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Management report

Pihl Annual Report 2008

In these turbulent times, with violent economic tornados ravishing societies around the world, it is not so simple to explain the consequences for exactly our line of activities.

In the public opinion you often experience a lack of nuances in the evaluation of reports published by companies to explain their situation. The truth has many faces, as we all know. The life of commercial enterprises is extremely diversified and cannot be summed up in mere numbers and coefficients. The numerical tools are able to show only part of the complicated organism constituted by a living group.

The past year started up with huge increases in the price of our raw materials: oil, steel, and cement, and in freight rates etc. In the second half of the year these prices slumped to levels rarely seen over the past many years.

At the end of the year the rates of currencies we normally receive as part of our payment came tumbling down. On the other hand, the US dollar regained some of its former strength.

The massive economic and financial storms that shook the entire banking world have not been seen since 1929, and they are felt, of course, as well by our company. As part of this disheartening experience our very important market, Iceland, collapsed. Unfortunately, we have to face the truth that a number of years will have to pass before times will revert to normal on the saga island.

The foreign markets

The foreign markets, which cover half of our turnover, comprise nearly a score of countries.

The turnover of this year in Iceland was our largest ever, measured in Icelandic currency, and our contracts were by and large all reasonable. But our affiliate, Istak, contributed only modestly to the positive results of the company because of the situation. Among the important works should be mentioned a steam power plant close to Reykjavik, which delivers electric power as well as hot water to the capital. In addition we have delivered supplementary construction works to Iceland's newest 800MW hydroelectric power station, a market building for Bauhaus, plus an extension to the University of Reykjavik.

In Sweden we are working on a number of contracts, among these an almost finished railway tunnel leading into the central station of Malmo, an underwater tunnel for a railway in the heart of Stockholm, and a large industrial complex in the vicinity of Gothenburg.

In Norway we are about to complete a large PPP project comprising a 40km long stretch of road, 7 tunnels and 61 bridges. This construction work has met with a number of technical and economic surprises, on which we hope a reasonable conclusion will be found.

In Liverpool we have almost completed an elegant museum building designed by the Danish architects 3xNielsen. In

Scotland we are making progress in our large development in Aberdeen with a dozen school buildings carried out on a PPP basis. This project will unfortunately be delayed as a result of the financial collapse of both the Icelandic investor and the Icelandic bank behind the project. The construction work is progressing anyway, and we are planning to have the project refinanced within a few months.

In Greenland we have completed the extension of the University of Nuuk. We have built an airport in Paamiut and a 7MW hydroelectric plant in the south. We are also building a 15MW hydroelectric plant north of Sisimiut, and we have been awarded a contract for a school in Nuuk.

In Boston, USA, the past year has been satisfactory, and considering the expansive opportunities this market is expected to offer, we are full of confidence about the future.

In Jamaica our reconstruction of 100km of main roads to highways is nearly finished. The work has been demanding, technically as well as financially, so we are looking forward to the successful closing of our economic dealings with our Jamaican contract partner. In Trinidad we are doing work on a harbour on the west coast of the island, plus a gas powered 800MW plant for the German company MAN, where we are responsible for the construction works.

In Panama the construction work on a 220MW hydroelectric power unit is in progress. It consists of a 90m high dam con-

taining 1 million cubic metres of filling materials plus 4.3km of tunnels and a power plant. At the end of November we were met by a near catastrophe with a 40-doubling of the water volume in the river causing enormous damages to the ongoing construction. Fortunately, our insurance company covered our losses. In spite of this setback, the project is expected to be finished on time.

We have, furthermore, completed the construction of the Port of Stone Town on Zanzibar, a project financed by the EU. The extension of the harbour in Equatorial Guinea has also been finished, while the extension work on the airports in Mozambique are in progress.

In Sri Lanka we have two larger ongoing projects, water systems plus sewer construction, both expected to be finished within a year.

The home market

The home market constitutes the other half of our turnover and the year has been satisfying. A string of projects have been finished, and many are nearing completion. Special attention is due to the headquarters of the Aller Group, the domicile of the SEB Bank, the one of Ramboll plus the "Horten House" with its spectacular facade. The Danish State Archives, our biggest Danish PPP project including 376km of shelves, is also nearing completion.

In Copenhagen we are constructing the Copenhagen Towers complex which contains offices and a hotel.

Finally, we are constructing three parking basements for the Copenhagen municipality. This project contains an element of extension possibilities in the form of deeper and wider parking silos.

In Jutland we have finished a large storage building for Sanistaal, and we have started an extension of Skejby Hospital.

A number of the larger scale projects are carried out in joint ventures with other Danish as well as foreign contractors and we want to express our great appreciation of the successful cooperation with our many partners.

Our own staff members have given their very best in a formidable effort to carry through our projects in a technically and economically responsible manner in a continually changing world. Many are those at home and far abroad, both young and not so young, technicians, artisans and workers, who have joined forces to solve the tasks we have undertaken, and heartfelt thanks go to all employees from the management of the company.

The economic result of all our efforts does not, however, come up to our expectations and the reason why it has not, the preceding part of this annual report has tried to elucidate.

The prospect for the coming year indicates a slightly reduced turnover in a competitive market. We expect, however, a reasonable rate of employment, because our field of know-how is quite wide and so is the market covering our many geographical locations.

It is a privilege to be living in this hastily changing world with its rainbow of challenges and opportunities. Let us go out together in search of the sunny shores where our combined talents can unfold.

Financial Report

Results

Group turnover for 2008 totalled EUR 869.3 million, an increase of 6.8% compared to 2007. Activities abroad generated 57% of total turnover whilst the remaining 43% was derived in Denmark.

The Group had an operating profit of EUR 20.3 million compared to EUR 4.5 million last year. Both the increase in operating profit and the level of profit are satisfactory and can primarily be attributed to an improved result on activities in Denmark.

Other operating costs for 2008 amount to EUR 4.7 million. This item relates to profit booked as revenue in 2007 for the re-purchase of a plot of land in the subsidiary Ístak, as a consequence of a client's decision to discontinue a project.

The financial items consist of net costs of EUR -8.1 million compared to a net income of EUR 1.2 million in 2007. The increase in net costs can primarily be attributed to negative exchange rate fluctuations on loans in Ístak, as a consequence of the fall in the value of the Icelandic Krone, and to an increased interest burden stemming from increased drawings on the Group's credit facilities.

This year's result before tax shows a surplus of EUR 7.5 million compared to EUR 13.0 million in 2007.

Taxes for the year amount to a net cost of EUR 4.7 million compared to EUR 0.8 million in 2007. This represents an effective income tax rate of 63% against 6% in 2007. The effective tax rate in 2008 is the result of losses incurred on contracts abroad as the Group does not practise joint taxation. The lower tax rate in 2007 was a consequence of a change in Danish taxation accounting policy for entries related to 'work in progress'.

The result after tax for the year was EUR 2.8 million against EUR 12.2 million in 2007.

Balance Sheet

The Group's balance was EUR 458.8 million as at 31 December 2008 against EUR 473.8 million at the end of 2007.

The value of the Group's equity holding in the subsidiary Ístak reflects the reduced rate of exchange of the Icelandic Krone. This has, looked at in isolation, led to a reduction of the Group's balance of approx. EUR 35.7 million. However, a revaluation of building land for sale and a block of rented flats owned by Ístak has increased the Group's balance by EUR 15.0 million. Please refer to the section on Accounting Policies for more detailed information.

Capital employed for 'work in progress' (net) and debtors has seen a total decrease compared to 2007, while suppliers of goods and services is at a lower level compared to last year. The value of the Group's equity totalled EUR 81.7 million at the end of 2007.

Equity for 2008 was influenced by a loss on foreign exchange in the conversion of equity holdings in Ístak of EUR 22.4 million and a revaluation of building land for sale in Iceland of EUR 15.0 million. Further, the parent group has contributed

equity capital of EUR 4.7 million. The value of equity contributed at the end of 2008 was EUR 78.9 million and solvency ratio amounts to 17.2 % which is equal to that of last year.

The Group's interest-bearing net debt was EUR 70.1 million at the end of 2008 against EUR 10.7 million at the end of 2007, an increase of EUR 59.4 million. EUR 17.4 million of the increase can be attributed to increased loans related to a PPP (Public Private Partnership) project, EUR 6.7 million to the impact of exchange rate adjustments to loan values with the remaining increase primarily attributable to increased drawings on credit facilities as a result of a reduction in the amount of accounts payable by the end of 2008.

The Group's activities in Iceland

The rate of the Icelandic Krone was 1.10 at the end of 2007 as per the recordings of Central Bank of Denmark, "Nationalbanken". The Icelandic Krone was suspended with the Central Bank of Denmark at the end of 2008. The conversion at the end of 2008 was made at the rate of 0.59 corresponding to the rate quotation by the National Bank of Iceland, "Sedlabanki", at the end of 2008.

It is not currently possible to transfer currency out of Iceland as a result of restrictions imposed by the National Bank of Iceland.

The fall in the exchange rate of the Icelandic Krone in 2008 has adversely effected the value of Ístak and thereby the value of the Group's equity in the company by EUR 22.4 million. Exchange rate adjustments of loans in foreign currencies in Ístak have further reduced the year end result. A few projects in Ístak have been discontinued due to the financial situation in Iceland.

Building land for sale and an investment property have been re-valued and the value increased by EUR 15 million after deferred tax had been set aside. The building land for sale and the investment property have been appraised on the basis of an external currency evaluation based on conservative assumptions. The appraisal of the land is based on a sale within five years. The marketability of building land in Iceland depends upon trading conditions prevailing at the time of sale. The general economic situation in Iceland gives rise to concern.

The equity in Ístak amounted to EUR 45.5 million at the end of 2007 and to EUR 40.5 million by the end of 2008 after the exchange rate adjustment and the revaluation of the building land for sale.

Cash flow and capital resources

Cash flow from the Group's operations during 2008 amounts to EUR -24.7 million against EUR 71.0 million in 2007. The reduced cash flow is primarily due to a decrease in the Group's accounts payable and other short-term liabilities of EUR 69.4 million and a decrease in the Group's accounts receivable of EUR 2.6 million.

Cash flow for investment activities amounts to EUR -32.2 million against EUR -37.2 million last year.

Cash flow for financing in 2008 totals EUR 13.8 million against EUR 12.5 million last year.

The combined impact on the Group's liquidity in 2008 amounts to EUR -43.1 million against EUR 46.3 million last year. Net liquidity, understood as liquid holdings minus short-term debt to financial institutions, etc., was EUR -11.1 million in 2008 against EUR 31.9 million last year.

Risk factors

The Group's activities involve a number of commercial and financial risks, which may influence the Group's development, financial position and result. The most important risks are described below.

Trade-related risks

The building industry is, like all other trades and industries, influenced by trading conditions and therefore by market demand. To help alleviate these risks, the Group's activities are spread over many countries and within various technical fields.

The Group's work in progress and order book indicate that the Group will not, to any considerable extent, be influenced by the negative economic trends predicted for 2009.

Foreign exchange risks

The Group's foreign activities generate income and expenses in foreign currencies. Exchange rate risks concerning larger contracts in currencies outside the EURO zone are assessed individually and managed through forward exchange (or hedging) contracts.

The profit and net capital of the Group is influenced by changes in foreign exchange rates through the conversion of the value of equity holdings in subsidiaries into Danish Kroner. Risks in this connection are particularly relevant to the Group's Icelandic subsidiary company Ístak. The financial risks in this connection are not hedged.

Credit risks

The Group does, to a large extent, ensure prepayment for completed works through contracts entered into in much the same way that credit risks are reduced through the use of guar-

antees. Turnover generated by any individual client does not exceed a maximum of 10% of total Group turnover. The Group has outstanding balances (accounts receivable from sales and work in progress) with individual clients which are the equivalent of up to 20% of a client's total account with the Group.

Political credit risks for works abroad are fully offset by taking out export credit insurance; each individual case is assessed separately.

Interest risks

Interest risks are primarily applied to interest-bearing debt items and liquid holdings. The Group's net interest-bearing debts, taken in Danish Kroner, EURO and Icelandic Kroner, amount to EUR 70.1 million. Most of them are at variable rates.

Accounting assessments

In stating the accounting value of certain assets and liabilities, it is necessary to make an assessment of the impact of future events on the value of these assets and liabilities on the day that the balance sheet is stated. Assessments important in the presentation of the accounts primarily concern the sale value of contracts and provisions as well as the outcome of any disputes. The Group accounts are based on an assessment of the progress and prospects for completion of each contract. Loss for the entire project is thus included when such a loss is expected. In the case of any disputes regarding the settling of the works, an individual assessment of the outcome is made.

These assessments made are based on assumptions considered reasonable by management but which are, of course, difficult to make.

Expectations for the coming year

The Group's order book at the end of 2008 indicates that the turnover for 2009 will be in line with that of 2008. Maintaining turnover together with a generally enhanced profit on projects is expected to influence the year's result in a favourable direction.

Any assessment of future financial performance is, by its nature, characterised by uncertainty, but may also include new opportunities that may lead to unexpected developments.

It should be pointed out that no events have taken place following the closure of the budget year that might have any important influence on the evaluation of the Group's financial standing as at 31 December 2008.

Accounting policies

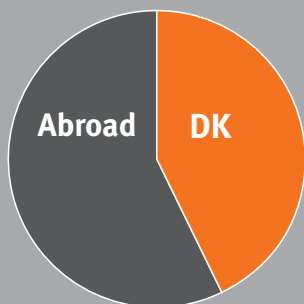
The annual report for 2008 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act. The applied accounting policies appear from the official Danish annual report to which we refer. The accounting policy for valuation of and for project development building sites and investment properties for 2008 has been changed. In 2007 the assets were valued at cost while the assets in 2008 are valued at fair value. The revaluations have affected the equity at 31 December 2008 by DKK 112 million. The accounting policies used are additionally consistent with those of last year.

The Danish annual report is presented in DKK. Profit and loss account items in the financial summary are translated from DKK to EURO using an average exchange rate for the year while the Balance sheet items are translated using the exchange rate for the balance sheet date in the respective financial year.

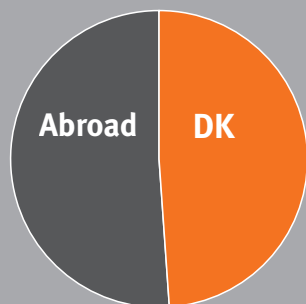
Turnover source

Year	Denmark	Abroad	Total
2008	376	493	869
2007	400	414	814
2006	364	411	775
2005	257	285	542
2004	250	259	509

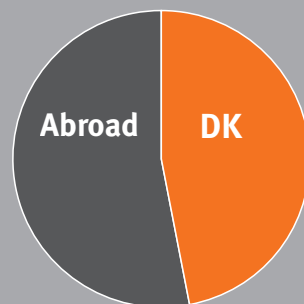
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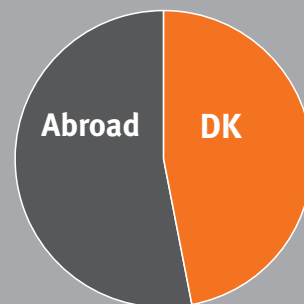
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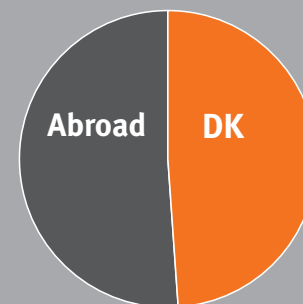
2007



2006



2005



2004

Key figures

Financial highlights for the group (mill.€) 2008

	2007	2006	2005*	2004*
Profit and loss account				
Net turnover	869.3	813.7	774.9	541.7
Gross profit	41.8	25.6	38.7	27.9
Operating profit	20.3	4.5	20.0	16.5
Financial items, net	-11.3	-1.8	-1.8	-0.1
Profit before tax	7.5	13.0	20.2	17.7
Consolidated profit of the year	2.8	12.2	14.8	11.5

Balance sheet

Total assets	458.8	473.8	345.9	236.0
Equity	78.9	81.7	69.3	65.8

Key figures

Profit margin	2.3	0.6	2.6	3.0
Return on net assets	4.4	1.1	6.9	7.6
Cash flow ratio	1.2	1.1	1.0	1.1
Equity ratio	17.2	17.2	20.0	27.9
Return on equity	3.5	16.2	21.9	19.1

Profit margin

Operating profit x 100

Net turnover

Cash flow ratio

Total current assets

Short-term liabilities

Return on equity

Consolidated profit for the year x 100

Average equity

Return on net assets

Operating profit x 100

Total average assets

Solvency ratio

Closing equity x 100

Total liabilities

* As of 2006 work in progress - third-party contract is presented as a gross item.
No adjustment for the comparative figures for 2005 and 2004 has been made.

Profit and loss account

Consolidated profit and loss account (€'000)	2008	2007
Net turnover	869,379	813,718
Production costs	-827,567	-788,157
Gross profit	41,812	25,561
Selling costs	-4,788	-3,711
Administrative costs	-16,708	-17,302
Operating profit	20,316	4,548
Other operating income	0	7,224
Other operating costs	-4,711	0
Earnings before interest and tax	15,605	11,772
Profit of capital shares in associated companies	2,701	1,450
Profit of other capital shares and securities	497	1,593
Other financial income	3,564	3,566
Other financial costs	-14,901	-5,390
Profit before tax	7,466	12,991
Corporate tax	-4,675	-777
Result for the year	2,791	12,214

Balance sheet - assets

Consolidated balance sheet (€'000)	2008	2007
Fixed assets		
Tangible fixed assets		
Land and buildings	25,172	30,084
Investment property	2,440	973
Construction equipment	53,360	68,794
Fixtures and fittings, cars, etc.	2,743	2,930
Total tangible fixed assets	83,715	102,781
Fixed assets investments		
Investments in associated undertakings	4,473	5,552
Other securities and investments	2,328	2,777
Total fixed assets	6,801	8,329
Total fixed assests	90,516	111,110

Current assets**Inventories**

Building land for sale	22,842	7,811
Auxiliary materials	1,606	1,707
Total inventories	24,448	9,518

Accounts receivable

Contracting debtors	115,259	152,701
Work in progress - third-party contract on-account invoicing	77,353	87,353
Works in progress - PPP project	21,700	6,099
Deferred tax	859	4,545
Corporate tax	245	2,880
Other accounts receivable	58,558	22,583
Advance payments and accrued income	18,245	14,047
Total accounts receivable	292,219	290,208

Cash and cash equivalents

	51,590	62,992
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Total current assets

	368,257	362,718
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Total assets

	458,773	473,828
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Balance sheet, liabilities

Consolidated balance sheet (€'000)	2008	2007
Equity		
Company capital	7,516	7,510
Reserve for revaluation	15,077	0
Retained profits	56,328	74,194
Total equity	78,921	81,704
Provisions		
Provisions for deferred tax	7,255	8,551
Other provisions	9,840	12,956
Total provisions	17,095	21,507
Long-term debt		
Accounts payable on mortgages	27,185	23,171
Credit institutions and similar financing	2,462	4,869
Long-term loans - PPP	17,789	5,980
Other debt	167	165
Total long-term debt	47,603	34,185

Short-term debt		
Accounts payable on mortgages	9,952	8,476
Credit institutions and similar financing	62,689	31,087
Work in progress - third-party contract on-account invoicing	96,175	75,588
Advance payments	32,160	37,445
Suppliers of goods and services	74,364	125,505
Accounts payable to affiliated undertakings	4,170	8,698
Corporate tax	1,468	2,447
Other debt	34,176	47,186
Total short-term debt	315,154	336,432
Total debt	362,757	370,617
Total liabilities	458,773	473,828

Statement by the management and the board of directors

The Executive and Supervisory Boards have today discussed and approved the annual report of E. Pihl & Søn A.S. The annual report has been approved at the annual general meeting on 2 April 2009.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

We consider the accounting policies applied to be appropriate. Accordingly, the annual report gives a true and fair view of the Group's and parent's assets, liabilities, financial position at 31 December 2008 as well as of the result of the Group's and parent's activities for the financial year 1 January - 31 December 2008.

The aforementioned summarised financial statement (reports and accounts) has been prepared based on the official Danish annual report.

Lyngby 2 April 2009

Management:

Søren Langvad
CEO

Svend Erik Clemmensen

Kurt Carlsen

Halldór P. Ragnarsson

Board of Directors:

Søren Langvad

Kjartan Langvad

Jørgen Mejlholm

Chairman of the board

Peter Vang Lundhus

Peter Fogh

The independent auditors' report

The independent auditors' report to the shareholder of E. Pihl & Søn A.S.

In accordance with the Danish Standards on Auditing we have audited the annual report of E. Pihl & Søn A.S. for the financial year ended 31 December 2008 from which the preceding summarised financial statement is extracted. In our auditors' report of 2 April 2009 we expressed an opinion which did not result in any qualification of the financial statement from which the summarised financial statement is extracted.

In the same auditors' report we stated a supplementary disclosure on uncertainties with the measurement of the Icelandic subsidiary Ístak, including valuation and negotiability of land. We refer to the preceding paragraph "The Group's activities on Iceland" in the Management's review.

To better understand the Company's financial position and result as well as the proportion of the performed audit, the summarised financial statement should be read in context to the annual report from which the summarised financial statement was extracted, including the related auditors' report.

Basis of opinion

We have planned and conducted our work in accordance with the Danish Standard on Auditing on independent auditors report on auditing tasks with special purpose in order to obtain a high degree of assurance that the summarised financial statement in all materiality is in accordance with the annual report from which it is extracted.

Opinion

It is our opinion that the aforementioned summarised financial statement in all materiality is in accordance with the annual report from which it is extracted and on which we expressed our unqualified auditors' report.

Copenhagen, 2 April 2009
KPMG
Statsautoriseret Revisionspartnerselskab



Mona Blønd
*State Authorised
Public Accountant*

