



CEO Statement 2009

Address by Johan Karlström, President and CEO, at the Annual Shareholders' Meeting of Skanska AB in Stockholm, Sweden on April 6, 2009.

Dear shareholders,

This is my first Annual Meeting of Skanska as President and CEO. During the twelve months or so that have passed since I assumed this position, we have experienced a very rapid change in economic conditions – not only affecting our operations, but nearly all industrial and financial operations, with an adverse impact on the finances of private households as well.

First and foremost, however, let me note that Skanska remains stable – both financially and operationally. For this reason, the Group is well equipped to deal with the effects of the financial market turmoil as well as the recession we are now in the midst of.

2008 results

Macroeconomic perspective in brief

As a result of developments during 2008, during a short period we moved from the peak of an economic boom to a global financial crisis and a sharp cyclical downturn. My guess is that many of you have seen various types of charts illustrating the general economic trend. In this chart, we have adjusted the picture of the general trend to a more Skanska-oriented perspective. It shows weighted changes in Gross Domestic Product in Skanska's home markets, where the weighting is based on our sales in each respective market. It provides a good illustration of the dramatic economic slowdown late in 2008. Similarly, in this curve we have weighed together the trend of construction investments in our home markets. As you know, construction investments normally occur relatively late in an economic cycle. But here, too, we can note a clear slowdown as early as the final months of last year.

The Group as a whole

For the Group as a whole, revenue remained largely unchanged during 2008, whereas operating income and return on equity were lower than in the preceding year. Our earnings downturn, which was about SEK 1.3 billion, largely corresponded to our provisions for the costs of employee cutbacks and writedowns of certain assets. I will comment further on the trend of earnings later when I go through Skanska's various business streams.

As you can see, our net cash position declined too, but we should recall that at the end of 2007 our net cash position was extremely high. At the end of 2008, the Group's net cash position totaled more than SEK 9 billion, which still provides a stable financial base for our operations. It gives us both strength and security, especially in the period of tighter credit and weaker economic conditions that we are experiencing today.

Construction

During 2008 our Construction operations had the advantage of being able to work with the strong order backlog we had built up during the immediately preceding good years. Several of our Construction business units also achieved very good earnings in 2008.

In Construction as a whole, however, our operating margin deteriorated to 2.7 percent. The decrease in earnings was explained in part by large writedowns in a number of projects. While these writedowns are related to only a few of all our thousands of projects, they nevertheless show that unfortunately we have not fully succeeded in managing the risks that necessarily exist in all construction operations. Here I see great potential for earnings improvement. The task of further strengthening our risk management will thus continue to enjoy high priority.

Our earnings were also pulled down by provisions for the costs of the employee cutbacks we announced late in 2008. These announced cutbacks are of course largely related to the decline in order bookings last year, and I will have reason to return to this topic a little later.

Let me take this opportunity to show two examples of projects we are currently working on.

We were awarded the task of being responsible for a large-scale renovation of the well-known United Nations Building in New York City, among other things because we were able to put together an international project team. The work is divided into a number of contracts over a period of several years, but the overall value of the project is several billion Swedish kronor.

In the Northern Link (Norra Länken) highway project in Stockholm, we are currently working on one of the contracts related to a tunnel project at Norrtull, the northern gateway to the city center. The contract is worth more than SEK 400 M. Recently we were also awarded a contract for the Värtan interchange, another portion of the Northern Link, valued at about SEK 870 M.

Residential Development

Our Residential Development operations are concentrated in the Nordic countries, the Czech Republic and Slovakia. This is the business stream that was most dramatically affected by financial market turmoil and the general economic downturn. In Residential Development, we are relying on private customers. Their demand for new housing was obviously affected by difficulties in financing their home purchases and, in some cases, undoubtedly also by labor market uncertainty.

The result was a sharp downturn in the number of housing units sold in all Nordic markets. In addition, we were forced to write down the value of some of these assets. In Residential Development, earnings were pulled down by provisions for the costs of employee cutbacks as well. For the business stream as a whole, this resulted in an operating loss for the year.

Naturally we are very cautious about starting new residential projects in the prevailing market situation, but we have continued a large number of ongoing projects that will be completed successively during 2009 and subsequent years. Active sales work is always important to successful residential development, but now it is more important than ever. This is why we are currently devoting great energy to this task.

Here are some pictures of residential projects that we worked with during 2008 and that are good examples of the attractive housing we can offer our customers.

Romance in Prague, Czech Republic, is a large project that includes several phases. We completed the first phase early last year. All 237 apartments and 31 single-family homes in Phase I have been sold. Here we are busy with Phase II, totaling 382 units, of which about 70 percent have been pre-sold.

We have developed Lindhagensterrassen in northern Kungsholmen, Stockholm, in several phases. We are now working on the final phase there. The project includes a total of 486 apartments, most of which have been sold. Not far away, we are currently building 170 apartments in the Snowflake (Snöflingan) project. Everything has been pre-sold, and our plans call for another phase with an equal number of apartments.

Commercial Development

In Lindhagensterrassen we have also pursued the development of commercial properties on a large scale for some years. Altogether we are talking about some xxx,000 square meters that we have developed here since the late 1990s.

Both here and elsewhere, our commercial property development has been very successful for many years and 2008 was no exception, although the prevailing financial turmoil worsened conditions in the investor market, especially late in the year.

However, we started fewer new projects than the year before, and the leasing level was also lower as a consequence of this.

This slide shows that our commercial property investments and the resulting capital gains remained at a relatively steady level during 2008, compared to the immediately preceding years, while our investments in ongoing and newly started projects rose significantly.

As mentioned, during 2008 we started fewer new projects than the year before, but perhaps it may seem risky in times like these to invest in any new projects. So it is important to note that a large proportion of these projects are already fully or partly pre-leased, and several of the projects have also already been sold.

One effect of this is that our capital exposure in ongoing projects actually shrank during 2008 and was well below the upper limit we have established. We measure our capital exposure in ongoing projects as estimated completion cost multiplied by the vacancy rate.

Let me show some examples of interesting development projects that we worked with in 2008.

Lintulahti is our first Commercial Development project in Finland. It includes 10,700 square meters of office space and was completed during 2008. It is the first building in the Nordic countries to be environmentally certified according to the LEED international system.

Atrium City is another development project for Skanska's own account along Jana Pawla Avenue in Warsaw, Poland, where we had previously developed and sold four major projects. Atrium City includes 20,000 square meters of office space, most of which has been pre-leased. The project is being completed during 2009, but it was already sold during 2008.

Infrastructure Development

In Infrastructure Development, our project portfolio in the form of public-private partnerships includes highways, hospitals and schools with an estimated total project value of SEK 7.8 billion and an estimated unrealized development gain of SEK 6 billion.

During 2008 we sold our stake in the Ponte de Pedra hydropower project in Brazil, with a capital gain of SEK 686 M.

We also completed the first phase of the big A1 expressway project in Poland. Our share of the construction contract totaled about SEK 5 billion and our investment was SEK 96 M. We are now hoping to have everything ready to begin constructing Phase II before this summer.

The largest ongoing Infrastructure Development project today is the Barts and The London Hospitals in the United Kingdom. The value of the construction contract totals more than SEK 12 billion, and our share of the investment is an estimated SEK 450 M. So far, the project has proceeded as planned, but several years of work remain before completion.

Infrastructure Development operations are also impacted by the difficult situation in the credit market. Our general perception is that it is taking longer and longer to move a project forward to financial close. However, we have a couple of large highway projects in which we hope to have the financing in place before this summer. Looking a bit further ahead, we foresee continued potential to expand our Infrastructure Development operations in Latin America, the United States and Europe.

Further development

Those were my comments on the outcome of 2008. I would like to devote the rest of my address to some important aspects of how we are working to develop our operations in the short and long term, and I will conclude by taking the opportunity to comment on developments so far this year and provide my view of the outlook for the rest of 2009.

Recruitment, diversity and management development

The foundation of all profitable business activity is good leadership and highly proficient, dedicated employees at all levels. This is true during both economic upturns and downturns.

While we are now being forced to adjust our personnel resources to the weaker market, we thus consider it important to continue with the various recruitment and management development programs that we have initiated in recent years.

During 2008 we completed our first Global Trainee Program and began a new program with twice as many participants, which will run during 2009/10. The program attracted a very large number of young, interesting and gifted applicants. From among them we have selected 22 participants.

This program is a good example of our ambition to broaden the recruitment of new employees to Skanska in terms of the proportion of men and women, ethnic background and educational background.

The five zeros vision

Our five zeros vision – zero loss-making projects, zero work site accidents, zero environmental incidents, zero ethical breaches and zero defects – is nothing new for 2009, but the five zeros remain the core values of our operations.

All of them are important. We don't put any of these values ahead of the others. Besides, they often go together, either in a vicious or a virtuous circle. And of course we want them to work in a virtuous circle.

Still, let me comment briefly on safety and the environment at our work sites. Construction work often takes place in a risky working environment, and unfortunately the frequency of accidents is also higher than in many other industries. It is easy to explain this by citing the special challenges we must deal with, but it is still not acceptable that employees or subcontractors are injured and sometimes even killed at our work sites.

We simply must improve our safety efforts. Together with trade unions, employees and especially subcontractors, we are working intensively to achieve our zero vision. To achieve this goal, we need a change in attitudes, improved proficiency in practical safety work and, in particular, visible leadership in efforts to improve safety at our work sites.

Green construction

Another aspect of our future operations is green construction. To some extent, the issue of climate change has been pushed out of the media spotlight by today's economic problems, but I am convinced this is only temporary. Our need to take responsibility for the environment and to ensure reasonable living conditions for future generations obviously remains. And of course we want to join in and do our part.

This is important and is the right thing to do, both from a business standpoint and in a societal perspective.

Our ambition is to be the leading green project developer and contractor in our markets. We have gathered our international experience in this field into a green knowledge bank – our “green toolbox” – which all of our business units can take advantage of in their projects. It is a matter of constructing energy-efficient buildings, but also of using environmentally sound materials and construction techniques, to mention just a few areas. In our Nordic Commercial Development projects, we continue to apply the American LEED and EU environmental certification standard. Today we are also noting an increased demand for green projects from our customers.

We also have the advantage of being able to apply our green expertise in a number of geographic markets, which means that we can make a difference in an international perspective as well.

We believe that this will put us a step ahead of our competitors. Hopefully it will also give us a unique position among our customers. It also makes our employees even prouder to be working at our Company and increases Skanska's attractiveness to future employees.

Productivity

Our future will depend not only on comprehensive and long-term visions, but on our continued ability to offer our customers a good product at a competitive price and to deliver their projects on time and without defects.

Building Information Modeling (BIM) is an important tool for more efficient construction.

BIM is a method for detailed advance planning, simulation and building a project model in a computer environment, thereby avoiding problems at later stages. We are now working intensively in all business units to assume a leading position in this field. BIM is not something entirely new, nor is it unique to Skanska, but we are convinced that our expanded expertise and use of BIM will give us both competitive advantages and higher profitability in our projects.

Outlook for 2009

So much for our visions and our important development areas.

The macroeconomic picture

Turning to the outlook for this year, let us note that the curves I showed you at the beginning indicate a continued downturn during 2009 both in the overall economy and in construction investments. Meanwhile the forecast indicates a slight economic recovery towards the end of this year and in 2010.

Trend during the first quarter of 2009

As for the trend during 2009, we will be reporting our first quarter earnings on May 6, but today we can already note that our total order bookings during the first three months of the year were substantially lower than in the same period of 2008. As always, we must be cautious about drawing excessively far-reaching conclusions from this, since three months is a relatively short period.

In Construction we still have a relatively strong order book to work with during 2009. Aside from delivering these projects as planned, the big challenge today is thus to obtain orders for 2010 and 2011, without at the same time exposing ourselves to excessive risks in the new contracts we will have to win in very tough competition.

In Residential Development, we have noted a stronger sales trend in Sweden and Norway during the first quarter of 2009 compared to the end of last year. Given the uncertainty of the market, we are very cautious about starting up new projects and are now focusing primarily on selling from our inventory of completed and ongoing projects. If the positive sales trend should persist, however, it may be time to start new projects in Sweden and Norway. In Finland, the market situation remains very depressed.

Commercial Development is being affected both by a weaker investor market, which makes it harder to find buyers for projects, and by falling demand for retail and office space, which means poorer prospects for starting up new projects. We still believe that we will be able to complete some project divestments during 2009, but the volume is likely to be substantially lower than last year.

In Infrastructure Development, as I mentioned earlier, we hope to sign final agreements for two large new highway projects before this summer. If this happens, it will mean a substantial addition not only to our investment portfolio but also to the order bookings of the Skanska construction units involved in these respective projects.

Special challenges

In the prevailing market situation, Skanska has a number of challenges to overcome.

If order bookings were to continue to go down, it cannot be ruled out that further cost reductions will be required.

It is too early to say anything more definitive about this today, however. Instead, we will have to talk about this later as events unfold.

We must also remain watchful about the indirect exposure to the recession and tighter lending practices that we have through our customers and suppliers. So far, we have not been greatly affected by this, but a prolonged recession together with continued tight credit can obviously cause widespread problems.

Opportunities

The prevailing market situation may also lead to some opportunities – especially for a company like Skanska. We have made sure to maintain a stable financial base. This will now make it possible for us to invest in the future even at a time when financing is a constraint. The recession may lead to new investment opportunities. This may include attractive land acquisitions for our development operations or the potential to expand our construction operations. To us, it is mainly supplementary acquisitions in our existing home markets that may be of the greatest interest. In other words, we are prepared if the right opportunities appear, but we will definitely not be leaping into any large, risky ventures.

One effect of the recession is that we can also hope for a somewhat calmer cost trend for important input goods in our construction operations, and perhaps also a somewhat improved situation in the procurement of subcontractors. Of course this affects not only us, but the whole industry, but hopefully a lower cost level may stimulate a positive trend in construction investments.

In closing, I would like to express my gratitude to all Skanska employees for their solid contributions during 2008, as well as convey the gratitude of the Executive Team and myself to the Board of Directors for their continued support of our work.

I believe it is clear to all of us that we face numerous challenges during 2009, and especially during 2010, when the impact of weaker economic conditions is likely to affect our operations to an even greater extent.

Yet as I mentioned earlier, there are some bright spots. In my assessment, we are relatively well positioned to take advantage of the opportunities that may arise.

With the help of our dedicated employees, our geographic breadth, our strong brand and especially our solid financial position, as always it is important for us at Skanska to continue growing our successful construction and project development operations.

Overall, I think we are in a good and stable position to do this successfully, both in the short term and in a somewhat longer perspective.

Thank you for your attention.