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Johan Karlström, President and CEO



Comments by the President and CEO

We can sum up 2009 as a year of strong earnings. Our success was based on our highly skilled employees, strict risk management and improved execution in our projects.



Everyone was adversely affected by the economic downturn, but we acted quickly to safeguard our customer relationships and our strong cash flow. As early as the autumn of 2008, as storm clouds gathered, we slammed on the brakes to new investments. We halted some projects that were underway and postponed new residential and commercial project start-ups. We focused entirely on selling residential units in already completed and ongoing projects.

Our systematic efforts to control risks have begun to pay off. We have also succeeded in securing an influx of new assignments – order bookings are at the level of prior years. Meanwhile we are focusing strongly on what is the core of our success: project execution and our employees.

Surpassing targeted margins

Taken together, these actions yielded very good results. Our construction operations surpassed their targeted margins. Residential sales yielded positive earnings. We were one of the few market players that were able to sell commercial properties with good returns. We succeeded in financing three major new public-private partnership projects.

It is also heartening to see improvements in work site safety. Increased planning efforts and thorough follow-up after accidents have led to greater risk awareness and confidence among our employees. Things are getting better, but we cannot be satisfied – we still see too many incidents in which our suppliers and subcontractors are involved.

I would like to thank all Skanska employees for their very fine contributions. Many of them have had to assume dual roles – both taking care of customers and protecting the Company. I also want to express my sincere gratitude to the Board of Directors for supporting us and to all our customers, who have shown us their trust in these turbulent times.

Thorough risk assessment

We avoided driving into a ditch despite miserable road conditions. After several years of restructuring and risk management, we have laid the groundwork for our efforts to steer clear of negative surprises. Our risk management system is being further refined. Virtually all projects now undergo the same thorough risk assessment as major projects.

Improving our project execution

Our construction work is also continuously getting better. More thorough planning at early stages is yielding clear results by boosting profitability and reducing project losses.

Meanwhile we must be humble, recalling that many of the construction projects completed in 2009 were received when we stood at the peak of economic expansion and there was greater potential for good margins.

Interest rates fell to record-low levels and housing demand rebounded, first in Sweden and Norway and a bit later also in Finland. We managed to sell most of our inventory, and during the autumn we were also able to resume both residential and office building projects as well as start up new ones.

Three new public-private partnership projects

It is also an indication of our stature that we achieved financial close on three new public-private partnership projects. In addition to two major highway projects – the M25 orbital motorway around London, United Kingdom and the second phase of the A1 expressway south of Gdańsk, Poland – we also established a presence in a promising new segment. This is related to street lighting networks in the U.K. In our first project in Surrey, outside London, the streets will soon be illuminated by energy-efficient lamps.

Improvements in the general economic situation and our good performance have led to rising expectations about us. Here I must remind everyone that we have not yet seen any stable upturn in the construction and real estate sector. The recovery is slow in our sector.

Our industry is late in the business cycle, and reports of rising share prices and general economic improvements do not necessarily mean that construction assignments are beginning to pour in.

Capacity utilization in most branches of industry is still low, so demand for new premises is weak. Activity is relatively low among investors in the real estate market, but our green projects in good locations and with solid tenants are becoming increasingly attractive in the market.

Continued risk of lower volume in 2010

There is a risk that unemployment will continue to climb and that both private investments and tax revenues will decrease, which will worsen the potential for public sector investments.

Our business volume will decline as we gradually complete major projects. At present it is difficult to replace them with new assignments on the same scale and at the same pace.

Stimulus packages offer opportunities

The economic stimulus packages initiated by individual countries have softened the downturn but have not fully offset it. Only during the latter part of 2009 were our customers able to take advantage of stimulus funds. For example, only a small part of the U.S. federal assistance package has been utilized, which will mean continued opportunities.

But competition is also becoming increasingly intensive – project opportunities are fewer, while more and more companies are vying for them. Price competition is escalating, especially when it comes to small and medium-sized projects. In the U.S., for example, home builders are moving into new segments and regions in order to land contracts. For really large assignments, however, the number of competitors is still limited.

Although a large part of our work during 2009 focused on protecting the Company, we did not forget to look ahead. Skanska has survived many crises during our more than 120-year history, and we know that a turnaround will come sooner or later. When this happens, it is important to be well prepared. Even in times of downturn, there are opportunities.

Starting commercial development in the U.S.

We decided to take advantage of our potential by expanding our development operations. In 2009 we took an important step in this direction by starting our first commercial development project in the United States – a new office building in downtown Washington, D.C. We are working on additional project opportunities in Boston, Massachusetts and Houston, Texas. We are highly competitive when we combine our financial strength with the expertise of our real estate developers and builders.

In the same way, we will strengthen our local presence in the U.S. As a building contractor, we have been strong in the western U.S. for years, and we are now also adding more civil construction experts at a number of our offices there. I am convinced that they can be just as successful in the west as they are on the eastern seaboard. In Poland, too, we are broadening our service in local markets by letting our building and civil construction specialists work side by side in places where we did not previously offer full service.

Hospital expertise provides advantages

The hospital sector is another example of how we leverage our state-of-the-art global expertise – today's hospitals are both hotels and high-tech facilities that must be adapted to both patient and staff needs. We have an extensive experience bank from major hospitals both in the U.K. and the U.S. When we study the potential for developing new projects elsewhere, for example in Sweden, it is a major advantage to be able to draw on this expertise.

Generating more green business

Step by step, we are moving toward Deep Green construction. In the U.S., green expertise is in favor both among private customers and public agencies. In some states, new projects must be green – meeting specific environmental standards in order to receive construction

permits. California is a pacesetter in green construction and we are now seeing similar trends in the Nordic countries and elsewhere in Europe.

Through various projects, we have accumulated substantial know-how. Our green Skanska USA office in the Empire State Building in New York City has attracted much attention. This initiative shows that we can improve the environmental performance of older buildings as well.

There is enormous potential for us in this field, and we are taking a new aggressive step to generate more green business. Our Green Business Officer will further refine our green construction portfolio and actively demonstrate its advantages to customers.

Being a step ahead

Green construction may cost somewhat more today, but it is no more expensive in a longer perspective. It reduces energy consumption and operating costs, and we know that stricter environmental standards are on the way. In a few years, today's normal standards will no longer measure up, so naturally it is better to be a step ahead and practice environmentally sound construction even today.

The climate change issue requires action. The potential for and interest in green construction are growing. Skanska is needed for the environment and for building social infrastructure.

Recovery will be slow, and competition will intensify. But we have a very stable platform for the future – strong finances, dedicated employees, our brand and a strategy for profitable expansion.

We can count on some external help in the form of

- continued stimulus measures
- relatively low interest rates
- stable demand for housing
- increasing demand for green projects
- greater interest and new sectors for public-private partnership solutions
- new commercial real estate opportunities

But we will rely mainly on the collective power we possess in our Company and in our employees – continuing to control risks, strengthen project execution and improve work site health and safety. This is how we will retain our position as an industry leader in terms of profitability, green construction and a safe working environment.

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Johan Karlström
President and CEO