

Efficiency and profitability

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 overall goal is that every project shall be profitable and be implemented in keeping with Skanska's values, as expressed in five qualitative targets (the Five Zeros): Zero loss-making projects, zero work site accidents, zero environmental incidents, zero ethical breaches and zero defects.

Skanska's core businesses

Skanska 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 construction assignments for external customers (91 percent) as well as for Skanska's development business streams (9 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, water and more. In individual markets, Skanska operates today 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, Denmark, Finland and

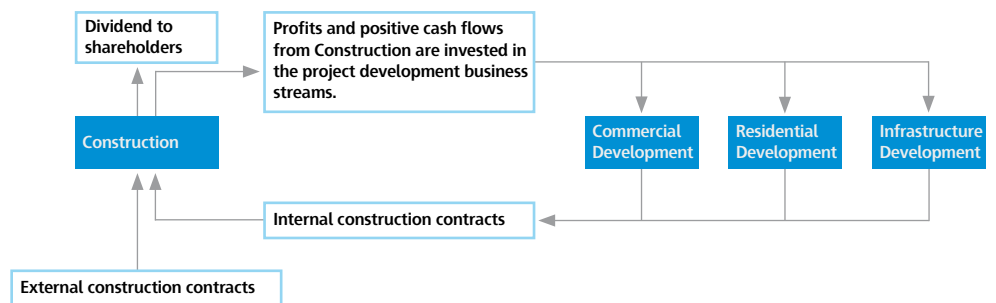
Estonia as well as the Czech Republic and Slovakia. Skanska is one of the leading residential developers in the Nordic region. Operations focus primarily on small and medium-sized residential units in attractive locations. Nordic operations are gathered in one business unit, Residential Development Nordic. In the Czech Republic and Slovakia, the local construction business unit carries out residential development through a specialized division.

Commercial Development

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

Synergies at Skanska

Skanska's four business streams create operational and financial synergies. How the financial synergy works: Cash generated by profits and positive cash flow in our Construction business stream is invested in our development business streams. The development streams then generate additional profits and new work for Skanska's Construction stream. This creates increased value for our shareholders.



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 described on page 10.

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 develop or construction but often collaborate in specific projects. This strengthens the Group's customer focus and creates the prerequisites for 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 Center, which gathers information on the Group's intranet about approved processes for certain types of projects, other

recommended methods and various collaboration networks.

Meanwhile specialization reduces risks in the project development process, yielding a positive impact on project quality and profitability as well. Specialization and collaboration thus leverage both earnings potential and the ability of the Group to satisfy the needs of its customers.

Size provides competitive advantages

Being a market leader positions Skanska well with the most demanding customers. Its position also provides access to the best suppliers, which can live up to Skanska's promises to customers regarding timely project 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.

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. Starting in 2009, Building Information Modeling (BIM) – a computer-based method for detailed planning, coordination and more efficient execution – shall be used in Skanska's "design-build"

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

- to focus on its core businesses 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 increase 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 sustainability, 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



One Kingdom Street at Paddington-Central in London utilizes both geothermal heat and solar panels to reduce its climate impact.

projects, in which Skanska is responsible for both design and construction. Greater standardization is also improving Skanska's potential for utilizing the savings potential of its corporate-level purchasing efforts.

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.

Skanska's strengths

Employees

Skanska's skilled, dedicated employees combine expertise with the Group's over-

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.



Improved safety and health are high priorities. Safety efforts should begin in the planning stage of every project. Recurring job site visits with a special focus on safety and health are part of the duties of all managers. In the photo, Skanska's President and CEO Johan Karlström (center) visits kvarteret Snöflingan (the Snowflake block), a residential and hotel project near downtown Stockholm.

all 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 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 resour-

es 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. The program is continuing, and new and former employees can gradually join SEOP. 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 11).

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

New initiatives in 2008

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 projects around the world.

Profitability, safety, 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 without environmental incidents, work site accidents, ethical breaches or defects. Skanska's success in achieving them will be measured by a Customer Satisfaction Index.

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 system, 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 responsible and energy-efficient construction. The goal of the "green construction" initiative is to develop economically attractive green solutions for Skanska's customers. The Group's expertise and know-how in green construction have been gathered and made available in The Green Toolbox, which was developed during 2008. 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.

Skanska took new initiatives aimed at strengthening its competitiveness by improving productivity, quality, the environment and employee recruitment and by taking steps to increase Nordic coordination.

Green products and services are being developed and marketed. Customers in all markets can benefit from Skanska's global green expertise and its Green Toolbox.

Building Information Modeling (BIM) is being used in all design-build projects to streamline the entire construction process, from design and planning to purchasing and execution.

"Zero defects" is being introduced as one of Skanska's qualitative targets, with the aim of strengthening profitability as well as customer focus and customer satisfaction. A Customer Satisfaction Index is becoming a Groupwide measurement instrument.

Skanska Industrial Production Nordic is a pan-Nordic unit for creating greater efficiency and economies of scale by bringing together factory production of building elements.

Risk management is being strengthened with the help of an internal panel of experts that reports to the Senior Executive Team. Its task is to examine and evaluate new potential projects as well as analyze technical risks, in addition to the other analyses that precede a project tender.

In its second round, the Global Trainee Program has been expanded to 22 participants. The program is designed to attract and recruit employees with different educational backgrounds, gender and ethnicity.

A pan-Nordic information technology unit is being created to increase synergies by standardizing, centralizing and customizing systems and tools in the Nordic countries.

Purchasing work is being gathered in a new pan-Nordic unit that also includes Group purchasing activities. The aim is achieve greater leverage in purchasing by coordinating this work at the Nordic and Group levels.

Skanska Xchange – a pan-Nordic development project aimed at reducing the costs of residential construction – is launching a number of pilot projects in the Nordic countries.



The new headquarters of the international engineering consultancy ÅF in Solna, near Stockholm. The building is so energy-efficient that it is one of the first in Sweden to achieve the European Union's GreenBuilding classification.

Financial and qualitative targets

Skanska's financial targets exceed industry norms in its respective geographic markets and specific segments. "Outperform" targets at each business unit provide the basis for incentive systems in the organization.

Operating margin

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

Working capital

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.

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

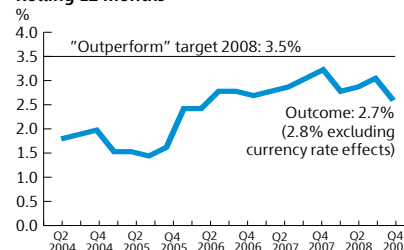
Commercial Development and Infrastructure Development includes changes in market value but excludes currency rate effects. Commercial Development also has a long-term target based on value creation: accrued unrealized development gains after subtracting the costs of the development organization. For the Group, there is a target for return on equity.

Qualitative targets – the 5 zeros vision

In addition to financial targets, Skanska has also 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 – by avoiding loss-making projects and unacceptable financial risks and selecting projects carefully
- zero work site accidents – by guaranteeing safety at and around job sites for employees as well as subcontractors, suppliers and the general public

Operating margin in Construction
Rolling 12 months



- zero environmental incidents – by carrying out projects in ways that minimize environmental impact
 - zero ethical breaches – by zero tolerance toward all anti-competitive activities
 - zero defects – leading to better final results and greater customer satisfaction
- In addition to the five zeros vision, there are also management development targets.

Remuneration connected to financial and qualitative targets

At Skanska many employees are covered by some form of flexible salary elements or bonus. Total remuneration can be divided into 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. If qualitative targets are not met, any flexible remuneration based on financial targets may be reduced. In all, such remuneration may be reduced by up to 50 percent if none of the qualitative targets is achieved.

Capital structure

Capital requirements vary between business operations. Skanska's construction projects are mainly funded by customers. This enables the Company to operate with negative working capital in its Construction business stream. However, the equity requirement for a construction company is substantial. This 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 in 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, bank or corporate bonds with no lower than a BBB rating.

Financial "Outperform" targets, 2008 (excluding currency rate effects)

	Group ¹			
Return on equity, target, %	21.0			
Return on equity, outcome, %	17.3			
	Construction ¹	Residential Development ¹	Commercial Development ²	Infrastructure Development ³
Operating margin, target, %	3.5	10.4		
Operating margin, outcome, %	2.8	-2.9		
Working capital, target, SEK bn	-12.3			
Working capital, outcome, SEK bn	-14.6			
Return on capital employed, target, %		15.5	11.7	18.0
Return on capital employed, outcome, %		-3.1	12.6	16.2
Value creation, target, SEK M			700	
Value creation, outcome, SEK M			946	
Investments, target, SEK M				700
Investments, outcome, SEK M				896

1 Outcome is calculated excluding currency rate effects. The figures shown are calculated using outcome in local currency with exchange rates on September 30, 2007, which were used in calculating targets.

2 Including unrealized development gains and changes in market value.

3 Including unrealized development gains and changes in market value but excluding currency rate effects.

Long-term financial "Outperform" targets

	Group			
Return on equity, %	20.0			
	Construction	Residential Development	Commercial Development	Infrastructure Development
Operating margin, %	4.0	12.0		
Return on capital employed, target, %		18.0		16.0 ¹
Value creation, SEK M per annum			500-700 ²	

1 Including unrealized investment gains and changes in market value, excluding currency rate effects.

2 Accrued development gain minus expenses in the development organization, based on annual gross investments of SEK 4-5 billion.