

## **SKANSKA ANNUAL SHAREHOLDERS' MEETING, APRIL 3, 2007**

### **CEO statement**

2006 was a good year for Skanska. We continued our progress toward the OUTPERFORM targets we set 2 years ago for 2007. The Residential, Commercial and Infrastructure Development business streams all exceeded their targets. 5 out of 10 Construction units also met their targets and the entire Construction business stream would have been on its target except for the loss in Denmark. And, on a Group level, we achieved a 19.3% return on equity, exceeding the target of 18%.

We also continued the pursuit of the 4 zeros – those very important qualities that define the kind of company we are.

We reduced the number of new large loss making projects from 40 to 27. Remember – we have thousands of projects. The impact on margin of loser projects was also reduced. Eliminating loss makers is not only important for financial reasons, but loss makers also destroy customer relationships because bad performance affects our customers as well. Late delivery, poor quality disputes all impact the image of Skanska.

The lost time accident rate declined from 6.8 to 5.8 per million man hours worked. The drive to ZERO continues. During the safety week in October, the overall performance was very good. Eleven business units and six home markets were accident free. The resulting accident rate during the week was half of the rate for an average week, which just shows what the potential is with the right focus and mindset.

We recorded one ethical breach in 2006 in Slovakia, although we are contesting the findings of the local Competition Authority. Nonetheless, any hint of unethical behavior is unacceptable. We have a zero tolerance policy and continue to train, audit and communicate this value to our people.

We had Zero significant Environmental incidents in 2006. Now we are turning our attention to a proactive program to reduce energy consumption and carbon

emissions in our vehicles and construction equipment and in our own development projects. We will also develop more expertise in the business units to assist our clients in designing their buildings in a more environmentally friendly way.

The 4 zeros are also very important in recruiting young people to Skanska. And, they are also good for business. Let me tell you a story.

You may be aware that in January of this year we signed a 7 Billion Crown contract to build a new American football stadium in New York for the two local professional teams, the New York Jets and the New York Giants. The negotiations for this contract went on for months and time was running out to get going because the stadium must be ready for the 2010 season. Finally, the owners of the respective teams – Woody Johnson of the Jets and John Mara of the Giants – asked to meet with me. So I flew to New York and sat down to meet with them. I told them of the proud 120 year history of Skanska, of our many fantastic completed and ongoing projects, and of our experience with stadium projects in the US. I even told them what a good investment over time Skanska has been for our shareholders. The two potential clients were polite but unexcited. Then I described our commitment to the 4 Zeros and Mr. Johnson stopped me and said, "That is the kind of company we want as a partner! We want to do business with people with such values just like we want the players to share our values. Let's sign the contract today!" And we did! So, without doubt, the 4 Zeros are also good for business.

Now, I want to take a few minutes to review the financial highlights of 2006. Starting with Construction, I first want to show a few construction projects. Revenue from the Construction business stream totaled 119 billion roughly even with 2005; but operating income increased 2% to 3.3 billion and the margin improved from 2.5% to 2.8%. Excluding Denmark the construction margin would have been on target at 3.2%. And return on capital employed exceeded 100% due to an incredible negative working capital of SEK 11 billion. Order bookings rose by 20% and we go into 2007 with good momentum.

Looking at the Construction Business Units; Sweden was the front runner earning 1.1 billion with a margin of 4.6% And Sweden leads Skanska in consolidating procurement and industrializing the construction process. Norway, the UK, Poland and Latin America all hit their Outperform targets for the year as well. The two US businesses were just short of their targets but improved their performance dramatically and are poised for a strong 2007. The Czechs were short of target due to one off reservations unrelated to projects and in Finland the shortfall was due to underperformance in the civil sector. The major disappointment was

Denmark, which has proven a difficult market over the years, and where we are now concentrating our operation to segments where we can be profitable.

Turning to Residential Development, this business stream performed very well by all measures. Here are a few of our outstanding residential projects. The Residential Development revenue increased to 6.8 billion; operating income was up 50% to 900 million and the operating margin was 12.6% well above 2005 and the target of 1% for 2006. And return on capital employed was 27.5% vs. a target of 18%. We go into 2007 with very good momentum as new starts increased 20% to 4,715 units during 2006. All in all a great year in a great market.

The Commercial Development business stream turned in its usual Outperformance. Here are some examples of a few successful projects sold during the year. This shows that we have profitable businesses in Denmark in both commercial and residential development. Revenue in Commercial development declined in 2006 due to fewer property sales. This also effected the operating income which is mostly derived from capital gains on sale of fully developed projects. But the measure of the skills of our CD managers is the return on capital employed which was 17.5% against a target of 15% over a 9 year business cycle. Market conditions are now sufficiently positive to enable us to increase our investment in new developments. In 2006 we started 11 new projects with a total investment when complete of SEK 1.6 billion. As you can see the pace of investment has increased each of the past 3 years. We expect this trend will continue in 2007, and we are pleased to sign a lease with Skandia last week for their new head office at Lindhagensterassen here in Stockholm. As a result of the increased development activity, investments will most likely exceed divestments in the next two years as we create value for future realization.

The Infrastructure Development business stream continued to provide increased value to our portfolio of recently completed and ongoing projects. We now have a total of 16 projects in the portfolio with an estimated value at year-end 2006 of SEK 5.7 billion. The current book values in these projects are SEK 2.4 billion leaving an estimated surplus value of SEK 3.2 billion. During the year we sold minority interests in three small projects at a price which was 35% above estimated market value at year end 2005, indicating that our valuations may be conservative. Also, during the year we started the largest project ever in Skanska, the SEK 14 billion Barts and London Hospital, where we will design, build, finance and operate the facilities.

I now turn to another important aspect of our business – our people. This is a picture of Skanska. In Skanska there are 14 Business Units and thousands of projects all separate from one and other by distance. The strength of the company

relies on connecting all these businesses and projects to one and other. We call it “Connecting the Dots”.

And this is the responsibility of our managers which means our managers have to be great bosses. We have a saying in Skanska, people join companies but they leave bosses. Therefore it is the responsibility of every manager to take good care of his or her people; to listen, develop and set standards of performance that will enable us to outperform.

Over the next five years we need to recruit at least 16,000 entry level managers just to maintain our present size. Therefore during the year we established a special function within Human Resources to enhance our recruiting, particularly from the universities. Part of this initiative is to recruit from a more diverse base.

Diversity means gender, ethnic background and educational background. All three are important in attracting the best people. There are 3 good reasons to improve diversity.

One, it enriches a company to be diverse. A stereotype employee population lacks creativity and diversity in perspectives. For example, females see some things differently than males. And, even if we are a construction and project development business, not everyone in the company needs to be an engineer. In fact, much of what we do has little to do with engineering. So why not focus more on attitude in the recruiting and teach the technical side as part of the job training?

Second, people tend to do business with people like them. This is a picture of Skanska interns from Duke University in the US. If these young students don't join us, they may well be our clients some time in the future. Do they all look like white, male engineers? No – and as a company we need to reflect the diversity of our clients.

And finally, diversity is necessary because there simply aren't enough white, male engineers to go around. So why limit ourselves to such a small pool of talent when we can enrich the company by encouraging a more diverse group of employees?

But, I also want to be very straightforward about diversity because it is somewhat of a political issue and being politically correct is not the point. This is a journey, measured in years. We have a long way to go. We are dedicated to the goal of becoming more diverse, to be reflected by real changes in the mix of people in the organization, rather than by changes of more symbolic kind.

I know that we can attract females and young people from ethnical minorities, but success will be in recruiting sufficient numbers and keeping them in the company

and, as result, having a strong, diverse pool of experienced managers from which to choose the next generation of senior managers. You will know if we have been successful also in this respect in 5 years time. As I said, this is a journey, but one that we are committed to accomplish.

Turning briefly to the outlook for the current year and beyond I feel reasonably optimistic. With nine of our 14 business units achieving or exceeding their 2006 Outperform targets, and with continued favorable market conditions, we are in a good position to achieve our long-range Outperform targets for 2007. But there are risks relating to materials and labour sourcing and cost escalations therefore pose risks, particularly to large long term projects. More importantly, the large need for urban infrastructure, housing and more energy-efficient buildings, also means that our long term prospects are bright indeed.

Finally, I want to thank all of my colleagues for their hard work and dedication to the Company.

I would also extend my gratitude to the Board of Directors for its guidance and express a special thanks to Ulrica Francke and Professor Roger Flanagan who will be leaving the Board.

And all of us – the Board, the management and the employees of Skanska – appreciate very much the support from you, our shareholders. We will continue our work to justify your investment.

**Thank you!**