

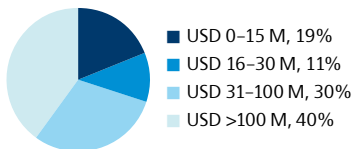
Risk management procedures

Risk management is one of the cornerstones of Skanska's success. The Senior Executive Team (SET) is responsible for managing strategic risks, for example of a political, social or macroeconomic nature.

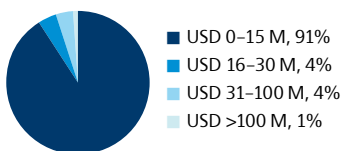
By focusing on selected home markets, Skanska's local business units become thoroughly familiar with each market and can analyze them continuously. These analyses are an integral element of the SET's work. Construction investments in a country normally follow the trend of GDP, with a time lag of one to three quarters. The amplitude of these fluctuations varies between different markets but is generally larger for construction investments than for GDP. On average, changes in construction investments in Skanska's markets are estimated at 2.5 times the change in GDP. Economic cycles are not the same in all markets and segments. Some are more volatile than others. Skanska works in many markets and in many segments for

Order backlog USD 18.4 bn

Project size



Number of projects



both public sector and private customers, which reduces the risk to its overall business.

Operational risks

The construction business is largely about risk management. Practically every project is unique. Size, shape, environment – everything varies for each new assignment. The construction industry differs in this way from a typical manufacturing company that operates in permanent facilities and with long production runs.

Projects are Skanska's primary source of revenue. The Group's profitability is dependent on the earnings of individual projects. Unforeseen risks can cause losses. One characteristic of the construction business is that risks and opportunities are not symmetrical. A well-executed project can mean that the margin in the project may increase by one or more percentage points. A large loss-making project, however, may have a considerably larger adverse impact on earnings.

In the construction business, operational risks are substantially higher than financial risks. The Company's ability to foresee and manage business risks is crucial in achieving good earnings. Projects are accounted for using the percentage of completion method. This means that earnings are recognized as costs are accrued. Each project is evaluated on a

quarterly basis, with adjustments in the percentage of completion being made for any changes in the estimated project completion cost.

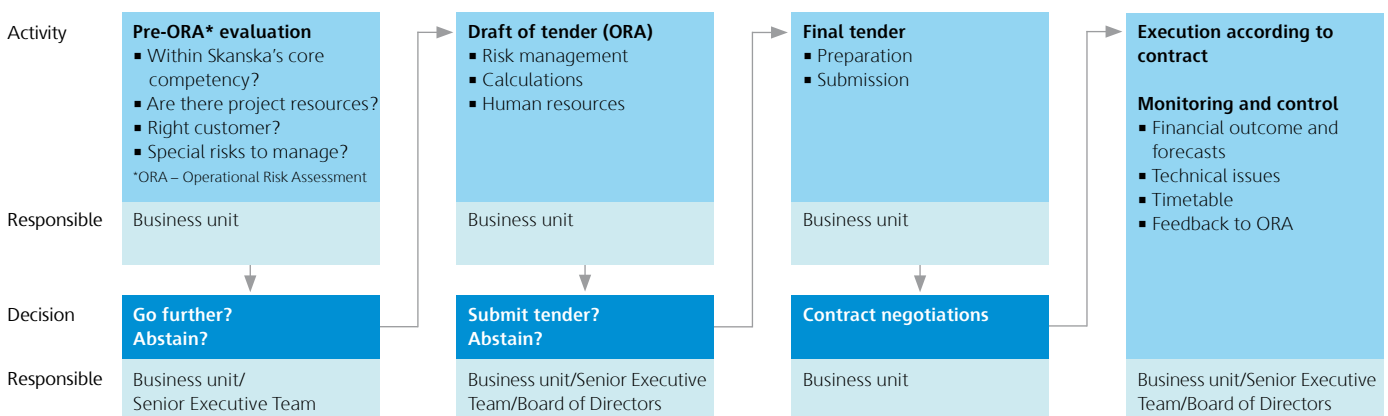
Estimated losses in ongoing projects are recognized in their entirety on the date the estimate is made. A loss-making project that previously reported a profit must expense all previously recognized profit. The entire estimated loss must also be recognized on the same occasion. If no further changes occur, the project will then recognize zero gross income during the remainder of the construction period.

Uniform risk management procedures

Well-implemented identification and management of risks and opportunities during tender preparation lay the groundwork for successful projects. Skanska uses a Groupwide system for identifying and managing potential risks, the Skanska Tender Approval Procedure (STAP) and the Operational Risk Assessment (ORA). It evaluates construction projects during tender preparation with regard to technical, legal and financial risks. It also analyzes a number of general "public exposure" issues – among them ethical, social and environmental aspects. During the execution period, it monitors and updates these issues as the project progresses.

Analyses of earlier loss-making projects indicate that such factors as improper

Skanska Tender Approval Procedure (STAP)



choices related to staffing and geographic location are often behind poor outcomes. Experience also shows that initial profitability problems tend to worsen rather than diminish over time.

The ORA process means that the preparation of tenders is systematized. Possible new projects are analyzed in light of the core strengths of business operations, in terms of expertise, geographic market, contract types and contract size as well as available project resources. This core competence has been mapped for each local unit. Potential projects must match the established expertise profile of a unit.

The business unit carries out a risk assessment and identifies specific measures for limiting risks. Then the unit, in some cases after approval by the Senior Executive Team, decides whether a tender should be submitted. To further improve the quality of tender evaluation, in 2008 Skanska created a group of experts, the SET Risk Team (SRT), whose main task is to prepare and evaluate the proposals submitted to the Senior Executive Team for decisions.

The Skanska Financial Service, a support unit, is also used for evaluating financial risks related to credit risks, payment flows, customers, subcontractors and joint venture partners. Skanska's risk management system does not imply avoidance of all risks, but instead aims at identifying, managing and pricing them.

In all types of major projects that continue over a long period, Skanska conducts regular follow-up of its risk assessment. The SET carries out quarterly reviews of a number of projects, which altogether are equivalent to about one third of total construction volume, and performs similar monitoring of loss-making projects and those projects deemed to involve special risks.

Risks related to material prices

In Skanska's operations there are many different types of contractual mechanisms. The degree of risk associated with the prices of goods and services varies greatly, depending on the contract type.

In cases where Skanska works on a cost-plus basis, any price increases are passed directly to the customer. In assignments for public sector customers, Skanska often has fixed-price contracts. Certain contracts contain indexing clauses that allow an upward revision of the contract value, equivalent to price increases.

Financial risks

Foreign exchange risks

Project revenue and costs are normally denominated in the same currency, and transaction risks from exchanges between different currencies are thus limited. Known and budgeted financial flows are hedged. The foreign exchange risk that arises because portions of the Group's equity are invested long-term in foreign subsidiaries is normally not fully hedged, but to some extent, Skanska hedges its equity in markets/currencies where it has a relatively large proportion of its equity invested.

At the end of 2008, about 30 percent of the equity in Skanska's American, Norwegian, Polish and Czech subsidiaries was currency hedged. Investments in development business streams are hedged, since the intention is to sell these assets over time.

Interest rate risks

Interest rate risk is the impact on earnings arising from a change in interest rate. Interest-bearing assets currently exceed interest-bearing liabilities. This means that net financial items are adversely affected by an interest rate cut.

At year-end 2008, the average interest refixing period for interest-bearing assets, USD 1.96 billion, was 0.1 (0.1) years and on interest-bearing liabilities excluding pension liabilities, USD 0.36 billion, it was 0.6 (0.5) years. The size of Skanska's interest-bearing pension liability, USD 0.40 (0.17) billion, is largely connected to the interest rate on long-term central government debt. An increase or decrease in long-term interest rates leads to a decrease or increase in pension liability. Such changes are recognized directly in the equity of the Group (see Note 28, page 114).

Refinancing risks and liquidity

Refinancing risk is the risk caused by lack of liquidity or by difficulty in obtaining or rolling over external loans. At year-end 2008, the Group's unutilized credit facilities totaled USD 1.15 billion (1.14) and the average maturity of the borrowing portfolio, including the maturity of unutilized credits, was 5.5 (6.5) years.

Risks related to financial turmoil

Due to the turmoil in the world's financial markets, during the autumn of 2008 all of Skanska's business units carried out a special review of the potential risks that may arise due to the financial problems of customers, suppliers or other partners. The review did not result in the identification of any unknown risks, but it is clear that there is a heightened general risk that certain customers, suppliers or other partners will be unable to fulfill their contractual obligations to Skanska.

Impact on the Group of a change in USD against all currencies

USD bn	+/-10%
Revenue	+/-1.54
Operating income	+/-0.05
Equity	+/-0.20

The above sensitivity analysis shows in USD the Group's sensitivity to a 10 percent unilateral change in USD against all currencies.

Interest-bearing liabilities and assets

USD bn	Dec 31, 2008	Dec 31, 2007
Interest-bearing gross liabilities	-0.8	-0.7
Cash and cash equivalents and interest-bearing receivables	2.0	3.0
Interest-bearing net receivables	1.2	2.3

Sensitivity of pension obligation to change in discount rate

USD M	Sweden	Norway	U.K.	Total
Pension obligation, December 31, 2008	615	311	542	1 468
Discount rate increase/decrease of 0.25 percent ¹	+/-25	+/-15	+/-25	+/-65

¹ Estimated change in pension obligation/pension liability if the discount rate changes. If pension liability increases, the Group's equity is reduced by about 75 percent of the increase in pension liability, after taking into account deferred tax and social insurance contributions.

Green construction is booming

Greener products and services as well as sharply reduced greenhouse gas emissions are cornerstones of Skanska's initiative to become the globally leading green company in project development and construction.

The demand for green construction is increasing in many of Skanska's markets. In the United States, for example, about 40 percent of the population already lives in cities that have introduced specific environmental requirements for new buildings. And all customers in the healthcare and higher education sectors, as well as various real estate developers, only want green projects.

Being a green builder gives Skanska a clear advantage in winning contracts. It also has a positive effect on recruiting and human resource development. Employees are proud of green projects and of being able to contribute to an enhanced environment on our planet.

Skanska's goal is to become the world leader in green project development and construction. The aim is to develop economically attractive green solutions for Skanska's customers. Since its green construction initiative began in late 2007, the Company has catalogued its green expertise in all business units. It is marketing green solutions and developing new green products and services for customers.

Tools for suitable solutions

The extensive green expertise that Skanska has put together is now documented and easily accessible in the Green Toolbox, which was launched on the Company's intranet at the beginning of 2009. The Green Toolbox is a knowledge bank that presents more environmentally advantageous solutions in many areas that can be used successfully in Skanska's projects. In this way, customers in all markets can benefit from Skanska's global expertise.

Skanska offers green products as well as services and processes that enable it to deliver green projects. It is also intent on collaborating more closely with customers at an earlier stage in order to better understand and be able to satisfy their needs. In this way, Skanska can help customers achieve their goals, which may include improv-



ing energy efficiency, reducing emissions and obtaining green certification. In many cases, these solutions will also result in cost savings for customers – either through alternatives that directly lower the cost or through solutions that are cost-effective in the long term. The latter may apply, for example, to energy-efficient solutions that sometimes entail a somewhat higher initial cost.

The Green Toolbox is a Group-wide tool, a green knowledge bank, but obviously the work is performed at Skanska's business units. During 2009, these units will join with the Green Construction team in drafting and implementing green construction plans for local markets. Another focus will be on developing eco-design tools and building up expertise internally. There is increasing exchange of knowledge between Skanska's various units. By sharing its green expertise across boundaries, the Group can meet the needs of customers in all markets.

While renovating the St. Lars Bridge in Linköping, Sweden, Skanska made a number of changes that improved the project's environmental profile. This included developing a slimmer concrete design, re-using local stone and manufacturing off-site pre-cast bridge units. Skanska's proposal also lowered the cost of project completion.