

SKANSKA

Residential Development 2007



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Cover: In Stavstensudde outside Trelleborg, Sweden, Skanska has developed a neighborhood of homes for all tastes: one-story houses, low-cost BoKlok (LiveSmart) single-family homes and apartment houses and low-energy Uniqhus homes.

“Residential Development 2007” presents Skanska’s residential development operations in detail. Residential development projects occur only in some markets where Skanska has a permanent presence: Sweden, Norway, Denmark, Finland and the Czech Republic. Finnish operations also include residential development in Estonia.

The Nordic housing markets have great similarities and are thus combined in one unit – Skanska Residential Development Nordic (Skanska RD Nordic).

Information about Skanska Residential Development is updated quarterly on the Group’s website, www.skanska.com, or can be ordered from Skanska AB, Investor Relations, SE-169 83 Solna, Sweden or via e-mail to investor.relations@skanska.se.

Introduction and overview

The growth of the Nordic residential markets decelerated during 2007. The turmoil in the American financial market, along with a housing oversupply in Norway and Denmark, were among the reasons.

Residential Development

SEK M	2007	2006
Revenue	7,679	6,788
Operating income	724	852
Operating margin, %	9.4	12.6
investments	-4,993	-5,045
Divestments	5,416	4,167
Operating cash flow from operating activities ¹	382	-466
Capital employed, SEK bn	4.4	3.7
Return on capital employed, %	14.9	27.5
Number of employees	565	467

¹ Before taxes, financing operations and dividends.

There is a great need for new housing in the Nordic countries, despite the slowdown in demand. The national economies remain strong and there is a heavy influx of people into urban areas – in Finland the largest since World War II. In Sweden, too few residential units are still being built in relation to the population. This is partly due to high costs.

Skanska is responding to this by improving the efficiency of its residential construction through higher productivity and increased standardization. The new Skanska Xchange initiative is a comprehensive strategy for achieving both competitive prices and greater profitability. Skanska Xchange is a pan-Nordic development project primarily aimed at improving processes and increasing standardization and prefabrication.

After a thorough analysis, the best methods for producing such components as outer walls, floors and stairs will be identified and form the framework of a number of project platforms. This will raise quality and efficiency and increase the potential for improving procurement efforts by boosting volume. During 2008 the first pilot projects will start, followed by gradual implementation.

This standardization mainly applies to components that are not visible to the customer. Structures beneath and behind the surface layers will be standardized in order to create a few selected, proven models and methods.

This means that, where so demanded, adaptation to local taste or requirements will continue to occur.

Building Information Modeling (BIM) – where an entire project is described in 3-D plus the time dimension – facilitates planning and coordination of activities and supports improved logistics. BIM, which Skanska introduced in 2007, is used in order to streamline the entire construction process, from design and planning to purchasing and execution.

Responsible for the entire development chain

Skanska is one of the leading residential developers in the Nordic countries. The Nordic housing markets have great similarities and are thus combined in one unit – Skanska Residential Development Nordic. Skanska Finland performs residential development in Estonia as well. Residential Development is one of Skanska's investment businesses but does not perform any construction work of its own. In the Nordic countries, it buys contracting services primarily from Skanska's construction units in each respective market.

In addition to the Nordic countries, Skanska carries out residential development in the Czech Republic and Slovakia as part of its construction operations.

The value enhancement process

Development of residential projects is a continuous process – land acquisition, planning, product definition, marketing, construction and sales – in which the developer has full responsibility in all phases. Development operations are capital-intensive, especially during the start-up of new projects. Value enhancement occurs continuously in the subsequent phases. In order to reduce tied-up capital, a rapid pace of sales is sought.

A supply of land suitable for development is a precondition for a continuous flow of projects. Due to lengthy planning and permit processes, ample lead time is required to ensure a supply of building rights (a "land bank") so that construction will meet demand. Market surveys and analysis of population trends – as well as macroeconomic factors such as employment, inflation and interest rate trends that influence the demand for housing – are crucial to decisions on investments in new projects.

Increasing the value of building rights

The value of land and building rights varies with the demand for housing, i.e. changes in prices and rents. Value also depends on location. As development risks diminish, value increases. A major step in value enhancement occurs when a parcel of undeveloped land is transformed into a building right. The process leading to an approved local development plan may take up to five years. Skanska plays a proactive role, working closely with local government bodies in planning processes for land use and neighborhood development.

Value is further enhanced in the next phase, when the building right is turned into a completed project that can be sold at the prevailing market price. Of fundamental importance for successful residential development is Skanska's ability to correctly assess demand and customer preferences in such a way that its development work results in attractive housing of the expected quality in the right place, at the right time and at the right price. Customer surveys provide data



on the preferences of potential customers in terms of location, design and price level.

Projects are accounted for using the percentage of completion method. This means that earnings are recognized as costs are accrued. When applying the percentage of completion method, Residential Development also takes into account the percentage of a project that has been pre-sold. The percentage of completion is multiplied by the pre-sales percentage and the result is the percentage of earnings that can be recognized.

Risk management

There are risks in all stages of operations. Such external factors as interest rates and the willingness of customers to buy housing units are of crucial importance to all decisions in the process. Housing units are built to be sold individually. To minimize risks, the goal is to completely develop and sell the units in a given project during a single economic cycle, when variations in market conditions are small or predictable. New projects are started after a certain percentage of units is sold or pre-booked. Sales and pre-bookings are followed up monthly.

Projects are usually divided up in phases. To avoid building up an inventory of unsold units, sale of units in a new phase begins only when the preceding one is nearly sold out or pre-booked. Increased standardization, with shorter lead times, boosts efficiency while reducing tied-up capital and exposure to market fluctuations. It also leads to lower and more predictable construction costs.

Ownership mechanisms vary in different markets

In Sweden, Norway and Finland, sales occur largely in the form of cooperative housing associations, ownership titles or housing corporations, respectively. In Norway, sales of cooperative housing units rose sharply during 2007 due to a modernization of the law concerning this form of ownership. Skanska acquires land, which is then sold, usually to a cooperative housing association formed by Skanska. Construction does not normally begin until contracts have been signed for about half the units in a project phase. The cooperative housing association buys the building right and construction services from Skanska, which then invoices the customer – the cooperative housing association or housing corporation – regularly as the phases are completed.

In Denmark and the Czech Republic, development occurs mainly for Skanska's own account. The residential units are sold individually as ownership units. Here, too, Skanska requires a certain percentage of pre-booked sales before making a decision to start construction.

Product platforms

In residential construction, as in nearly all construction, there is great potential for increasing the degree of industrialization. Skanska is continuing development work to create more industrialized and standardized residential construction. The aim is to create product platforms that can be used as the basis for many projects, thus taking advantage of repetition effects within the product types – apartment buildings, single-family homes and low-cost BoKlok (LiveSmart) units.

Great freedom of choice

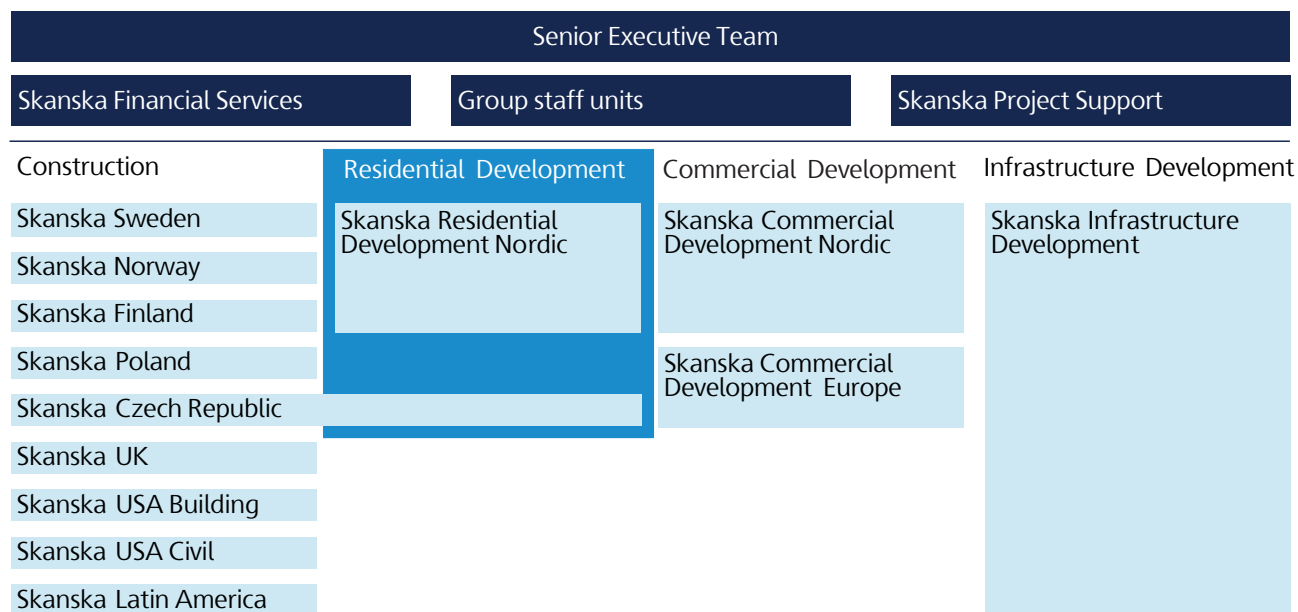
Unique design and specific customer choices are satisfied through various choices, for example different types of façades, windows, parquet floors, wet rooms and kitchen modules. A uniform technical platform allows simplified processes and shorter lead times.

Standardization and greater industrialization are essential for residential construction with lower costs, higher quality and shorter development and construction times. They also increase Skanska's competitiveness. As part of its sustainability efforts, Skanska can offer Sweden's first Swan-labeled residential buildings. The Uniqhus concept for sustainable housing has been granted a Swan-labeling license. Using environmentally friendly materials and construction methods, combined with low energy consumption, Uniqhus has a low life-cycle cost. The energy requirements of the residential units developed in-house by Skanska generally average ten percent lower than the standards set by the Swedish National Board of Housing, Building and Planning.



Järvastaden is a new residential area in Solna/Sundbyberg, Sweden, with a mix of architecture in a garden suburb. Located next to a nature reserve and close to highways and public transportation.

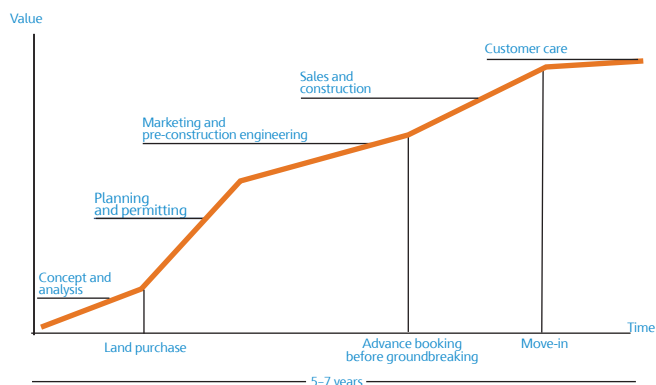
Group organization and reporting structure



Group assets

SEK M	Dec. 31, 2007	Dec. 31, 2006
Intangible non-current assets	5,242	5,230
Property, plant and equipment	5,973	5,457
Shares and participations	2,037	1,953
Interest-bearing receivables	5,206	4,470
Tax assets	1,367	2,306
Non-interest-bearing receivables	31,709	29,094
Commercial Development	6,260	5,583
of which completed properties	2,591	2,930
of which ongoing projects	2,149	821
of which land bank	1,520	1,832
Commercial properties, other	748	956
Residential Development	6,190	5,288
Cash and cash equivalents	14,209	10,970
Assets classified as held for sale	0	0
Total assets	78,941	71,307

Value creation in Residential Development



Generating value, step by step

In residential development, macroeconomic and demographic trends are fundamental in generating value. Before making land purchases, Skanska also analyzes local conditions in detail.

Maximum customer value is achieved in stages. During initial planning, Skanska establishes a framework in close collaboration with local government. Based on the potential offered by the surroundings, it then creates a neighborhood with clear character. The design and marketing of an attractive product is also based on the wishes of well-defined customer categories.

The Skanska project team leading this task includes business and project developers, architects, salespeople and builders. When purchasing their homes, individual customers will also contribute to the process with their specific requirements and requests.

Markets

At the end of 2007, there were about 5,600 residential units under construction. Of these, 73 percent were sold. The number of completed unsold units totaled fewer than 300, most of them in Finland. During the year, construction started on about 4,200 units. In the

Nordic countries, the number of residential units started was 3,500, while in the Czech Republic they totaled more than 700. The number of residential units sold during the year was 3,858, of which 3,211 in the Nordic countries and 647 in the Czech Republic.

Markets

	Revenue		Operating income		Operating margin, %		Capital employed		Return on capital employed, %	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
SEK M										
Sweden	3,431	2,620	429	298	12.5	11.4	776	595	42.5	>100
Norway	1,734	1,572	99	163	5.7	10.4	1,413	1,378	6.6	12.9
Denmark	611	536	-25	96	-4.1	17.9	943	776	-2.3	23.3
Finland	1,248	1,574	126	221	10.1	14.0	1,304	651	11.9	24.2
Czech Republic	655	486	95	74	14.5	15.2	14	286	32.2	26.0
Total	7,679	6,788	724	852	9.4	12.6	4,450	3,686	14.9	27.5

Number of unutilized building rights

Market	Master plan	Local plan underway	Local plan approved	Building permit stage	Total building rights ¹	Other rights
Sweden	3,300	3,800	1,600	1,200	9,900	1,800
Norway	500	400	2,400	100	3,400	1,700
Finland	400	800	4,900	500	6,600	4,600
Denmark	0	100	600	0	700	100
Nordic countries	4,200	5,100	9,500	1,800	20,600	8,200
Czech Republic	0	1,900	1,100	200	3,200	500
Total	4,200	7,000	10,600	2,000	23,800	8,700

Residential Development, number of units

Market	Units started	Under construction	Pre-sold, %	Total units sold	Completed, unsold
Sweden	1,528	2,396	81	1,406	18
Norway	464	605	80	441	17
Finland	1,365	1,538	50	1,258	233
Denmark	123	175	83	106	17
Nordic countries	3,480	4,714	71	3,211	285
Czech Republic	716	879	83	647	8
Total	4,196	5,593	73	3,858	293

Easy living



Our residential projects are designed for the way people live. Developing functional, flexible homes – with solutions that will work in the future as well as today – is our guiding principle. But residential units are not the only thing we care about. To us, it is equally important that the neighborhood as a whole is comfortable and pleasant to live in as well as easily accessible, so that daily life is easy.

We create neighborhoods based on existing conditions: advantages and values that are already in place. We search for locations with the right potential. An attractive location can mean many things: being close to a city and its amenities, close to natural scenery or the sea, day care and schools. Our expertise is in identifying, utilizing and creating locations that are easy to live in.

We call it “living area design”: creating a neighborhood with values that attract customers based on their needs and priorities, the character of the place and its location.

In Solna just north of Stockholm is the Gamla Filmstaden residential neighborhood. Its atmosphere is a product of the history of this site, where many classic Swedish films were produced (Ingemar Bergman, Greta Garbo and Ingrid Bergman all worked here). It is a place that exudes both century-old calm and a forward-looking spirit. The neighborhood is unique in character, created both from the existing values and conditions and the lifestyles of those who live and work here. Calm, leafy courtyards in the same block as small shops, restaurants and a movie theater create a clearly urban character, closely entwined with a comfortable, pleasant living environment.



The former Filmstaden in Solna is an established residential neighborhood, plus old movie studio buildings preserved for posterity.

Big needs, but wait-and-see in Nordic markets

Residential construction in the Nordic countries decelerated in 2007, mainly due to higher prices in Norway and oversupply in Denmark and in certain regions of Finland outside Helsinki. The Swedish market was very strong, but here too, a certain slow-down occurred late in the year. The underlying need for housing units remains large throughout the Nordic countries, however, driven by greater urbanization and economies that are strong regardless of financial market turmoil. Overall, Nordic housing markets were characterized by a wait-and-see attitude, which is leading to longer sales periods.

In spite of this, the Nordic residential business unit was very close to achieving its “Outperform” targets.

Sweden achieves its targets

In Sweden, Skanska invested in new land with existing or planned building rights in Stockholm, Gothenburg and Trelleborg. The Group’s Swedish residential business achieved its highest-ever operating margin. All regions achieved their targets.

During 2008, Skanska foresees continued stable demand for good housing units in good locations. But the pace of sales is expected to be somewhat slower, determined in large part by financial market developments.

Slowdown in Norway and Finland

In Norway, the slowdown in residential demand began as early as the spring of 2007. As a consequence, new construction reached historically low levels – the number of units sold was halved from the previous year. Market prices fell by 3–4 percent. In spite of this, a number of regions were able to achieve their “Outperform” targets. During the year, 45 percent fewer units were started than

in 2006. Skanska invested in new land with existing or planned building rights. The number of new projects started in the overall Norwegian residential market is expected to fall by 10–12 percent in 2008 compared to 2007. There seems to be good potential for a stabilization of prices and demand during 2008, thanks to high employment and the number of people moving to cities.

In Finland, the residential development business noted a market slowdown late in 2007, especially outside the Helsinki region. In Estonia, the market was relatively stable. The number of project start-ups declined by about 25 percent from 2006. None of the Finnish regions achieved its “Outperform” targets. During 2007, 30 percent fewer residential units were started than the year before. Both certain investments in new land and divestments of building rights were implemented. The outlook for 2008 is characterized by a wait-and-see approach among buyers, leading to a lower rate of sales, fewer project start-ups and falling prices. The Finnish economy is showing satisfactory strength, however, and this is expected to provide continued good demand in areas such as Helsinki and vicinity in 2008.

Demand for economical BoKlok units in Denmark

In Denmark, housing oversupply in the Copenhagen area led to a near-total halt in Skanska’s new construction. The only exception is BoKlok (LiveSmart) units and homes in lower price segments. Impairment losses and higher costs at a project in Copenhagen resulted in negative earnings. Oversupply in higher price segments in Copenhagen will also dominate the market in 2008, with continued falling prices and slower sales, but there is demand in lower price segments, for example BoKlok units.

Czech Republic – demand still heavy in Prague

Residential development in the Czech Republic and Slovakia takes place within Skanska Czech Republic, which develops, builds and sells residential units directly to private individuals.

During 2007 there was very heavy demand in the Czech Republic. Skanska sold 647 apartments, equivalent to an increase of about 4 percent compared to the preceding year. During 2007, construction began on 716 units, which represented an increase of 49 percent on 2006. Demand in the Czech Republic was driven by the country’s harmonization with EU value-added tax (VAT) rules. Starting in January 2008, VAT on home sales was raised.

Many customers thus chose to make their home purchase before the tax hike. A certain deceleration will thus initially be noticeable in the Czech Republic. But both the Czech and Slovakian economies are showing growth. The housing market is thus expected to remain strong during 2008. Skanska’s residential development is concentrated in Prague, Czech Republic, and Bratislava, Slovakia, which are the main growth centers. The demand for housing is driven both by expanding population and greater consumer purchasing power in these capital city areas.



Lilla Bantorget

City Stockholm
Total number of units 75

The idea of transforming an anonymous street like Torsgatan into a lively apartment, office and hotel cluster with a completely new square was born in 2000, when Skanska began designing a comprehensive solution that would breathe life into one of the most colorless corners of central Stockholm. The residential building contains 75 tasteful urban apartments, from studios to 4 bedrooms, with many qualities you otherwise find only in older apartments, such as light and spaciousness. Ceilings are a full 2.60 m (8½ ft.) high and the top floor offers extra-high living room ceilings.



Lerkendal Park

City Trondheim
Total number of units 200

Skanska is creating a residential development in Lerkendal, a laid back, green neighborhood close to Trondheim's café and night life. The apartments are bright and ultramodern, with beautifully tended greenery that is perfect for socializing, relaxing and playing. The apartments range from 40 to 83 sq. m (430-893 sq. ft.) and feature smart, clean lines. The design is contemporary, with large windows providing a spacious, airy feeling. All apartments open directly to a garden or a roomy balcony with good sunlight.



Å-kvarteren – two-story detached homes

City Lomma
Total number of units 48

Lomma Harbor is one of the most exciting residential areas in the Öresund region of southern Sweden and eastern Denmark. Located near a lively harbor – with seafood for sale, a marina and a sandy beach – this unique neighborhood will eventually be home to some 3,000 residents. Skanska is building 48 two-story homes, 137 and 146 sq. m (1,475-1,575 sq. ft.) in size. Some of the streets end at the river, others on a harbor boulevard. The area has a small-town feel, with narrow streets and a minimum of traffic. Each house has a pleasant garden, about 200 sq. m (2,150 sq. ft.) in size.



TurBo Apeltun

City Bergen
Total number of units 38

Taking shape in Apeltun is a housing development consisting of 38 apartments. Residents are close to urban amenities, yet able to enjoy fine natural scenery outside their doors. The buildings have three stories, and all apartments run all the way from front to back – allowing light to enter from different directions. The architecture is simple, with clean lines accentuated by pentroofs. The area is surrounded by splendid outdoor areas with no cars, as well as beautiful views of mountains and a nearby waterway.



Espoon Reimantorni

City Espoo
 Total number of units 79

Reimantorni is an impressive building in an impressive location in Kivenlahti, a small seaside suburb established in the 1970's, about 20 km (13 mi) from Helsinki. The building has 17 stories and many of the apartments boast magnificent views over the sea. On the top floor there is a common sun terrace, lounge and sauna. Floors 15 and 16 consist of two-story apartments. Reimantorni is the youngest of Skanska's two skyscrapers in Kivenlahti.



BoKlok Sydbyen

City Frederikssund
 Total number of units 24

BoKlok Sydbyen, located in a green neighborhood of Frederikssund 40 km (25 mi.) from central Copenhagen, features four buildings around a courtyard among attached houses and single-family homes near Roskilde Fjord. Each two-story building houses six apartments with 1-3 bedrooms. All apartment have their own balcony or terrace. Between the buildings is a common garden with fruit trees, berry bushes and benches.



Černošice

City Černošice, Prague
 Total number of units 22

Around the Czech capital of Prague, Skanska is developing homes in desirable areas, including 22 two-story single-family houses in Černošice ranging from 200-300 sq. m (2,150-3,230 sq. ft.) in size and featuring both a terrace and garage. These homes offer comparatively high housing standards and large lots of up to 1,500 sq. m (16,150 sq. ft.). Located in the rolling hills southwest of Prague, the area offers sunny, bright surroundings as well as nearby forests and other greenery.

Residential Development, number of units

	Units sold January-December		Units started January-December	
	2007	2006	2007	2006
Market				
Sweden	1,406	1,357	1,528	1,484
Norway	441	833	464	845
Finland incl. Estonia	1,258	1,544	1,365	1,753
Denmark	106	128	123	152
Nordic countries	3,211	3,862	3,480	4,234
Czech Republic	647	624	716	481
Total	3,858	4,486	4,196	4,715

Units under construction, December 31, 2007

Market	Under	Of which	Of which	Completed
	construction	sold	sold, %	unsold
Sweden	2,396	1,940	81	18
Norway	605	487	80	17
Finland incl. Estonia	1,538	775	50	233
Denmark	175	145	83	17
Nordic countries	4,714	3,347	71	285
Czech Republic	879	731	83	8
Total	5,593	4,078	73	293

Number of unutilized building rights, December 31, 2007¹

Market	Building rights	Options ²	Total
Sweden	9,900	1,800	11,700
Norway	3,400	1,700	5,100
Finland incl. Estonia	6,600	4,600	11,200
Denmark	700	100	800
Nordic countries	20,600	8,200	28,800
Czech Republic	3,200	500	3,700
Total	23,800	8,700	32,500

¹ Including Skanska's share of building rights in associated companies.
² Entitlement to acquire building rights under certain circumstances.

Residential Development, by business/reporting unit

SEK M	Revenue				Operating income ¹				
	Jan-Dec 2007	Jan-Dec 2006	Oct-Dec 2007	Oct-Dec 2006	Jan-Dec 2007	Jan-Dec 2006	Oct-Dec 2007	Oct-Dec 2006	
Sweden	3,431	2,620	1,055	717	429	298	193	105	
Norway	1,734	1,572	351	485	99	163	-20	57	
Denmark	611	536	119	307	-25	96	-30	75	
Finland	1,248	1,574	289	427	126	221	32	76	
Czech Republic	655	486	253	166	95	74	40	27	
Total	7,679	6,788	2,067	2,102	724	852	215	340	

SEK M	Operating margin, % ¹				Return on capital employed, % ²	
	Jan-Dec 2007	Jan-Dec 2006	Oct-Dec 2007	Oct-Dec 2006	Jan-Dec 2007	Jan-Dec 2006
Sweden	12.5	11.4	18.3	14.6	42.5	>100
Norway	5.7	10.4	-5.7	11.8	6.6	12.9
Denmark	-4.1	17.9	-25.2	24.4	-2.3	23.3
Finland	10.1	14.0	11.1	17.8	11.9	24.2
Czech Republic	14.5	15.2	15.8	16.3	32.2	26.0
Total	9.4	12.6	10.4	16.2	14.9	27.5

¹ Development gain only. Construction margin reported under Construction.
² Rolling 12 months