obligations in their former role as employees.

In 2019, bonuses paid to the President and CEO and other senior executives amounted to SEK 9.3 M (7.7).

In 2019, an allotment of shares occurred under the employee ownership program, Seop 3. The value of shares allotted amounted to SEK 21.0 M (39.7), of which SEK 6.0 M (17.3) was for Board members, the President and CEO and other members of the Group Leadership Team.

The Parent Company's pension expenses are calculated in compliance with the Pension Obligations Vesting Act.

In 2019, Skanska's Swedish pension funds reimbursed Skanska AB in the amount of around SEK 79 M (86).

The company's outstanding pension obligations to Presidents and CEOs, including former Presidents and CEOs, amounted to SEK 163.5 M (159.2). The company's outstanding pension obligations to Executive Vice Presidents, including former Executive Vice Presidents, amounted to SEK 102.7 M (88.0).

The cost in 2019 for defined-contribution pension plans was SEK 25.1 M (38.8) excluding indemnification.

Average number of employees

Personnel is calculated as the average number of employees. See Note 1.

	2019	of which men	of which women	2018	of which men	of which women
Sweden	97	38	59	118	45	73

Men and women on the Board of Directors and Group Leadership Team on closing day

	Dec 31, 2019	of which men	of which women	Dec 31, 2018	of which men	of which women
Number of Board members and deputy members	10	60%	40%	12	58%	42%
Number of President and CEO and other members of Group Leadership Team	6	67%	33%	6	67%	33%

Note 62. Related party disclosures, Parent Company

Through its ownership and percentage of voting power, AB Industrivärden has a significant influence as defined in IAS 24 Related Party Disclosures.

Information on personnel expenses is found in Note 61. For transactions with senior executives, see Note 37.

	2019	2018
Sales to Group companies	726	736
Purchases from Group companies	–177	–219
Interest expense to Group companies	–33	–51
Dividends from Group companies	2,896	3,982
Non-current receivables from Group companies	318	301
Current receivables from Group companies	28	12
Non-current liabilities to Group companies	2,816	3,500
Current liabilities to Group companies	21	26
Contingent liabilities on behalf of Group companies	155,060	144,033

Note 63. Disclosures in compliance with the Annual Accounts Act, Chapter 6, Section 2 a, Parent Company

Due to the requirements in the Swedish Annual Accounts Act, Chapter 6, Section 2 a, concerning disclosures on certain circumstances that may affect the possibility of a takeover of the company through a public takeover bid for the shares in the company, the following disclosures are hereby provided:

1. The total number of shares in the company on December 31, 2019 was 419,903,072, of which 19,704,715 were Series A shares with 10 votes each and 400,198,357 Series B shares with one vote each.
2. There are no restrictions on the transferability of shares due to provisions in the law or the Articles of Association.
3. Of the company's shareholders, only AB Industrivärden and Lundbergs directly or indirectly have a shareholding that represents at least one tenth of the voting power of all shares in the company. On December 31, 2019, AB Industrivärden's holding amounted to 24.3 percent of total voting power in the company and Lundbergs' holding to 12.8 percent of total voting power in the company.
4. Skanska's pension fund does not own any shares in Skanska directly. There is, however, an insignificant percentage of indirectly owned shares via investments in various mutual funds.
5. There are no restrictions on the number of votes each shareholder may cast at an Annual General Meeting.
6. The company is not aware of any agreements between shareholders that may result in restrictions on the right to transfer shares.
7. The Articles of Association state that the appointment of Board members is to take place at the Company's Annual General Meeting. The Articles of Association contain no stipulations on dismissal of Board members or on amendments to the Articles of Association.
8. The 2019 Annual General Meeting resolved in accordane with the Board of Directors' proposal to authorize the Board of Directors to resolve on acquisitions of own Series B shares in Skanska on the following terms and conditions:
   A. Acquisitions of Series B shares in Skanska may only be effected on Nasdaq Stockholm.
   B. The authorization may be exercised on one or several occasions, however at the latest until the 2020 Annual General Meeting.
   C. No more than 1,000,000 Series B shares in Skanska may be acquired to secure delivery of shares to participants in Seop 5.
   D. Acquisitions of Series B shares in Skanska on Nasdaq Stockholm may only be made at a price within the from time to time applicable range of prices (spread) on Nasdaq Stockholm, meaning the interval between the highest purchase price and lowest selling price.
9. Skanska AB or its Group companies are not party to any material agreement that will go into effect, be amended or cease to apply if control over the company or Group companies changes as a consequence of a public takeover bid.
10. There are agreements between Skanska AB or its Group companies and employees that prescribe remuneration if employment is terminated without reasonable grounds. Such remuneration may not exceed 18 months' fixed salary after the end of the notice period or, in the case of the CEO, a maximum of 12 months' severance pay and a maximum of 12 months' fixed salary after the end of the notice period.
11. There are no agreements prescribing termination of employment as a consequence of a public takeover bid for the shares in the company.

Note 64. Supplementary information, Parent Company

Skanska AB (publ), Swedish corporate identity number 556000-4615, is the Parent Company of the Group.

The company has its registered office in Stockholm, Sweden, and is a limited company in compliance with Swedish legislation.

The company's headquarters are located in Stockholm, Sweden.

Address:
Skanska AB
SE-112 74 STOCKHOLM
Tel: +46 10 448 00 00
Fax: +46 8 755 12 56
group.skanska.com

For questions concerning financial information, please contact
Skanska AB, Investor Relations, SE-112 74 STOCKHOLM, Sweden
Tel: +46 10 448 00 00
E-mail: investor.relations@skanska.se

Note 65. Events after the reporting period

There are no material events to report for the Parent Company during the period.

Note 66. Allocation of earnings

The Board of Directors and the President and CEO propose that the profit for 2019 of SEK 3,037,967,086 plus the retained earnings of SEK 3,891,650,830 carried forward from the previous year, totaling 6,929,617,916 be allocated as follows:

A dividend to the shareholders of[1]	SEK 6.25 per share	2,571,928,706
To be carried forward		4,357,689,210
Total		**6,929,617,916**

The consolidated annual accounts and the annual accounts, respectively, have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of IFRS and generally accepted accounting principles, and provide a true and fair view of the position and results of the Group and the Parent Company. The Report of the Directors for the Group and the Parent Company provides a true and fair view of the operations, financial position and results of the Group and the Parent Company, and describes the principal risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, February 6, 2020

Hans Biörck
Chairman

Pär Boman
Board member

Charlotte Strömberg
Board member

Fredrik Lundberg
Board member

Catherine Marcus
Board member

Jayne McGivern
Board member

Jan Gurander
Board member

Richard Hörstedt
Board member

Yvonne Stenman
Board member

Ola Fält
Board member

Anders Danielsson
President and Chief Executive Officer

Our Auditor's Report was submitted on March 2, 2020
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

Jonas Svensson
Authorized Public Accountant

1 Based on the total number of shares outstanding on December 31, 2019. The total dividend amount may change by the record date, depending on share repurchase transactions and the transfer of shares to participants in Skanska employee ownership programs.

Auditor's report

This is a translation from the Swedish original.

To the general meeting of the shareholders of Skanska AB (publ), corporate identity number 556000-4615

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Skanska AB (publ) for the year 2019 except for the statutory sustainability report on pages 56–85. The annual accounts and consolidated accounts of the company are included on pages 37–192 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31st, 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31st, 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. Our opinions do not cover the statutory sustainability report on pages 56–85.

The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue recognition over time in Construction contracts

Description

The main portion of the company's income relates to construction contracts. For 2019 the revenues from construction contracts amount to MSEK 146,232. Usually a performance obligation is satisfied over time which means that revenue should be recognized over time by measuring the progress towards complete satisfaction of that performance obligation. Revenue is recognized on the basis of Skanska's efforts to the satisfaction of a performance obligation relative to the total expected efforts. This requires the entity to be able to measure its progress towards complete satisfaction of the performance obligation and determine the transaction price. This in turn requires that the Group has effective, coordinated systems for cost estimation, forecasting and revenue/expense reporting. Also, a consistent process is required to assess the final outcome of the project, including analysis of differences compared with earlier assessment dates. This critical judgment is performed at least once per quarter.

How our audit addressed this key audit matter

Our audit procedures include, among others, analytical procedures of revenue and margins of material projects and data transaction analytics. We have audited samples of revenue and costs in selected projects, which are of considerable size or represents a significant risk to the company. We have also had discussions with the group controllers and responsible project managers including assessments, assumptions and estimates related to revenue recognition, income statement and cost allocation.

We have audited material contracts to be able to identify potential risks for penalties associated with delays in the projects, and we also have continuous meetings with the Company's internal legal representatives. We have audited depositions and other provisions related to projects within Construction on the base of underlying data and the Company's assessments.

During the year we have conducted site visits on larger projects or projects associated with a higher material risk. We have continuous meetings and discussions with responsible auditors in each country to identify and cover country-specific risks.

We have assessed the historical accuracy of management's estimates of the final outcomes of projects through discussions with Skanska's Group Leadership Team and Audit Committee. In addition, we have evaluated whether the valuation of revenue in the Company's accounting principles is reasonable and assessed the completeness of the disclosure requirements, which are found in Note 4 "Operating Segments" and Note 9 "Contract assets and contract liabilities".

Valuation of investments in property project development

Description

The book value of investments in property development projects, which constitute current asset properties, amounts to MSEK 46,373 as shown in note 22 "Current-asset properties/ Project development". As shown in note 22 the current-asset properties are carried at cost or net realizable value, whichever is lower, and the company therefore makes calculations of the net realizable value. Potential impairment in development projects under construction and completed projects could have significant impact on Skanska"s net income. Changes in the supply of similar projects, as well as changes in demand may materially affect both estimated market values and carrying amounts for each project. These projects vary in size and the investment cycle could be either short or long.

How our audit addressed this key audit matter

Our audit procedures include assessing budgets and financial projections and reviewing other financial input used to determine the value in use models. We have also audited work performed by external appraisers. We specifically focused on the sensitivity in the difference between the net realizable value/estimated value and book values of the projects, where a reasonably possible change in assumptions could cause the carrying amount to exceed its estimated present value. We also assessed the historical accuracy of management's estimates. We evaluated the adequacy of the Company's disclosures included in Note 22.

Claims and litigations

Description	How our audit addressed this key audit matter
The provision for legal disputes amounts to MSEK 1,501. As outlined in Note 29 "Provisions" of the Annual Report, the Company is exposed to potential claims and disputes in the Construction business stream for projects that have been completed. Claims and disputes including any provisions is a key audit matter to our audit because management judgement is required. The assessment process is complex and entails assessing future developments. In addition, some of the claims are in countries where the legal proceedings can stretch out over an extended period of time.	We have gained an understanding of the claims and litigations through discussions with the responsible persons within the Company. We have read the internal position papers prepared by the Company. We also obtained lawyers' letters to the extent considered necessary for our audit. For all potentially material claims we tested the underlying facts and circumstances considered relevant for the legal advisors to reach their conclusions and assessed the best estimate of outflows and associated provisions as determined by the Company.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–36 and 193–211. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Skanska AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor´s opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 56–85, and that it is prepared in accordance with the Annual Accounts Act.

My (Our) examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Box 7850, 103 99 Stockholm, was appointed auditor of Skanska AB by the general meeting of the shareholders on March 28, 2019 and has been the company's auditor since the 2016.

Stockholm March 2, 2020

Ernst & Young AB

Hamish Mabon Authorized Public Accountant	Jonas Svensson Authorized Public Accountant

Independent Practitioner's Review Report on Skanska AB's Greenhouse Gas Reporting

This is the translation of the auditor's report in Swedish.

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, 2019, comprising the scope 1 and 2 emissions inventory for Skanska, the scope 3 emissions inventory for Skanska Sweden, Skanska UK, Skanska US Building, Skanska US Civil and Skanska Commercial Development US (page 67–69, 81) and the reporting principles (page 85) (hereafter: "Greenhouse gas reporting") in Skanska Annual and Sustainability Report 2019.

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" in Skanska Annual and Sustainability Report 2019. This responsibility includes the design, implementation and maintenance of internal controls 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 reporting principles (page 85) in Skanska Annual and Sustainability Report 2019, 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 Skanska's 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" in Skanska Annual and Sustainability Report 2019.

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, 2019 is not prepared, in all material respects, in accordance with the Greenhouse Gas Protocol applied as explained in the "Greenhouse gas reporting" in Skanska Annual and Sustainability Report 2019.

Stockholm March 2, 2020

Ernst & Young AB

Hamish Mabon Authorized Public Accountant	Jonas Svensson Authorized Public Accountant	Ingrid Cornander Specialist, Climate Change and Sustainability Services

Major orders, investments and divestments

Orders

Q1 2019

Skanska builds tunnel in Norway for NOK 622 M, about SEK 640 M.

Skanska builds 265 rental apartments in Helsinki, Finland, for EUR 47 M, about SEK 480 M.

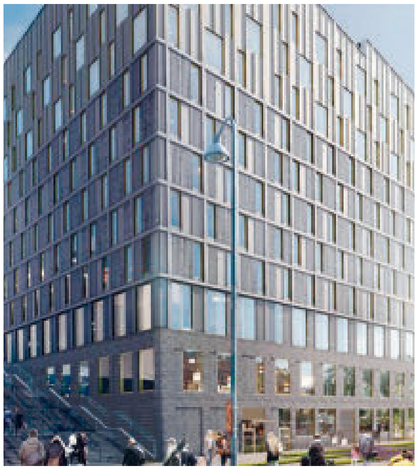
Skanska builds office building in Helsingborg, Sweden, for SEK 350 M.

Skanska widens highway in California, USA, for USD 96 M, about SEK 860 M.

Skanska renovates Stockholm House of Culture & City Theatre in Stockholm, Sweden for SEK 550 M.

Skanska signs additional contract for manufacturing facility in western USA for USD 48 M, about SEK 440 M.

Skanska builds new foundry for Scania in Södertälje, Sweden, for SEK 600 M.



Skanska builds new hotel for Fabege in Solna, Sweden, for SEK 470 M.

Skanska renovates and extends public school in Lahti, Finland, for EUR 31 M, about SEK 320 M.

Skanska completes enabling work for light rail expansion in Washington, USA, for USD 57 M, about SEK 520 M.

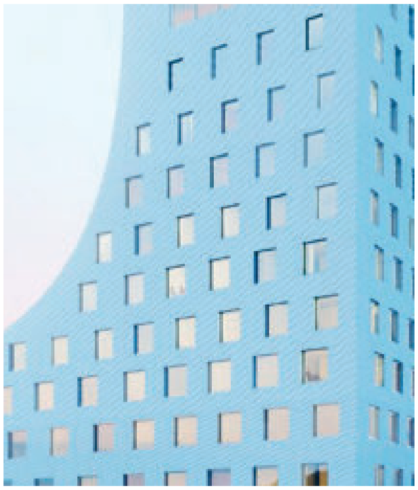
Skanska builds and renovates school district in Ohio, USA, for USD 45 M, about SEK 410 M.

Skanska rebuilds Jabil Inc. headquarters in St. Petersburg, USA, for USD 57 M, about SEK 520 M.

Skanska upgrades industrial manufacturing facility in the Midwest, USA, for USD 88 M, about SEK 810 M.

Skanska builds junior high school in Lake Oswego, Oregon, USA, for USD 69 M, about SEK 630 M.

Q2 2019



Skanska develops and builds hotel in Kiruna, Sweden for SEK 500 M.

Skanska builds and renovates offices for Vasakronan in Sundbyberg, Sweden, for SEK 770 M.

Skanska to complete demolition and abatement of four buildings in New York City, USA, for USD 36.5 M, about SEK 350 M.

Skanska to build East Midtown Greenway in New York City for USD 94 M, about SEK 887 M.

Skanska to build Center for Science and Innovation at Seattle University, USA, for USD 83.5 M, about SEK 788 M.

Skanska builds residential block in Helsinki, Finland, for EUR 45 M, about SEK 470 M.

Skanska builds the third office building in a mixed-use project in Poznan, Poland, for PLN 142 M, about SEK 340 M.

Skanska builds highway project in San Diego, California USA, for about USD 101 M, about SEK 950 M.

Skanska to construct new canopy and other improvements at airport in Massachusetts, USA, for USD 67 M, about SEK 631 M.

Skanska signs contract for Emergency Department Expansion and Renovation in Boston, USA, for USD 45.6 M, about SEK 430 M.

Skanska builds homes and offices for Aranäs properties in Kungsbacka, for SEK 305 M.

Skanska to build elementary school in Auburn, Washington, USA, for USD 39M, about SEK 370 M.

Orders continued

Skanska to build commercial office building in the City of London for about GBP 57.6 M, about SEK 695 M.

Skanska signs additional contract for corporate campus improvements in western USA for USD 85.5 M, about SEK 790 M.

Skanska builds a subsection of Bergen Light Rail in Norway, for about NOK 982 M, about SEK 1 billion.

Skanska to build an encapsulation plant in Olkiluoto, Finland, for about EUR 45 M, about SEK 472 M.

Skanska builds student apartments for SGS Studentbostäder in Gothenburg, for SEK 385 M.

Skanska to construct new entrance to Pennsylvania Station in New York City, USA, for USD 119 M, about SEK 1.1 billion.

Skanska to rehabilitate roadway in the Northeast United States for USD 114 M, about SEK 1.1 billion.

Skanska signs additional contract for corporate office improvements in western USA for USD 51.1 M, about SEK 481 M.

Skanska signs contract for new data facility in western USA for USD 69 M, about SEK 649 M.

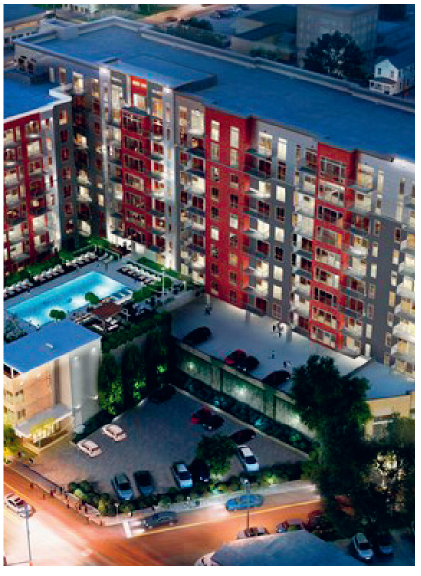
Skanska renovates offices building in Oslo, Norway, for about NOK 637 M, about SEK 695 M.

Q3 2019

Skanska builds 168 apartments in Oslo, Norway, for NOK 344 M, about SEK 370 M.

Skanska builds multifamily house and senior care home in Gothenburg, Sweden, for SEK 330 M.

Skanska to expand Harbor line at Hisingen, Gothenburg, Sweden, for SEK 1.3 billion.



Skanska builds residential apartments in Nashville, USA, for USD 74 M, about SEK 690 M.

Skanska renovates new University of Cincinnati College of Law in Cincinnati, USA, for USD 32 M, about SEK 300 M.

Skanska signs additional contract for manufacturing facility in western USA for USD 35 M, about SEK 330 M.

Skanska signs additional contracts for office improvements in western USA for USD 348 M, about SEK 3.3 billion.

Skanska renovates hydropower plant in the Österdal River, Sweden, for about SEK 320 M.

Skanska builds clinical care building in Brookline, USA, for USD 40 M, about SEK 380 M.

Skanska builds hospital in King of Prussia, USA, for USD 186 M, about SEK 1.7 billion.

Skanska builds schools in Baltimore, USA, for USD 88 M, about SEK 820 M.

Skanska builds foundation for submarine manufacturing facility in Connecticut, USA, for USD 89 M, about SEK 840 M.

Skanska announces order cancellation in Seattle, USA, for USD 33 M, about SEK 310 M.

Orders continued

Q4 2019

Skanska builds new specialist hospital in Gothenburg, Sweden, for SEK 1.1 billion.

Skanska builds new surgical tower in Chapel Hill, North Carolina, USA, for USD 207 M, about SEK 1.9 billion.

Skanska signs additional contract to expand airport in Portland, USA, for USD 42 M, about SEK 400 M.

Skanska builds light rail extension in the State of Washington, USA, for USD 778 M, about SEK 7.3 billion.

Skanska rebuilds school in Stockholm, Sweden, for SEK 430 M.

Skanska reconstructs major interchange in New York City, USA, for USD 290 M, about SEK 2.7 billion.

Skanska carries out excavations for waste-water treatment plant in Tampere, Finland, for EUR 60 M, about SEK 630 M.

Skanska constructs shopping center in Espoo, Finland, for EUR 170 M, about SEK 1.8 billion.

Skanska builds new center for the arts in Beaverton, Oregon, USA, for USD 59 M about SEK 560 M.

Skanska builds new hospital pavilion in Arlington, USA, for USD 37 M, about SEK 350 M.

Skanska renovates Park Hospital in Helsinki, Finland, for EUR 40 M, about SEK 420 M.

Skanska builds new highway section on E16 in Norway for NOK 1.1 billion, about SEK 1.2 billion.

Skanska upgrades Junction 6 of the M42 in Birmingham, UK, for GBP 143 M, about SEK 1.7 billion

Skanska builds The Heming, a multifamily development project in Tysons, USA for USD 150 M, about SEK 1.4 billion.

Skanska builds new surgery and clinic center in Atlanta, USA, for USD 113 M, about SEK 1.1 billion.

Skanska builds health and human services building at University in New Haven, USA, for USD 48 M, about SEK 450 M.

Skanska builds addition to Spaulding Hall at the University of New Hampshire in Durham, USA, for USD 32 M, about SEK 300 M.

Skanska builds new premises for Akademiska Hus at the University of Gothenburg, Sweden, for SEK 1.2 billion.

Skanska builds advanced surgical pavilion in Manhasset, USA, for USD 238 M, about SEK 2.3 billion.

Investments

Q2 2019

Skanska invests EUR 65 M, about SEK 680 M, in the third office building in a mixed-use project in Poznan, Poland.

Skanska invests EUR 19.5 M, about SEK 208 M in land in Prague, Czech Republic.

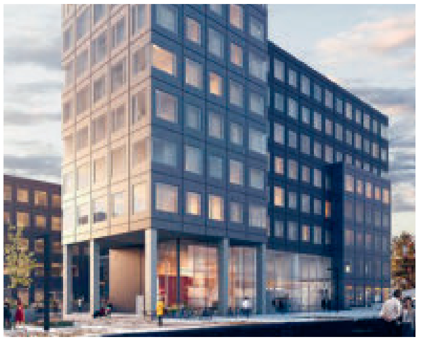
Q3 2019

Skanska invests in land in downtown Houston, USA, for USD 55 M, about SEK 520 M.

Q4 2019

Skanska invests DKK 160 M, about SEK 230 M, in a residential project in Hillerød, Denmark.

Skanska invests SEK 420 M in a new office project in Malmö, Sweden.



Skanska invests DKK 585 M, about SEK 830 M, in phase two of a mixed-use project in Copenhagen, Denmark.

Skanska invests in land in Bucharest, Romania, for EUR 24 M, about SEK 250 M.

Skanska invests USD 221 M, about SEK 2.1 billion, in The Heming, a multi-family development project in Tysons, USA.

Divestments

Q1 2019

Skanska divests Norra Hamnen Kubiklager in Malmö, Sweden, for SEK 285 M.

Skanska sells multi-family development in Boston, USA, for approximately USD 75 M, about SEK 675 M.

Skanska divests logistics property in Arlandastad, Sweden, for SEK 230 M.

Skanska sells care home in Lahti, Finland, for about EUR 20 M, about SEK 210 M.

Q2 2019

Skanska sells hotel in Kiruna, Sweden, for SEK 500 M.

Skanska sells 11 asphalt plants in Poland for about PLN 120 M, about SEK 300 M.

Skanska divests logistics facility in Helsingborg, Sweden, for SEK 240 M.

Skanska sells office property in Vantaa, Finland, for about EUR 30 M, about SEK 315 M.

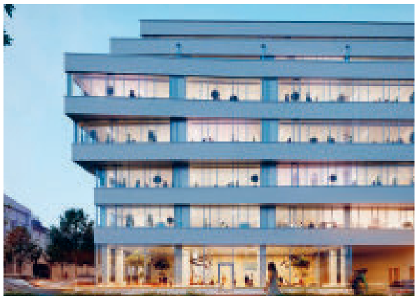
Skanska divests office property in Oslo, Norway for about NOK 1.3 billion, about SEK 1.5 billion.

Skanska sells the office property Juvelen in Uppsala, Sweden, for about SEK 560 M.

Skanska divests office property in Helsinki, Finland, for about EUR 135 M, about SEK 1.4 billion.

Skanska sells multi-family development in Washington, D.C., USA, for about USD 141 M, about SEK 1.3 billion.

Q3 2019



Skanska sells office building in Budapest, Hungary, for EUR 41 M, about SEK 431 M.

Skanska sells office building in Poznań, Poland, for EUR 36 M, about SEK 385 M.

Skanska sells office building in Prague, Czech Republic, for EUR 55 M, about SEK 585 M.

Skanska sells three office buildings in Poland for EUR 214 M, about SEK 2.3 billion.

Q4 2019

Skanska divest office project in Malmö, Sweden, for SEK 430 M.

Skanska sells its equity stake in the highway project Rv. 3/Rv. 25 in Norway for about NOK 30 M, about SEK 30 M.

Skanska sells care home in Gothenburg, Sweden, for SEK 290 M.

Skanska divests majority interest in Bank of America Tower in Houston, USA, for USD 373 M, about SEK 3.5 billion.

Skanska divests 51 Moorgate in London, UK, for about GBP 56 M, about SEK 690 M.

Skanska divests the office building 99M in Washington, DC, USA, for USD 163 M, about SEK 1.5 billion.

Skanska sells rental apartment project in Salem, Sweden, for SEK 270 M.

Skanska sells rental apartment project in Gothenburg, Sweden, for SEK 530 M.

GRI Content Index

General Disclosures

GRI Standard		Disclosure	Page	Ommission/ Comments
GRI 102: General Disclosures 2016	102–1	Name of the organization	Cover, Note 64	
	102–2	Activities, brands, products, and services	23–36, Note 4	
	102–3	Location of headquarters	Note 64	
	102–4	Location of operations	23	
	102–5	Ownership and legal form	9–11, 37–45, Note 63–64	
	102–6	Markets served	13, 20, 23, 25–26, 29-30, 33-34	
	102–7	Scale of the organization	23, 83	
	102–8	Information on employees and other workers	83-85	
	102–9	Supply chain	64	
	102–10	Significant changes to the organization and its supply chain	–	
	102–11	Precautionary Principle or approach	56	
	102–12	External initiatives	56	
	102–13	Membership of associations	56	A selection of memberships are reported.
	102–14	Statement from senior decision-maker	6-7	
	102–16	Values, principles, standards, and norms of behavior	4, 6, 37, 44–45, 56, 81	
	102–18	Governance structure	37-45	
	102–40	List of stakeholder groups	79	
	102–41	Collective bargaining agreements	-	The data is not reported at Group level.
	102–42	Identifying and selecting stakeholders	79	
	102–43	Approach to stakeholder engagement	79	
	102–44	Key topics and concerns raised	56–57, 79	
	102–45	Entities included in the consolidated financial statements	44	
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	102–48	Restatements of information	85	
	102–49	Changes in reporting	-	
	102–50	Reporting period	Januari 1, 2019 - December 31, 2019	
	102–51	Date of most recent report	March 19, 2019	
	102–52	Reporting cycle	Annual	
	102–53	Contact point for questions regarding the report	Lena Hök, SVP Sustainability	
	102–54	Claims of reporting in accordance with the GRI Standards	Content page	
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	102–56	External assurance	193–198	

Material Topics

GRI Standard		Disclosure	Page	Ommission/ Comments	SDG	UN Global Compact
Health and Safety						
GRI 103: Management Approach 2016	103–1	Explanation of the material topic and its Boundary	50–54, 59–60		8 DECENT WORK AND ECONOMIC GROWTH	
	103–2	The management approach and its components	44, 50–54, 59–60, 79			
	103–3	Evaluation of the management approach	45, 59–60			
GRI 403: Occupational Health and Safety 2018	403–1	Occupational health and safety management system	59			
	403–2	Hazard identification, risk assessment, and incident investigation	59			
	403–3	Occupational health services	59			
	403–4	Worker participation, consultation, and communication on occupational health and safety	59			
	403–5	Worker training on occupational health and safety	59			
	403–6	Promotion of worker health	59			
	403–7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	59			
	403–8	Workers covered by an occupational health and safety management system	59, 80			
	403–9	Work-related injuries	59, 60, 80	The number of hours is not reported		
Ethics						
GRI 103: Management Approach 2016	103–1	Explanation of the material topic and its Boundary	43, 50–54, 63-64		8 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	**Principle 1, Human rights:** Businesses should support and respect the protection of internationally proclaimed human rights. **Principle 2, Human rights:** Businesses should make sure that they are not complicit in human rights abuses **Principle 3, Labor:** Business should uphold the freedom of association and the effective recognition of the right to collective bargaining. **Principle 4, Labor:** Businesses should uphold the elimination of all forms of forced and compulsory labour. **Principle 5, Labor:** Business should uphold the effective abolition of child labor. **Principle 10, Anti-corruption:** Businesses should work against corruption in all its forms, including extortion and bribery.
	103–2	The management approach and its components	42–45, 50–54, 63–64, 79			
	103–3	Evaluation of the management approach	45, 63–64			
GRI 205: Anti-Corruption 2016	205–2	Communication and training about anti-corruption policies and procedures	63, 64, 43			
	205–3	Confirmed incidents of corruption and actions taken	63	Not broken down by employee category, business partner or region		
GRI 206: Anti-competitive behavior 2016	206–1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	63			
GRI 308: Supplier environmental assessment 2016	308–1	New suppliers that were screened using environmental criteria	64	Percentage of suppliers screened not reported		
GRI 409: Forced or compulsory labor 2016	409–1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	64			
GRI 412: Human rights assessment 2016	412–2	Employee training on human rights policies or procedures	63, 64	The number of hours is not reported		
	412–3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	64	The number and definition is not reported. The disclosure refers to the Supplier Code of Conduct.		
GRI 414: Supplier social assessment 2016	414–1	New suppliers that were screened using social criteria	64	Percentage of suppliers screened not reported		

GRI Standard		Disclosure	Page	Ommission/ Comments	SDG	UN Global Compact
Green						
GRI 103: Management Approach 2016	103–1	Explanation of the material topic and its Boundary	50-54, 67–72		8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION	**Principle 7, Environment:** Businesses should support a precautionary approach to environmental challenges. **Principle 8, Environment:** Businesses should undertake initiatives to promote greater environmental responsibility. **Principle 9, Evironment:** Business should encourage the development and diffusion of environmentally friendly technologies.
	103–2	The management approach and its components	44–45, 50–54, 67–72, 79			
	103–3	Evaluation of the management approach	45, 67–69, 70–72, 85			
GRI 302: Energy 2016	302–1	Energy consumption within the organization	70,81			
	302–2	Energy consumption within the organization	70, 81			
	302–3	Energy intensity	70, 81			
	302–4	Reduction of energy consumption	70, 81			
	302–5	Reductions in energy requirements of products and services	70, 81			
GRI 305: Emissions 2016	305–1	Direct (Scope 1) GHG emissions	68, 81			
	305–2	Energy indirect (Scope 2) GHG emissions	68, 81			
	305–3	Other indirect (Scope 3) GHG emissions	68, 81			
	305–4	GHG emissions intensity	68, 81			
	305–5	Reduction of GHG emissions	68			
GRI 306: Effluents and Waste 2016	306–2	Waste by type and disposal method	70, 82	Hazardous waste is not reported		
GRI 307: Environmental compliance 2016	307–1	Non-compliance with environmental laws and regulations	82			
Diversity and Inclusion						
GRI 103: Management Approach 2016	103–1	Explanation of the material topic and its Boundary	18, 50–54, 77		5 GENDER EQUALITY	**Principle 6, Labor:** Businesses should uphold the elimination of discrimination in respect of employment and occupation.
	103–2	The management approach and its components	18, 44, 50–54, 77, 79			
	103–3	Evaluation of the management approach	45, 64, 77			
GRI 405: Diversity and Equal Opportunity 2016	405–1	Diversity of governance bodies and employees	39, 77, 83–84	The age groups are not reported		
GRI 406: Non-discrimination 2016	406–1	Incidents of discrimination and corrective actions taken	43, 63, 77	The number and type of actions not reported		

GRI Standard		Disclosure	Page	Ommission/ Comments	SDG	UN Global Compact
Sustainable industry						
GRI 103: Management Approach 2016	103–1	Explanation of the material topic and its Boundary	4, 50–54, 72, 85		9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	
	103–2	The management approach and its components	4, 42–45, 50–54, 72, 85			
	103–3	Evaluation of the management approach	4, 45, 72, 85			
Skanskas Own Disclosure	SoD-1	Value of certifed commercial buildings	4, 72, 85			

Quarterly information

In accordance with IFRS	2019				2018			
SEK M	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Order bookings	**49,028**	**34,903**	**34,621**	**27,266**	**49,147**	**30,628**	**39,060**	**32,884**
Profit/loss								
Revenue	50,691	42,466	42,574	37,115	50,478	43,084	43,502	34,666
Cost of sales	–44,780	–39,069	–38,563	–34,128	–45,146	–40,028	–40,014	–32,277
Gross income	**5,911**	**3,397**	**4,011**	**2,987**	**5,332**	**3,056**	**3,488**	**2,389**
Selling and administrative expenses	–3,206	–1,924	–2,183	–2,156	–2,446	–2,358	–2,164	–2,505
Income from joint ventures and associated companies	62	138	138	253	177	218	61	399
Operating income	**2,767**	**1,611**	**1,966**	**1,084**	**3,063**	**916**	**1,385**	**283**
Interest income	32	44	44	32	43	44	37	20
Interest expense	–77	–40	–74	–67	–34	–24	–26	–29
Change in fair value	6	1	–3			4	3	4
Other financial items	–1	27		–12	–25	21	8	–7
Financial items	**–40**	**32**	**–33**	**–47**	**–16**	**45**	**22**	**–12**
Income after financial items	**2,727**	**1,643**	**1,933**	**1,037**	**3,047**	**961**	**1,407**	**271**
Taxes	–525	–298	–290	–173	–664	–128	–245	–55
Profit for the year	**2,202**	**1,345**	**1,643**	**864**	**2,383**	**833**	**1,162**	**216**
Profit for the period attributable to								
Equity holders	2,195	1,338	1,634	864	2,376	824	1,156	215
Non-controlling interests	7	7	9		7	9	6	1
Other comprehensive income								
Items that will not be reclassified to profit or loss								
Remeasurement of defined-benefit pension plans	1,360	–1,480	–344	–431	–1058	217	279	84
Tax on items that will not be reclassified to profit or loss for the period	–305	314	87	70	218	–34	–106	–19
	1,055	**–1,166**	**–257**	**–361**	**–840**	**183**	**173**	**65**
Items that have been or will be reclassified to profit or loss for the period								
Translation differences attributable to equity holders	–739	588	138	685	–275	–292	911	955
Translation differences attributable to non-controlling interests	–2		3	2	–1	–3		7
Hedging of exchange rate risk in foreign operations	–43	36	–7	18	6	47	–49	–187
Effect of cash flow hedges	79	–78	32	–2	28	62	–114	–6
Share of other comprehensive income of joint ventures and associated companies	116	–58	–53	–46	–50	32	271	19
Tax related to items that have been or will be reclassified to profit for the period	–13	13	–6	–4	–3	–12	19	3
	–602	**501**	**107**	**653**	**–295**	**–166**	**1,038**	**791**
Other comprehensive income after tax for the period	**453**	**–665**	**–150**	**292**	**–1,135**	**17**	**1,211**	**856**
Comprehensive income for the period	**2,655**	**680**	**1,493**	**1,156**	**1,248**	**850**	**2,373**	**1,072**
Comprehensive income for the period attributable to								
Equity holders	2,650	673	1,481	1,154	1,242	844	2,367	1,064
Non-controlling interests	5	7	12	2	6	6	6	8
Order backlog[1]	185,370	183,709	183,978	190,133	192,042	186,328	197,552	190,933
Capital employed	55,938	55,554	53,200	52,849	46,187	45,591	44,511	44,247
Interest-bearing receivables (+) / net debt (–)	–4,917	–14,446	–11,315	–7,151	3,231	–3,717	–4,041	–1,645
Debt/equity ratio	0.1	0.5	0.4	0.3	–0.1	0.1	0.1	0.1
Return on capital employed, %	14.3	15.6	14.9	14.4	13.0	9.4	10.0	7.9
Cash flow								
Cash flow from operating activities	8,729	–1,603	–768	–320	7,911	748	1,044	–249
Cash flow from investing activities	–1,102	156	323	–591	–568	–363	–1,031	–405
Cash flow from financing activities	–2,019	288	–3,553	–1,614	–879	385	–2,158	–857
Cash flow for the period	**5,608**	**–1,159**	**–3,998**	**–2,525**	**6,464**	**770**	**–2,145**	**–1,511**

1 Refers to Construction.

Quarterly information, continued

Business streams

In accordance with IFRS	2019				2018			
SEK M	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Order bookings								
Construction	49,028	34,903	34,621	27,266	49,147	30,628	39,060	32,884
Total	**49,028**	**34,903**	**34,621**	**27,266**	**49,147**	**30,628**	**39,060**	**32,884**
Revenue								
Construction	42,411	40,969	40,866	35,333	42,580	40,261	40,422	34,631
Residential Development	3,489	1,901	3,063	3,416	4,580	2,632	2,502	2,492
Commercial Property Development	8,069	2,369	2,329	1,499	7,415	3,370	4,225	806
Central and eliminations	–3,278	–2,773	–3,684	–3,133	–4,097	–3,179	–3,647	–3,263
Total	**50,691**	**42,466**	**42,574**	**37,115**	**50,478**	**43,084**	**43,502**	**34,666**
Operating income								
Construction	1,092	1,127	1,182	371	868	–310	582	–41
Residential Development	192	239	529	475	697	509	301	370
Commercial Property Development	1,712	380	179	406	1,639	782	684	398
Central	–247	–81	88	–148	–142	–109	–116	–414
of which PPP sales	–29	19	9	25	42	64	41	–116
Eliminations	18	–54	–12	–20	1	44	–66	–30
Total	**2,767**	**1,611**	**1,966**	**1,084**	**3,063**	**916**	**1,385**	**283**

According to Segment Reporting	2019				2018			
SEK M	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Order bookings								
Construction	49,028	34,903	34,621	27,266	49,147	30,628	39,060	32,884
Total	**49,028**	**34,903**	**34,621**	**27,266**	**49,147**	**30,628**	**39,060**	**32,884**
Revenue								
Construction	42,411	40,969	40,866	35,333	42,580	40,261	40,422	34,631
Residential Development	5,292	2,384	2,666	2,141	4,120	2,453	2,282	1,884
Commercial Property Development	7,063	3,886	6,017	884	7,082	1,879	3,530	3,780
Central and eliminations	–3,369	–2,725	–3,780	–3,256	–4,093	–3,256	–3,716	–3,345
Total	**51,397**	**44,514**	**45,769**	**35,102**	**49,689**	**41,337**	**42,518**	**36,950**
Operating income								
Construction	1,092	1,127	1,182	371	868	–310	582	–41
Residential Development	377	224	396	198	383	504	398	220
Commercial Property Development	1,267	865	1,071	84	1,281	456	472	860
Central	–247	–81	88	–148	–141	–110	–114	–415
of which PPP sales	–29	19	9	25	42	64	41	–116
Eliminations	–36	15		–17	–8	–33	–53	28
Total	**2,453**	**2,150**	**2,737**	**488**	**2,383**	**507**	**1,285**	**652**

Annual General Meeting

The Annual General Meeting (the "Meeting") of Skanska AB (publ) (the "Company") will be held on March 26, 2020 at 10:00 a.m. CET at Stockholm Waterfront Congress Centre, Nils Ericsons Plan 4, Stockholm, Sweden.

Right to participate

Shareholders who wish to participate in the Meeting must be recorded in the share register kept by Euroclear Sweden AB, the Swedish central securities depository on Friday, March 22, 2020 and must give notice of intent to participate to the Company no later than on Friday March 20, 2020.

Shareholders with nominee-registered shares held via a bank or other nominee must re-register their shares in their own name with Euroclear Sweden AB to be entitled to participate in the Meeting. Such re-registration, which may be temporary, should be requested from the bank or other nominee acting as trustee well in advance of, March 20, 2020.

Notice to participate in the Meeting may be provided:

By mail to Skanska AB (publ), Årsstämman c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden
By telephone: +46 8 402 92 81 on weekdays between 9.00 and 4.00 p.m. CET
On the Company's website: www.group.skanska.com, under the heading "Corporate Governance/Annual General Meeting"

When giving notice, a shareholder must state name, personal identification number or corporate registration number, address, telephone number and, if applicable, the number of attending counsels (no more than two). Shareholders represented by proxy shall issue a written, by the shareholder signed and dated, power of attorney for the representative. The power of attorney may be valid for at most one year from the date of issue, unless the power of attorney specifies a longer period of validity, not to exceed five years from the date of issue. The power of attorney in the original and a certificate of registration or equivalent document of authority shall be sent to the Company at the address set out above well in advance of the Meeting. Shareholders who have duly notified the Company of their participation will receive an admission card, which shall be presented at the entrance to the Meeting venue.

Dividend

The Board of Directors propose a dividend of SEK 6.25 (6.00) per share for the 2019 financial year. The proposal is equivalent to a regular dividend payout totaling SEK 2,572 M (2,462). The Board proposes Monday March 30, 2020 as the record date for the dividend. Provided that the Meeting approves this proposal, the dividend is expected to be distributed by Euroclear AB on Thursday April 2, 2020.

The total dividend amount may change by the record date, depending on repurchases of shares and transfers of shares to participants in the Company's long-term employee ownership programs.

Investors

Calendar

The Skanska Group's interim reports will be published on the following dates:

Three Month Report
April 28, 2020

Six Month Report
July 23, 2020

Nine Month Report
November 5, 2020

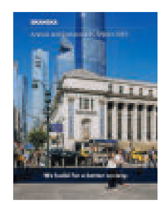
Year-end Report
February 5, 2021

Distribution and other information

The interim reports and the Annual Report can be read or downloaded from Skanska's website group.skanska.com/investors.

Those wishing to order the printed Annual Report can easily use the order form found on the above website, or contact Skanska AB, Investor Relations.

The website also contains an archive of interim reports and Annual Reports.



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