

## Efficiency and profitability

Skanska carries out thousands of projects each year. The overall goal is that every project shall be profitable and be executed in keeping with Skanska's values, as expressed in five qualitative targets: Zero loss-making projects, zero work site accidents, zero environmental incidents, zero ethical breaches and zero defects.

### Mission

Skanska's mission is to develop, build and maintain the physical environment for living, traveling and working.

### Vision

Skanska shall be a leader in its home markets – the customer's first choice – in construction and project development.

### Goals

Skanska's overall goal is to generate customer and shareholder value. Projects are the core of Group operations, and value is generated in well-implemented and profitable projects.

Skanska will strive to be a leader, in terms of size and profitability, within its segments in the home markets of its construction business units, focusing on "Outperform" margins and cash flow.

Skanska shall be a leading project developer in local markets and in selected product areas such as residential, office, retail and selected types of infrastructure development projects.

The Group's financial targets are presented on page 10.

### Skanska's strategy for achieving its operational and financial targets is:

- to focus on its core business in construction and project development
- to be an international company, with a leading position in selected home markets
- to execute all projects with zero defects according to the customer's expectations
- to recruit, develop and retain competent employees and to take steps to achieve increased diversity
- to identify and systematically manage risks
- to be a leader in the development and construction of green projects
- to be an industry leader in sustainable development, particularly in occupational safety and health, ethics and the environment
- to capitalize on urbanization trends and take advantage of the Group's know-how and experience as a city builder
- to take advantage of the existing potential to coordinate the Group's purchasing
- to take advantage of the efficiency gains that can be achieved through greater industrialization of the construction process

### Synergies at Skanska

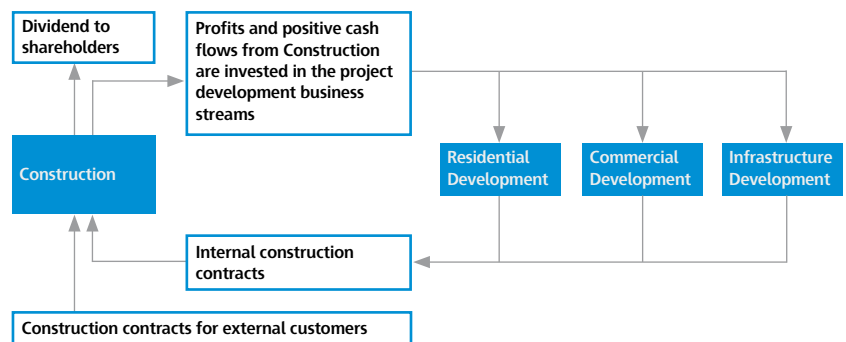
In the Skanska Group there are both operational and financial synergies that generate increased value for our shareholders.

#### Operational synergies

By being a global player, Skanska generates operational synergies mainly due to the potential for taking advantage of the local specialized expertise found globally in various business areas. Shared purchasing activities and product development also boost efficiency and contribute to greater synergies in the organization.

#### Financial synergies

The Construction business stream operates with negative working capital and generates a positive cash flow over time. This cash flow is invested in the Group's project development business streams,



which have enjoyed very good return on invested capital. These investments also enable Construction to obtain new assignments that generate a profit for the business stream. See also the above illustration.

### Skanska's core businesses

Construction and project development are complex businesses. Most projects are unique and local, as are the players who are involved. Market conditions also vary between countries and regions. Skanska's organization is based on local units in a global network. The Group operates in four business streams.

#### Construction

This business includes construction of non-residential and residential buildings as well as civil construction projects. It is Skanska's largest business stream, performing assignments for external customers (92 percent) as well as for Skanska's development business streams (8 percent). Operations are conducted in selected home markets – Sweden, Norway, Finland and Estonia, Poland, the Czech Republic and Slovakia, the United Kingdom, the United States and Latin America. Skanska attaches special importance to metropolitan regions, which often demonstrate higher growth than their respective country as a whole. Skanska offers many of the products and services that are needed in growing cities – workplaces, schools, hospitals, sports and leisure facilities, as well as housing and infrastructure for transportation, energy and water. In individual markets, Skanska operates today only in certain segments, but by taking advantage of its collective expertise, the Group can enhance its opportunities for growth and higher earnings in these markets.

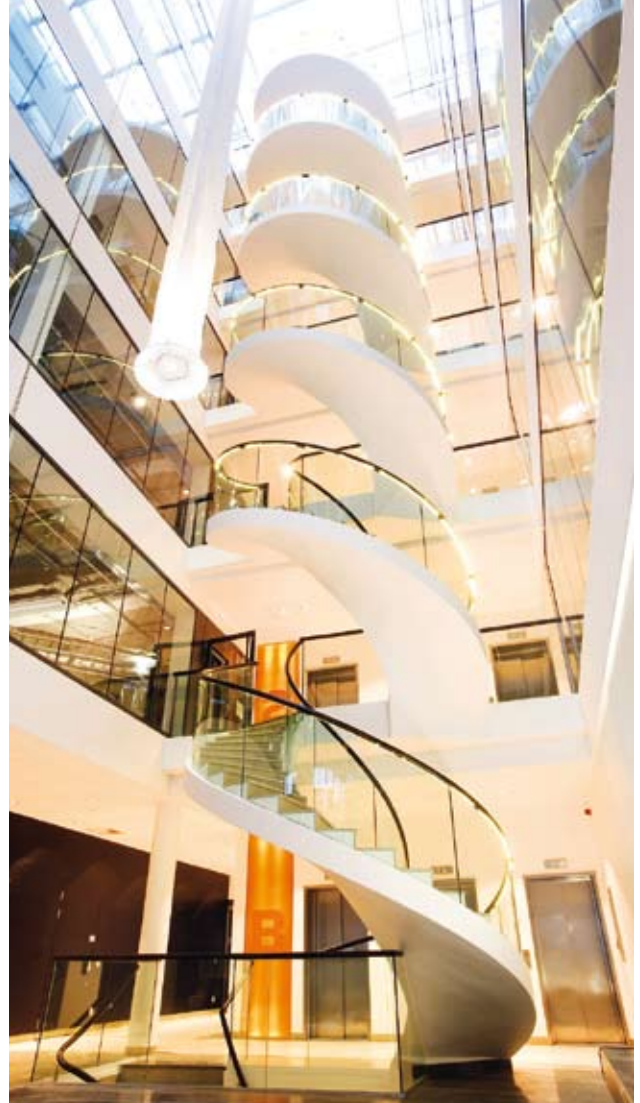
#### Residential Development

Skanska initiates and develops residential projects for sale primarily to consumers. It operates in selected markets where Skanska has a permanent presence – Sweden, Norway, Finland and Estonia, the Czech Republic and Slovakia. Skanska is one of the leading residential developers in the Nordic region.

#### Commercial Development

Skanska initiates, develops, invests in, leases and divests commercial real estate projects, primarily office space, shopping malls and logistics properties in Sweden, Denmark, Finland, Poland, the Czech Republic and Hungary, with a focus on major cities, and starting in 2009, also in the United States. These selected markets are expected to offer a continuous flow of tenants and investors, the latter as buyers of completed projects.

Located close to both the city center and harbor in Malmö, Sweden, Universitetsholmen is evolving into a vibrant district. The Citykajen office building is one of several Skanska projects there. The Swedish Rail Administration and the accountancy firm of PriceWaterhouseCoopers are anchor tenants.



#### Infrastructure Development

Skanska develops, invests in, manages and divests privately financed infrastructure projects, for example roads, hospitals, schools and power generating plants in the Group's home markets.

#### Collaboration creates leverage

Business units of the Skanska Group specialize in project development or construction but often collaborate in specific projects. This strengthens the Group's customer focus and creates the prerequisites for the sharing of best practices, while ensuring efficient utilization of the Group's collective competence and financial resources.

To take further advantage of synergies and bring together the Company's expertise, a number of support services are available to all units. These include the Skanska Knowledge Map, a web-based intranet tool that visualizes experts and teams of experts from Skanska on a global basis in selected strategic areas, for example Building Information Modeling (BIM), Green Business and Design/Build. The intranet tool shows where experts and expert teams are located and what sets of

problems they work with. It also provides guidance on approved approaches and recommended methods. By utilizing its specialized expertise in planning and executing projects, Skanska improves risk control, which in turn results in higher quality and profitability. Global collaboration thus leverages both earnings potential and the Group's ability to satisfy the needs of its customers.

#### Size provides competitive advantages

Being a market leader positions Skanska well with the most demanding customers. Its stature also provides access to the best suppliers, which can live up to Skanska's promises to customers regarding timely delivery and quality as well as safety and ethics. Skanska's size gives it an advantage in the most complex assignments, where it uses its collective experience and know-how to meet the demands of customers. Only a few companies can compete for the type of projects where, aside from price, comprehensive solutions and life-cycle costs are of crucial importance. The Group's size and international profile are also attractive qualities in the recruitment of new employees.

### Both a local and a global player

The Group's operations are based on local business units, which have good knowledge of their respective markets, customers and suppliers. These local units are backed by Skanska's brand, financial strength and Groupwide expertise. Skanska is thereby both a local construction company with global strength and an international builder and project developer with strong local roots. The organization works in a decentralized but integrated way, based on common goals and values. The Group's extensive network enables it to offer its global know-how to customers at the local level.

### Building Information Modeling

A computer-based method for detailed planning, coordination and more efficient execution – shall be used in Skanska's "design-build" projects, in which Skanska is responsible for both design and construction. Building Information Modeling (BIM) means greater standardization and also improves Skanska's ability to utilize the savings potential of its corporate-level purchasing efforts.

### Nordic coordination

There is great potential for improving the productivity of construction projects. Skanska has taken various initiatives to standardize products and execution as well as improve planning. Skanska Xchange is a pan-Nordic project aimed at improving efficiency through a higher degree of standardization and prefabrication in residential construction.

The Group is coordinating factory production of building elements in a unit called Skanska Industrial Production Nordic, in order to increase economies of scale.

### Skanska's strengths

#### Employees

Skanska's skilled, dedicated employees combine expertise with the Group's overall focus on sustainable development in order to successfully deliver projects to customers. The Group's ability to transfer knowledge between different geographic markets also contributes to its strength.

#### Brand

Skanska's brand has been built up during more than 120 years of working in many different countries. One element of the



Planning, planning and more planning – that is the key to improving work site safety. Difficult operations and the related risks are analyzed before the operations begin, for example at this project in Norway.

### Skanska's key stakeholders

- Customers
- Employees
- Shareholders
- Media and general public
- Suppliers and subcontractors
- National, regional and local government agencies
- Local residents
- Voluntary organizations

All construction projects in a community have an impact on people and environments. As a responsible company, Skanska contributes to social development, generates value and satisfies the interests of different groups.

brand is the Group's Code of Conduct, which includes policies on employee relations, health and safety, the environment and business ethics.

#### Financial strength

Financial strength is an important factor in maintaining the confidence of customers and capital markets in Skanska. It also enables the Group to invest in project development and assume responsibility for and invest in major privately financed infrastructure projects.

### Talent management vital

A good reputation is an important factor in attracting the best employees. To achieve its long-term goals, Skanska must ensure the supply of future managers both for its projects and for other parts of the organization. Identifying and developing the leaders of tomorrow is a core activity for both local units and the Group. For this reason, Skanska continuously measures and assesses the performance of employees with leadership potential. A substantial proportion of executive time and resources is devoted to management development (see page 14). To increase Skanska's attractiveness and create a closer affinity between employees and the Company, effective in 2008 it introduced a new long-term shareholding program, the Skanska Employee Ownership Program (SEOP), for all permanent employees. They can join the program at any time. The current program runs during the period 2008–2010. Meanwhile Skanska is broadening its recruitment base by attaching greater importance to increasing the diversity of its workforce in terms of gender, ethnicity and educational background.

### Risk management procedures

Construction work involves technical, legal, financial, employee, safety and environmental risks. The ability to identify and manage these risks is crucial to the Group's success and thus an important prerequisite for achieving its strategic goals. Unforeseen risks may have a substantial adverse impact on earnings. This is why the Group's risk management system is of key importance (see page 12).

## New initiatives in 2009

### Laying the groundwork for profitability

Skanska's earnings are achieved through well-implemented, profitable projects. The right market, the right projects and the right project managers are fundamental to success. The groundwork is laid by the Group's strategic planning, which identifies selected markets and segments.

Skanska continuously builds up knowledge of its customers through a permanent presence in these markets. It ensures a highly skilled project organization by means of local and Groupwide talent management programs. Planning and execution of new projects are based on the Group's extensive knowledge and experience bank, which has been accrued from thousands of projects around the world.

### Profitability, ethics and the environment

Skanska must act in ways that are sustainable and responsible in the long term and meet the demands of shareholders, customers and employees, as well as society at large. Skanska's aim is to ensure that all projects will be profitable and will also be implemented in accordance with the five zero visions: no loss-making projects, work site accidents, environmental incidents, ethical breaches or defects.

The market- and customer-specific expertise of local units, combined with Skanska's corporate business and control systems, the Group's Code of Conduct and common risk management procedures, provide support for achieving both financial and qualitative targets.

### Green construction

Skanska works actively to minimize climate change and intends to become a leader in environmentally- and energy-efficient construction, with the aim of developing economically attractive green solutions for its customers. The Group's expertise and know-how in green construction have been gathered and made available in The Green Toolbox. The demand for green solutions is increasing, and the initiative will give Skanska's local units competitive advantages.

The ambition, internally as well as externally, is to develop processes and products that increase energy efficiency and reduce greenhouse gas emissions, without being more expensive.

As a consequence of the economic downturn, Skanska has mainly focused its efforts on risk management and project execution, landing new contracts and adjusting the organization. Meanwhile, however, the Company is pursuing future-oriented work aimed at strengthening its competitiveness. Skanska took initiatives related to the environment and diversity as well as residential and commercial development.

### New Green Business unit

Skanska is intensifying its commitment to greener construction. In order to commercialize green technology and green solutions, it established a new global unit – Skanska Green Business. Its aim is to generate more green business and help customers choose products that are energy-efficient and have low environmental impact. The unit, led from Stockholm by a Green Business Officer, also has employees at Skanska's operations around Europe and the United States.

### LEED environmental certification

Skanska was the first Nordic construction company to introduce the Leadership in Energy and Environmental Design (LEED) international environment certification system. Both contracting and in-house commercial projects can be LEED-certified. All of Skanska's new commercial real estate projects for its own account and new premises for its own operations will be LEED-certified. Skanska has been working with LEED for some years in the United States, and the Company has more than 500 LEED-accredited professionals.

### Commercial project development starting up in the United States

Skanska is expanded its operations in the Commercial Development business stream to selected U.S. cities. A new unit will initiate, develop, lease and divest commercial space according to the same model as the corresponding business units in the Nordic countries and elsewhere in Europe. The first U.S. commercial development project was started in Washington, D.C.

### Residential development in selected markets

The new strategic direction in Residential Development represents a stronger focus on customers and products. Specially staged apartments targeted to selected customer categories and full-scale model units in planned areas are examples of intensified sales activities. Customers in Sweden also enjoy expanded protection from "GodAffär", an insurance package that provides compensation to buyers, for example in case of illness, unemployment or inability to sell their previous home.

### Mentorship program for women

A new Skanska Female Mentorship Program was established to provide encouragement, support and professional development for women at various levels in the Company. Twenty-two women were chosen for the first program, to be supported in their professional development by 22 male mentors. The goal is to achieve a more even gender balance at all levels, especially in line positions.

Skanska Female Mentorship Program



## Financial and qualitative targets

During 2009 the Group and a majority of its business units achieved their "Outperform" targets, which exceed industry standards in each respective geographic market and segment.

### Operating margin

The operating margin is an important yardstick of performance in the Construction and Residential Development business streams. Margins depend on what type of business is being carried out and may also vary between geographic markets. The "Outperform" targets for individual markets are weighed together into one target for an entire business stream.

### Working capital and financial strength

The Construction business stream has a target of operating with negative working capital, with the target defined as average working capital in the latest five quarters divided by rolling twelve month revenue.

For the Group, financial strength is measured as average net cash position during five quarters.

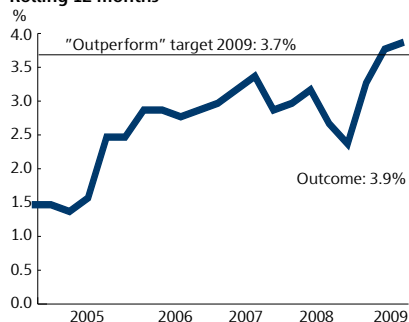
### Return on capital and equity

Commercial Development, Residential Development and Infrastructure Development – where Skanska invests in project development – have targets for return on capital employed. The target for adjusted return on capital employed in Commercial Development and Infrastructure Development includes changes in market value but excludes currency rate effects.

### Value creation

For the Group, there is a target for return on equity. Commercial Development also has a long-term target based on value creation: development gains accrued during the year after subtracting the costs of the development organization.

### Operating margin in Construction Rolling 12 months



## Qualitative targets – the five zeros vision

In addition to financial targets, Skanska has adopted qualitative targets. Some of these stipulate specific levels to be achieved in a given year, while others have absolutely zero tolerance – for example "zero ethical breaches." The targets are based on the vision that operations shall take place with:

- zero loss-making projects – to be achieved through careful selection of projects for tendering, consistent risk assessment and management, good planning and efficient execution
- zero work site accidents – to be achieved through training, equipment, work planning, clear instructions and rules as well as follow-up
- zero environmental incidents – to be achieved through analysis and planning as well as execution as planned
- zero ethical breaches – to be achieved through training and zero tolerance toward unethical actions
- zero defects – to be achieved through expertise and transfers of experience, planning and execution as planned

In addition to the five zeros vision, there are also management development targets.

### Financial "Outperform" targets, 2009

	Target	Outcome
Group		
Operating income, SEK billion	4.7	5.2
Return on equity, %	18.0	18.9
Financial strength, SEK billion	4.0	8.6
Construction		
Operating margin, %	3.7	3.9
Working capital as a percentage of sales	-10.2	-13.8
Residential Development		
Operating income, SEK billion	0.2	0.2
Number of units sold	2,000	2,277
Commercial Development <sup>1</sup>		
Operating income, SEK billion	0.8	0.9
Value creation, SEK billion	0.5	0.5
Return on capital employed, % <sup>2</sup>	9.3	9.8
Infrastructure Development		
Operating income, SEK billion	-0.2	-0.1
Potential projects, points	25	26

<sup>1</sup> Excluding Skanska Commercial Development USA.

<sup>2</sup> Including unrealized development gains accrued during the year and changes in market value.

### Long-term financial targets

Group	Return on equity, %	20.0
Construction	Operating margin, %	4.0
Residential Development	Operating margin, %	12.0
	Return on capital employed, %	18.0
Commercial Development	Value creation, SEK billion per year	0.5-0.7 <sup>1</sup>
Infrastructure Development	Return on capital employed, %	16.0 <sup>2</sup>

<sup>1</sup> Development gains accrued during the year minus expenses in the development organization based on annual gross investments of SEK 4-5 billion.

<sup>2</sup> Including unrealized development gains accrued during the year and changes in market value excluding exchange rate effects.

### Remuneration connected to targets

At Skanska many employees are covered by some form of flexible salary elements or bonus. Total remuneration can be divided into three components: fixed salary, flexible cash remuneration and the Group's long-term incentive program, based on shares (see Note 37, page 131). The allocation from the latter two components is based on how well Skanska's financial targets have been met. The requirements in the Group's financial target plan have been broken down in such a way that every project, district, region etc. has targets that support Skanska's overall ambitions.

Aside from achieving financial targets, a number of qualitative targets based on the five zeros vision must be met.

If qualitative targets are not met, any flexible remuneration based on financial targets may be reduced by up to 100 percent.

### Capital structure

Capital requirements vary between business operations. Skanska's construction projects are mainly funded by customers. This enables the Company to work with negative working capital in its Construction business stream. However, the equity requirement for a construction company

is substantial. The requirement is related to its large business volume and to the risks inherent in the various types of assignments it carries out. Skanska must also take into account the financing of goodwill and the performance guarantees required by publicly procured projects in the U.S. market.

The ambition is to invest net cash surplus in the Group's development business streams – Residential, Commercial and Infrastructure Development. Liquid assets not being utilized are invested in such cash equivalents as government bonds and bank or corporate bonds with no lower than a BBB rating.



Despite the global economic crisis, Skanska's properties have found buyers. The Black Building office project in downtown Sundbyberg, Sweden was sold before completion to IVG Funds for SEK 400 M. The state utility Svenska Kraftnät is the dominant tenant in this EU GreenBuilding-certified property.