REGISTERED NUMBER: 00784752 (England and Wales)

Skanska UK Plc

Group Strategic Report, Directors' Report and

Audited Consolidated Financial Statements

Year Ended 31st December 2022

Contents

Company Information
For The Year Ended 31st December 2022

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Skanska UK Plc (Registered number: 00784752)

Group Strategic Report
For The Year Ended 31st December 2022

The Directors present their strategic report of Skanska UK Plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31st December 2022.

Business model

Skanska UK Plc generates value through the hundreds of projects the Group executes each year. Every project should both be profitable and delivered in line with Skanska's values and ambition to be a leader within sustainability. Skanska UK operations mainly consist of construction activities. Operating units within the construction business collaborate in various ways, creating operational and financial synergies that generate increased value.

Financial position and review

The Group reported total revenues of £1,400.2 million (2021: £1,249.6 million including discontinued operations) and profit before interest and tax of £43.2 million (2021: £72.6 million including discontinued operations) with a margin of 3.1% (2021: 5.8%). For the year ended 31 December 2021, profit before interest and tax included a £29.1 million gain on the disposal of Infrastructure Services. See Note 35 for details of the total results including prior year discontinued operations.

The Group's total equity decreased by £18.5 million. Total equity attributable to shareholders at the year-end was £344.2 million (2021: £362.7 million). Our consolidated year-end cash and cash equivalents totalled £441.5 million (2021: £519.7 million), a decrease of £78.2 million in the year. The year-on-year movement was mainly due to the payment of £65 million in dividends to the immediate parent entity. Net cash used in operating activities was £3.2 million (2021: inflow £76.6 million). The Group has no debt.

Principal risks and uncertainties

The Group's principal risks and uncertainties are related to the contracts it undertakes to perform. Exposure to credit, interest rate and liquidity risk arises in the normal course of the Group's business:

- Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there was no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and amounts due from customers for contract work at the statement of financial position date.

- The Group does not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

- Liquidity/cash flow risk is the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Group aims to mitigate these risks by setting and monitoring cash flow targets and by assessing credit worthiness of all material business partners.

- Russia's invasion of Ukraine introduced increased risk to all areas of the Group during 2022 including risk of price fluctuations, workforce and material supply, and energy price fluctuations. Political change in the UK Government during 2022 added to these risks. A risk averse culture coupled with open and collaborative relationships with our stakeholders has and will continue to mitigate any impact on delivery and financial performance.

- Since the UK left the EU, Brexit has not had a material financial impact on the Group. A reason for this is that we have worked closely with our key supply chain to ensure the fallout from the EU exit (as well as the COVID-19 return to work and Ukraine war) is managed from a risk perspective including availability of workforce. The Group continues to review all aspects of how this legislative change could impact its operation and ensure steps are in place to mitigate any financial degradation.

Major contract wins

105 Victoria Street, London -- Delivery of a mixed-use commercial development at 105 Victoria Street London, worth £235 million. The building will provide 470,000 square foot of commercial office space over sixteen floors, along with retail units at ground level. Skanska will deliver the building construction and mechanical and engineering services.

Vehicle Storage and Support Programme (VSSP) -- A £259 million vehicle storage hub in Tewkesbury, Gloucestershire for the Defence Infrastructure Organisation (DIO). The project will see the demolition of 58 buildings, construction of 12 new buildings, refurbishment of one existing facility, and the renewal of site-wide infrastructure to transform the British Army's fleet storage hub to maintain and protect more than 4,000 vehicles.

RDP A46 Newark Bypass -- upgrading a 4-mile stretch of the A46 Newark Bypass, a key route that connects the A1 and M1, and part of a strategically important scheme in the Government's Road Investment Strategy. Skanska will design and construct the widening of the A46 to a dual carriageway, providing two lanes in each direction between the Farndon and Winthorpe junctions. Works will also include the construction of a new five-arm roundabout at Winthorpe and traffic lights at the Farndon junction to improve traffic flows during peak hours. A new bridge will be built to take traffic over the A1, and a flyover installed at Cattle Market. The scheme is expected to cost between £400-£500 million.

Governance Framework

Skanska AB has adopted a Group Governance Framework consisting of steering documents that define how Skanska's operations are run and controlled; how we are organized, what standards and process we work by, how we manage risks, at what levels decisions are made and what is mandatory for all Skanska business units. In turn, to suit its marketplace and situation, Skanska UK has adopted policies, procedures and guidelines which set out the minimum requirements for the respective areas they cover. A clear framework of policies, procedures and standards reduces our risks, increases our effectiveness, and makes it easier, as a business and for individual employees, to live by our Code of Conduct and Values. An annual review is carried out of all the Skanska AB and Skanska UK governance policies.

In addition to the above, since 2018 the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies which build upon the themes of the Group Governance Framework.

Values provide business benefits

We want our strong Skanska values to guide everything we do and they are essential to contributing to society. Increasingly, employees want to work for companies with clear values. We are seeing more customers and partners choose Skanska in part because of our values. Through what we do and how we work, we help ensure sustainable futures for our people, customers, and communities. We focus on the sustainability areas in which we can make the most significant positive contributions: Safety, Ethics, Green, Community Investment, and Inclusion and Diversity.

All of these areas relate to our core business and expertise and are interconnected.

Safety, health and wellbeing

During 2022 we continued to maintain our focus on improving our culture and performance in the areas of safety, health and wellbeing (SHW). We have increased our attention on learning from events and putting in place permanent changes to reduce the likelihood of high potential incidences. Our programme on becoming outstanding at Lifting, Loading and Lowering operations has had a positive impact on how we plan and manage lifting operations. We have successfully held our lost time accident rate (LTAR) at pre-pandemic levels. We commenced targeted programmes on visible leadership and project phase risk, which we are confident will reduce our LTAR during 2023. We have adopted the group approach to safety, using the hierarchy of control and we are increasingly using elimination of risk as the objective during design and planning as against risk management during construction.

In 2021 the performance of the business was overshadowed by a fatality on one of our projects. As a result of our investigation into the incident, we have led manufacturers, industry, and peer groups to modify or remove, specific types of equipment from tier 1 contractors' sites. This action and industry wide adoption is regarded as one of the most successful industry interventions for a safety issue in recent years. We are continuing to work with manufacturers and industry bodies, to agree an amendment to the EN standard for lorry loader stabiliser operation to prevent further incidences.

During 2022 we have continued to move the focus on safety and health, from site operations to the design and planning stage. By elimination and substitution of the work activities to reduce exposure to risk, we are confident we will further improve safety and health as well as operational efficiency and quality. Further work is ongoing in this area and the SHW function works closely with the technical forum and principal designer group, to develop early changes in the design and programme to reduce risk.

Wellbeing and mental health are a concern for many, and we have run several webinars on resilience and wellbeing throughout the year. Increasing the number of discussions on wellbeing and mental health, is helping to remove the stigma of mental ill health, which is one of our ambitions for improved mental health and wellbeing. These events and webinars have been well received and we continue to build on our mental health programme. During 2022 we expanded our mental health programme from providing mental health first aid, into creating the right environment for people to thrive. This has been done by working closely with human resources and looking more holistically at people's working environment and linkages to diversity and creating an inclusive culture.

Our continued work on evaluating data and trends has identified an opportunity to enhance our Injury-free environment (IFE) programme, which is now in its thirteenth year. The next phase is to develop people's understanding of their choices and resultant behaviours. This has been developed with third parties and the programme will be implemented in 2023.

Independent survey of our customers, supply chain partners and our employees have all returned positive feedback that point towards Skanska UK being a leader in SHW.

We have continued to maintain ISO45001 certification.

Ethics

Within the Group we work in line with Skanska AB's Code of Conduct to maintain high standards of sustainable, transparent and responsible activities, to better meet the long-term demands of the Group's shareholders, customers and employees, as well as society at large. Our aim is to ensure all projects reflect our purpose and are not only profitable but are delivered without ethical breaches and with a transparent and inclusive culture.

During 2022 we maintained our focus on ethics with a varied programme of Code of Conduct-related activities and we continue to ensure that all new employees are trained before they start work with Skanska. In addition, our employees are required to take part in regular 'dilemma' discussions where they debate how they would approach a variety of situations. A key thread throughout the year was an action plan looking at our ethical processes in areas such as inclusion and diversity, modern slavery, supply chain commitment, etc. As well as internal communications, we place additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We developed our processes for scrutinising the ethical culture of potential partners, and to further engage our supply chain we work to ensure our Supplier Code is discussed in start-up meetings with suppliers, and we include ethics as an agenda item at our various supplier engagement events.

In 2022, a total of 20 reports of alleged breach of the Code of Conduct were received by the Skanska UK Ethics Committee (2021: 18). Cases were categorised in line with the topics in Skanska's Code of Conduct. The largest number of reports were concerned with HR-related matters, such as behaviour in the workplace. Other categories of reports were health and safety and Company property. Across all categories, 3 cases determined a breach of the Code of Conduct (2021: 2), however none of them was considered a high risk to the business.

Environment

The Group is required to pursue environmental policies that comply with relevant legislation and standards applicable to their particular disciplines. Beyond this, the Group, in line with the wider Skanska Group, is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services. Furthermore, the Group is committed to operating with net-zero carbon emissions across all its scopes by no later than 2045. Since the publication of this objective in 2019 the Group has committed significant resources into developing industry leading de-carbonisation capability and has since published an additional suite of sub-targets and milestones outlining in more detail how it will achieve this target. Our aim is to be the most respected contractor by our customers for our approach to sustainability and in particularly our low carbon capability.

In terms of overall environmental management, the Group continues our excellent track record as we apply continual improvement to our approach. In 2022 we:

- Continued the roll-out of our new Environmental Compliance Scheme training course launched in 2021, which is targeted at site and operational leadership roles and is more comprehensive than industry standard environmental site management training courses, and we also added new content;
- Developed and launched a new PMO (Programme Management Office) approach to managing our environmental initiatives, which now supports our new 9-point environmental compliance strategy;
- Maintained a stable Environmental Incident Frequency Rate (EIFR) partially resulting from an enhanced focus on transparent reporting and investigations;
- Developed new plans for biodiversity and waste management improvements; and
- Recruited top talent internally and externally into our environmental team to ensure we remain industry leading.

The Group remains focussed on delivering our multi-year strategy to significantly improve our carbon reduction capability so that we de-carbonise at a quicker rate than our industry and provide industry leading support to our clients in their de-carbonisation journeys. Building on previous years the plan remains structured into 6 focus areas:

- Skills and capabilities for key roles: By the end of 2022 we had trained over 400 key staff in project leadership, procurement, design and commercial on carbon reduction skills;
- Carbon data / measurement: We continue to publish an annual transparent estimate of our direct and indirect (supply chain) emissions to the market, converting as much data from estimation to actuals as possible;
- Digital cost and carbon management tools: We have invested in project-level digital carbon and cost management tools and developed a business-level model for carbon data flows;
- Net-zero materials (focussing on concrete and steel): We have embedded our low carbon materials expert group established in 2021 and have trialled a variety of low carbon alternatives across our projects, including a well-publicised trial of a low carbon concrete coupled with low carbon basalt steel alternative reinforcement. Further to this, in 2022 Skanska UK was a signatory founder to two of the Climate Group's industry leading low carbon materials commitments: SteelZero and ConcreteZero; and
- Net-zero plant and transport: We continued our mandated use of hydro-treated vegetable oil (HVO) biofuel diesel alternative across our direct-hired plant. We invested in an electric piling rig for our foundations business, as part of a joint venture we achieved High Speed 2's first diesel-free operating site. We hosted a cross-industry event exploring next steps for the hydrogen economy in construction. Finally, we continue the roll-out of electric vehicles across our company car fleet.

The delivery of our net-zero and broader environmental objectives is governed internally through the Group's overall business planning process and driven by the Executive Management Team (EMT). Externally we continue to demonstrate our credentials through a range of certifications, including continued verification under the Achilles 'Carbon Reduce' programme (formerly Certified Emissions Measurement and Reduction Scheme (CEMARS)), maintenance of ISO14001:15 for environmental management, and successfully maintaining external re-certification to the PAS2080 Carbon Management in Infrastructure specification. Our net-zero emissions target which supports Skanska Group's overall net-zero target is validated by the Science Based Targets Initiative (SBTi).

Although the majority of our resources are aimed at continual improvement in environmental performance and sustainable business, we also aim to support profitable work winning through investments in brand and industry leadership, in order to maintain our industry leading position. We support winning profitable sustainable business through continued engagement with our customers both directly and through industry bodies and other events. In 2022, the Group was involved with several industry sustainability events, such as hosting the 2022 Highways UK event as 'sustainability sponsor', delivering a key-note speech at the Institute of Civil Engineers (ICE) Carbon Crunch event, speaking on a panel at the London Build Expo, and most notably, our relationship with the Swedish Chamber of Commerce as their 'climate partner'. The Group was also named joint winner of the 2022 Sustainable Facilities Management Index (SFMI) for sustainability performance in our facilities management business, and winner of the 'Carbon Reduction' award at the Federation of Piling Specialists (FPS) 2022 awards. Other industry roles included Skanska Director of Environment Adam Crossley maintaining his appointments as a member of C02nstructZero's Programme Board and member of the Construction Leadership Council's Green Construction Board (GCB). The Group also maintained engagement with two key green industry bodies, the All-Party Parliamentary Group for the Environment (APEG) and the Supply Chain Sustainability School (SCSS).

Skanska UK Plc (Registered number: 00784752)

Group Strategic Report
For The Year Ended 31st December 2022

Streamlined Energy and Carbon Reporting

The table below details the Group's energy and carbon consumption for the year ended 31st December 2022.

Greenhouse Gases Scope and Emission Source	Mandatory / Optional	2022		specific exclusions	% activity data estimated	2021 [1]	2020	2019	2010
		TCO2e	kWh			TCO2e	TCO2e	TCO2e	TCO2e baseline
Scope 1									
Gas consumption at Skanska controlled offices and facilities	M	179	979,440	None	0%	247	398	458	535
Emissions from Skanska controlled company cars and commercial vehicles	M	1,647	6,970,902	None	0%	2,375	4,707	13,586	15,650
Site fuel (Gas oil & HVO) consumed by Skanska on construction sites	M	976	33,947,195	Gas Oil bought by Skanska for use by others in back up generation in facilities managed by Skanska	0%	4,128	5,613	11,302	6,405
Heating oil burned at Skanska controlled facilities	M	-	-	None	0%	14	25	26	48
Fugitive emissions from air conditioning at Skanska controlled facilities	M	-		Excluded on materiality	0%	-	22	33	50
Biomass burned for heating at Skanska controlled facilities	M	1	118,680	Excluded on materiality	0%	2	2	5	-
Scope 1 Total		2,803				6,766	10,767	25,410	22,688
Scope 2									
Electricity Consumption (Location based)	M	1,814	9,379,958	Electricity procured by Skanska but consumed by others through the use of facilities	0%	1277	1,541	1,746	11,099
Electricity used in BEV company vehicles	M	17	177,814		0%	9	-	-	-
Electricity Consumption (Market based reflecting purchasing of REGO electricity)	O	742			0%	650	573	924	11,099
Scope 2 Total (Location based)		1,831				1,286	1,541	1,746	11,099
Scope 1 & 2 Total Emissions		4,634				8,052	12,308	27,156	33,787
Intensity Metric (emissions / £million revenue)		3.3				7.2	10.9	15.1	27.9
Scope 3									
Purchased goods and services	O	196,896		Only high impact carbon supply chain activities included	100%	180,717	181,429	307,168	357,513
Capital goods	O			Not quantified					
Fuel and energy related activities	O	2,383		None	0%	2,343	2,690	4,929	7,121
Upstream transportation and distribution	O	6,132		None	100%	5,482	6,639	7,283	8,478
Waste generation in operations	O	2,083		Waste disposal records but waste transportation estimated recorded	30%	5,577	3,919	4,337	3,641
Business travel	M	1,118		Emissions estimated from miles claimed	0%	777	1,504	4,672	4,260
Employee commuting	O	1,387		Employees commuting on company fuel card counted in scope 1 as con not accurately be broken out	100%	1,163	2,337	6,366	4,260
Upstream leased assets	O	284		None	100%	589	1,523	1,041	703
Downstream transportation and distribution	O	-		Not quantified				-	
Processing of sold products	O	-		Not quantified				-	
End-of-life treatment of sold products	O	-		Not quantified				-	
Down stream leased assets	O	-		Not quantified				-	
Franchises	O	-		Not relevant				-	
Total		214,917				204,700	212,349	362,952	419,763
Out of Scope									
Biogenic emissions	O	7,673		None	0%	3437	-	-	-

(1) Emissions data for 2021 exclude 21,899 TC02e from the Infrastructure Services operating unit which was disposed of in the year and presented as a discontinued operation in these financial statements.

Reasons for Change in Emissions

Carbon emissions continue to drop from our 2010 base line and good progress has been made reducing carbon intensity through a range of carbon policies and initiatives across the Company. Carbon reduction is a strategic focus of the Company's 2024 business plan, and a six-point action plan has been implemented to accelerate emission reduction.

Skanska's Low Carbon Fuel policy was fully implemented during 2022 with 91% of our site fuel being sustainability sourced HVO up from 49% in 2021. The use of HVO avoided 8,400TCO2e in scope 1 Greenhouse Gases (GHG) emissions during the period. In 2022 Skanska UK won innovation funding to develop and trial hydrogen dual fuel technology retrofitted to one of the Company's Piling rigs. Initial testing has been successful and full site trials of hydrogen dual fuel technology in a full construction site environment are planned for 2023.

Significant progress has been made with the roll out of its Electric First Company Car policy in 2022 with the total number of full Battery Electric Vehicles (BEVs) surpassing the combined total of traditional diesel and petrol fuelled vehicles. By the end of 2022, BEV vehicles made up 34% of the fleet (2021 : 19%) and the emission average was 51g CO2/km (2021 : 70g CO2/km). Furthermore, 64% (41% 2021) of the fleet was classified as Ultra Low Emission Vehicles. The Electric First Company Car policy complements the company's flexible working and green travel allowance policies representing savings in both direct business travel and indirect staff commuting emissions.

Quantification and Reporting Methodology
Skanska UK is certified to ISO14064-1:2018 under the Carbon Reduce scheme. UK Government publications and the Greenhouse Gas Protocol guide our emission quantification and reporting. In 2022, Skanska UK achieved Platinum certification through the Carbon Reduce scheme recognising 12 years of year-on-year carbon reductions across our direct emissions. We are proud of this achievement but continue to work towards our overall goal of net zero emission across all GHG scopes by 2045.

Skanska UK reports estimates for some areas of scope 3 emissions associated with the activities of our supply chain across all our projects. This is an activity spend based assessment and we continue to improve the data on these emissions so we can more accurately target reductions initiatives with our customers through the supply chain.

Organisational Boundary

Skanska UK uses the financial control approach and JV emissions are included on an equity share basis.

Base Year

2010 is our chosen baseline year which is the first year of formal emission reporting under the Carbon Reduce scheme.

External Assurance Statement

Emission reports are audited annually to a reasonable level of assurance and documents supporting this certification can be found at https://www.toitu.co.nz/our-members/members

Carbon Offsets

The Group has not purchased any carbon offsets in the period.

Great People

In 2022, we started implementation of our Business Plan 2024. The 3-year plan outlines the UK's approach to delivering the Skanska Group Strategy. We started the business plan period in a position of strength and the plan enables us to build on the strong platform of robust operating systems, policies and processes that have been developed over the previous business plan periods. A critical platform area of the business plan is the people and culture action plan, which has three core focus areas. Leadership and culture, skills and capabilities and best employee experience. Delivery of these areas will enable us to continue to build an inclusive, values-driven, and performance-based culture.

Our future direction is firmly linked to our core beliefs. Our purpose, we Build for a Better Society and our organisational values - Care for Life, Act Ethically and Transparently, Be Better Together and Commit to Customers – remain unchanged and underpin everything we do, forming the foundations of the business plan. We recognise that we cannot succeed without them and that building for a better society is more than just what we do, but also how we do it. In 2022 we embedded our 'living our values' behavioural framework to support the delivery of the plan. The Living our Values framework ensures that all employees are clear in the behaviours needed to support Skanska's strengths, drive our enablers, and deliver our business plan. It replaced our previous behavioural framework, the Skanska Leadership Profile.

We encourage our people to share in the success of the Group by participating in SEOP, the Skanska employee ownership program. In 2022, 34% of our employees chose to invest in the Skanska Group through SEOP participation (2021: 34%).

Recruitment

The Group welcomed 775 (2021: 656) new starters of which 234 (30.2%) identified as female (2021: 29%) and 189 (24.4%) identified as from ethnic minority backgrounds (2021: 23.6%). We also saw over 250 internal applicants find new roles across the group (2021: 500).

Application numbers increased to nearly 24,000 (2021: 20,000), for just over 1000 vacancies (2021: nearly 1,400). Our pipeline of external candidates remained strong, and to ensure this continues we have been working with an external agency on our Employee Value Proposition, which will be introduced in 2023. This aims to reflect and develop the new brand proposition, which was introduced in 2022.

Careers and development

In 2022, we introduced our new suite of leadership programmes which were redesigned in 2021 to align to the new business plan. There are 4 programmes which aim to provide development at each step of an employee's leadership career journey, from supervision to first-time line management, managing managers, and finally transformational leadership. We continued to build the resources within our online e-learning platform, Skanska Academy, which is accessible to all employees.

Our annual performance and development review process formally includes both an end of year and a mid-year discussion. In 2022 we reiterated guidance to managers to extend their discussions beyond employee performance against set goals and behavioural expectations, to include conversations on work life balance, flexible working, mental health, and career aspiration. The annual cycle is recorded within our online system, Skanska Talent. The living our values framework was used within this process for the first time, helping to embed it as a tool for all employees.

Our personal development portfolio is very comprehensive, demonstrating our commitment to both technical training and management development. This commitment provides the Group with the highest levels of employee competence, together with the strongest calibre of people and business leadership. We collaborate with leading business schools both in the UK and internationally to provide our leaders with leading edge and stimulating development and growth. By developing and promoting from within, wherever possible, we develop much of the leadership talent we will need for the future internally. An example is our Design Management Academy, which is a support and learning framework providing access to guidance, key reference material and training to all those involved in the management of design within Skanska. Established in 2020, the academy continues to provide world-leading content and best practice to our employees.

Our Talent and Succession process is run annually, with quarterly interventions ensuring regular progress is made in managing and developing key talent. In 2022, we discussed leadership talent, but also included a focus on high potential and diverse talent to ensure our internal talent pipeline was well understood. We use robust psychometric assessments deployed by professionally trained internal and external assessors to validate potential, with assessed employees having their own targeted development plan, allowing them to continually grow their skills and accelerate their careers within the organisation. During 2022, over 120 internal assessments were completed by our in house British Psychological Society accredited assessor, with a further 50 completed by our external partners. We also introduced a new step to the process whereby the assessor and employee develop a personal talent biography, to enable clarity on the employees' career next steps and development areas, which can be shared more widely in the organisation.

A key area of focus in the business plan is our ability to 'learn fast' from one another. This forms another of our significant change areas and will establish a way for the organisation to share and embed critical knowledge and learning quickly, unlocking the full power of Skanska's experience and skills. Scene setting and basic learning in support of Learn Fast was delivered in 2022, with a plan to deliver further process and system changes in 2023.

Inclusion and Diversity

Our inclusion and diversity (I&D) vision is all about delivering high performance by enabling everyone to bring their whole self to work. We are clear that everyone should be treated with dignity and respect within the workplace, and in 2021 we commissioned a research study facilitated by an external company, called 'Your Lived Experience', to find out how people in Skanska UK felt about inclusion, and to identify the ways that people from different groups and backgrounds experience our culture. Following the research, workshops took place with our Executive Management Team and other senior leaders across Skanska to understand the report and to be clear upon how being more inclusive will support delivery of our business objectives. Clear strategic narratives about why inclusion is important to each business area was created as an outcome. In 2022, we continued this work through a strong action plan. We continue this focus into 2023 with a new action plan.

We continued to focus on our I&D governance, to ensure inclusive strategic decision making, leadership and behaviours are embedded across the business. Our I&D leaders' group (made up of the CEO and representatives from senior leadership, HR, and our employee network leads) and a working group (I&D leads with departmental responsibility) came together three times to share and learn from one another. Specifically, within the leaders' group, we focus on creating an environment for the two-way sharing of perspectives between network leads and senior leaders. We also introduced an operations working group in 2022, where employees working on I&D at site level can learn from one another and share best practice.

To provide further insight alongside the Your Lived Experience project, we analyse data from our pulse and engagement surveys, alongside 'business as usual' processes such as recruitment and performance reviews. This helps us develop a 360-degree view of the differences in the responses of different demographic groups.

We introduced three new learning programmes to support our Your Lived Experience work. All members of our senior management team were matched with an employee from one of our employee networks, in our co-mentoring programme. The aim of this programme is to enable senior leaders to further understand different lived experiences and be equipped to create an inclusive culture within their teams. In addition, we introduced two programmes directed at our site colleagues enabling and supporting them to lead by example. Firstly, a site leadership programme, called Catalyst, which focuses on enabling our site leaders to recognise and act on non-inclusive behaviours. Secondly an active bystander programme for our site leaders' direct reports, so that they can recognise non-inclusive behaviour and be empowered to act where necessary. The purpose of these programmes is to provide education and support to our managers who we know can make the biggest difference. We will formally evaluate the impact of these programmes in 2023.

We continued to promote our 'Flex-it' framework which aims to provide all employees with informal flexibility about where and when they work. This is a key to creating and implementing new ways of working that reflect our changing times and circumstances and is fundamental to making the construction industry attractive to all. We reiterated our decision not to impose business wide expectations on working patterns, but rather to enable teams to find suitable patterns of work to deliver business priorities alongside enabling individual needs to be accommodated. In a 2022 pulse survey, 63% of women responded to say they had a flexible working agreement in place, which works for their needs, up from 43% in 2021. Flexible working can be used to accommodate not only childcare and family requirements but also to support employees with their development and personal needs.

People engagement

We remain focused on creating and maintaining high levels of people engagement and enablement.

In 2022 we continued opportunities for two-way communication through regular CEO 'all hands' briefings, leadership 'talk time' sessions, and regular employee surveys. We extended our CEO calls to also include other members of our Executive Management Team, to increase leadership visibility. These calls enable our employees to ask 'live' questions, and we followed up after the events to ensure all queries were answered.

The feedback we received through these interventions helped shape our plans, including the introduction of a financial wellbeing support programme (salary finance) and significant changes to our family friendly benefits. In 2022, we substantially increased the support available to new parents and carers. Maternity leave was enhanced to 26 weeks fully paid leave, paternity leave has been increased to eight weeks fully paid, which can be taken in one-week blocks over the 12 months from birth or placement of the child. Parental bereavement leave has been extended to two weeks paid leave, and dependants leave is now one-week paid leave. In 2023 Skanska will review additional measures to support new parents returning to work. In terms of those accessing the financial wellbeing support, we saw nearly 700 colleagues visit the platform, over 100 applications for support were received and nearly 200 salary advances processed in the four months since launch.

Market Making

The Group's business plan 2024 is to achieve profitable revenue by deploying a market penetration strategy that is achieved through a customer centric approach.

The Group undertakes an ongoing assessment of the investment appetite at both sector level and at the level of the customer to determine the scale of the realisable market. This assessment determines the projected demand for the core capabilities of those products and services where the Group has a proven track record of successful delivery. Combining this with an assessment of the competitor environment informs the Group of the addressable market capable of being realised.

To maximize market share in its chosen sectors, the Group seeks to be the number one most respected, as measured by our customers. To achieve this outcome the capabilities of the Group in delivering a great customer experience continue to develop in the following areas:

- Insight driven change through measuring the customer experience.
- Investing in the processes and tools that enable our people to provide a great customer experience.
- Refining the approach to customer engagement.
- Creating a customer centric culture.
- Driving customer experience performance.

The values of the Group are assessed through the customer measurement programme. This continues to inform that the Group's values provide a differentiator to customers and that these are a desirable part of the offer to the market. To this end, the strategic alignment of existing and future customers is assessed with the Group's own values. Where there is a close alignment of shared values, there is evidence of repeat business with those customers.

For the year 2022, mitigation measures for the events of the war in Ukraine and the incidence of high and rising inflation

Market Making (continued)

required the Group to continue to apply an appropriate risk management approach. For both events the Group's market strategy has proven to be resilient where the outlook continues to be stronger than the general market in which the Group operates.

The Group continues to apply strong risk management procedures at both corporate and project level. This ensures we select the right projects that will continue to deliver the expectations of our customers and shareholders.

Early contractor involvement

Demand continues to increase among the Group's customers for help with designing functional and cost-saving solutions. Joining a project at an early stage aids the Group, in early identification and management of risk with its customers, as well as in helping customers be more successful in their core businesses. This is a procurement route that we increasingly demand during our opportunity selection phase.

Operational Efficiency

We remain focused on improving the operational efficiency of our business, especially construction projects. This means enabling project teams to deliver their contracts faster and at lower cost throughout the whole project life cycle.

We do this by:

Improving productivity through
- Rapid adoption of new digital ways of working
- Deployment of Innovation and modern methods of construction through our specialist expertise
- Coordination and prioritisation of productivity improvement opportunities

Managing our supply chain to
- Obtain best value from the right supply chain, enabling them to achieve maximum productivity
- Ensure collaboration for supplier innovation and decarbonisation
- Achieve efficient and sustainable procurement and supply chain processes

Providing Engineering consultancy services to
- Improve the efficiency of construction through a strong understanding of our customers' needs
- Increase the provision of specialist technical expertise in our construction projects
- Manage engineering related Risk and Opportunity

The Group has identified project productivity as an area that, by undergoing a significant transformation over the next Business Plan period, can help us achieve our business objectives. We are focusing on the adoption of technology and the exploitation of data to improve our project productivity. An initiative is ongoing to deliver the skills, tools, and processes to improve project productivity.

We have successfully retained ISO19650 BIM Level 2 certification at Group level, which certifies our business as being capable of collaborating with project team stakeholders digitally. This is a requirement on all publicly funded projects. We are also accredited to ISO56000 at Group level. This standard certifies that we have a suitable framework to implement, maintain, and improve Innovation Management Systems. This accreditation supports our Group efforts to collaborate with our customers to improve the quality and value from their projects.

Looking ahead we will continue to focus on the well-being of our people and our supply chain. We will strengthen the relationships with our key supply chain through increased communication, closer collaboration, and ethical and transparent behaviours.

Compliance with the Modern Slavery Act 2015

The Group is committed to ensuring all its business operations are free from involvement with slavery or human trafficking, and we seek to ensure this through engagement with our own employees at management and project level and with members of the supply chain through our Sustainable Procurement Policy. We want to ensure safety for all and engage as a fair and ethical business with all our stakeholders. Building on our established platform we will integrate our Modern Slavery work, making it business as usual.

The Skanska Code of Conduct and Skanska Supplier Code of Conduct include express provisions for Fair Working Conditions, based on the Universal Declaration of Human Rights, the conventions of the International Labour Organisation and the UN's Guiding Principles on Business and Human Rights. The Code of Conduct requires employees to treat each other with respect and dignity and to raise concerns about unfair working conditions. The Supplier Code of Conduct extends these principles to sub-contractors and suppliers.

The Group ensures there is enhanced modern slavery education and awareness through our external Supply Chain Sustainability School with procurement guidance notes and toolbox talks for projects and contracts being made available to the School's 80,000+ members.

Skanska's Modern Slavery and Human Trafficking Statement, which provides greater detail on our approach to the eradication of these issues from our business and our supply chain, is published via a link on the homepage of our website. This updated policy was approved by the Board of Directors of the Company on 21st June 2023. It is reviewed and published on an annual basis.

Market & Outlook

In 2022 we booked £1.5 billion of orders and supported by £441.5 million of cash with no leverage or debt, the Group remains in a strong position. We remain mindful of the market conditions driven by the wider economic and geo-political challenges and continue to work proactively with both our customers and supply chain to monitor and mitigate headwinds in commodity and energy costs to protect the financial performance of the Business in the short, medium, and long-term.

Section 172 Companies Act 2006

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In doing this, section 172 requires Directors to have regard to, amongst other matters, the:

- likely consequences of any decisions in the long-term,
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others,
- impact of the Company's operations on the community and environment,
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

In discharging our section 172 duties we have regard to the matters set out above. In addition, we also have regard to other factors which we consider relevant to the decision being made. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision making, we aim to make sure that our decisions are consistent and predictable.

We delegate authority for day-to-day management of the Company to senior leadership teams and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held regularly in which the Directors consider the Company's activities and make decisions. As a part of those meetings the Directors receive information in a range of different formats to ensure that they have regard to section 172 matters when making relevant decisions.

The Company's key stakeholders are its workforce, customers, suppliers and the local communities in which it operates. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. The size and spread of both the Company's stakeholders and the Skanska Group means that generally our stakeholder engagement takes place at an operational and Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual Company. For details of the engagement which takes place with the Group's stakeholders please see page 17.

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board makes decisions for the long-term success of the Company and its stakeholders (see Principle 6 – Stakeholders, of the Corporate Governance Report within these Financial Statements), but also having regard to how the Board

Section 172 Companies Act 2006 (continued)

ensures the Group complies with the requirements of section 172 of the Companies Act 2006. Our reporting against the Wates Principles has been included on pages 14 to 19.

We set out below an example of how we have had regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duty and the effect of that on decisions taken by us:

Throughout 2022, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

On behalf of the board:

M Duymaz

M Duymaz Oludipe - Director

Date: 3 August 2023

Skanska UK Plc (Registered number: 00784752)

Corporate Governance Report
For The Year Ended 31st December 2022

Statement of Corporate Governance arrangements

For the year ended 31st December 2022, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website).

The disclosures below explain how the Group has applied these principles in the context of its corporate governance arrangements.

Principle 1 – Purpose and Leadership

As one of the UK's leading contractors, Skanska is an inclusive and responsible business that is helping to build for a better society. Known for major projects across the country, we are building, upgrading and maintaining the country's infrastructure.

Drawing on our Scandinavian heritage, we are green, innovative and values-driven. We bring together people and technology, as part of our quest to make construction a safer and more collaborative industry.

Purpose

The Group's purpose and mission is to build for a better society. What we do and how we do it contributes to a sustainable future for our people, our customers and for the communities in which we operate. We deliver our purpose through a variety of projects and innovative, sustainable solutions. It is about what we do as well as how we do it. We aim to lead in health and safety, ethics, green, inclusion and diversity and community investment - our Sustainability areas – and we do that through our commitment, passion, and expertise. This creates greater shared value for our people, for society and for Skanska.

Values and Culture

The Group's four core values are: care for life; act ethically & transparently; be better – together; and commit to customers. Our values express our moral foundations and compass. They express who we are, how we behave and what we believe in, and help us in our day-to-day work. Our values lead to business benefits (page 4) and living our values will make us successful. Actions that are not in line with, or may jeopardise, our values are not accepted.

We strive to create value for our shareholders and to have a positive impact on society. We don't believe it is about doing one or the other; it is about doing both at the same time. Profit is needed to deliver on our purpose and a strong purpose will contribute to profit. Every project should both be profitable and delivered in line with the Skanska values and our ambition to be a leader within Sustainability. The Group's operations consist of construction and related activities. Operating units within several streams collaborate in various ways, creating operational and financial synergies that generate increased value.

The Skanska Code of Conduct defines how all Skanska employees should work. The aim of the Code is to provide clear direction for everyday behaviour, helping us to live our values and maintain our position as a safe, ethical and sustainable business. Our aim is to ensure all projects reflect our purpose and are not only profitable but are delivered without ethical breaches and with a transparent and inclusive culture.

People are at the heart of our business; we aim to create an inclusive culture with an environment where employees can be themselves and be the best they can be. We offer our employees opportunities to develop and learn. The Group sets a culture based on transparency, values, and high performance, with employees working together towards common goals. This culture is embedded through senior management engagement, performance reviews, reward structures, as well as training and induction. We monitor the effectiveness of this culture and communication through staff surveys, exit interviews and feedback sessions with managers.

Strategy

In the first half of 2022, the Group entered its next planning cycle and launched Business Plan 2024 across the business. At the core of the Business Plan remains Skanska's long-term purpose and values. The Plan was built on a market penetration strategy, aimed at increasing our share of work in our most successful sectors and growing revenues with existing customers. Along with a challenging set of financial targets, the outcome of Business Plan 2024 is to make progress against our ambition to become the most respected construction company in the UK.

Strategic objectives

The Group's Laser Focus Plan, launched in 2017, was intended to ensure that tender margins are met or exceeded on every contract. It focuses on strategic objectives in five key areas:

Right people – Making sure we use objective, performance-based information based on evidence when we appoint people to key project positions. This is strategically important because people in these pivotal roles will be taking values-driven decisions which significantly affect the successful delivery of projects. The key objective is to collect factual information about our projects and our employees' performance and then to make sure we use it to drive a successful, diverse and collaborative organisation enabling the best opportunity to achieve profit with purpose.

Design control - Design control covers everything about how we assess, manage and deal with project design. This is critically important for the success of our projects and has a significant impact on our clients and our profitability. We have recognised that early collaboration with our partners on design in an open but controlled environment gives the best chance of success. This relates to all parts of a project from tender and procurement through to delivery and handover.

Understanding and applying the deal - This is about knowing the contract, acting on that knowledge and recognising the commercial impact it has on our stakeholders as well as upon ourselves. A collaborative, no surprises environment is the goal ensuring all parties are able to achieve their financial and operational objectives.

Quality – We recognise that the cost of "lack of quality" is a burden to any construction business through the subsequent rework of design and delivery. Therefore, this objective is about ensuring a "right first time" mentality is driven through all areas of the Business. Using recognised and professional techniques through to sharing best practice and empowering our employees to innovate is at the heart of the objective. A clear and realistic plan that can be actioned and measured is key to each part of any project.

Forecasting and reporting – It is fundamental that reporting needs to be accurate, transparent and consistent across the Group. This also allows for more accurate forecasting, empowering the business to be able to understand the opportunities available to it and the challenges it faces. The rollout of new project valuation systems alongside training and support for project teams has been vital in achieving this objective.

By focusing on the strategic objectives in these key areas in the short-term, increases profitability, and in the long-term, increases stakeholder value and sustainability. These are monitored through margins achieved on projects as well as employee appraisals and customer surveys.

For the Laser Focus Plan to be successful, we need to: base our decisions on fact and realism; scrutinise effectively; learn from success and failure; address under performance and do what we say we would do. At their core is the Skanska culture – values driven, open and transparent, striving to be better - together. This in turn helps to advance the Group's purpose of building for a better society.

Principle 2 – Board Composition

The board is made up of the Executive Management Team (EMT) which is led by UK President and CEO, Katy Dowding (who took over the role from Gregor Craig who retired in May 2023), supported by six Executive Vice Presidents. The board comprises a balance of skills, backgrounds, experience, and knowledge, with each individual making a valuable contribution. The average tenure of the board is six years.

The EMT is responsible for setting the strategic direction, values, ethics, and purpose across the Group.

The size of the board is considered sufficient for the strategic needs and challenges faced by the organisation and enables effective decision making. The composition and performance of the board is evaluated on a regular basis by the management of its ultimate parent company, Skanska AB.

Principle 3 – Directors' Responsibilities

Accountability

Each board member has a clear understanding of their responsibility and accountability. The corporate governance framework ensures that Skanska is managed sustainably, responsibly and efficiently on behalf of all stakeholders. The purpose of corporate governance is also to ensure oversight of the Group by the EMT and management. By having a clearly defined governance structure as well as proper policies and procedures, the board can ensure that management and employees are focused on developing the business and thereby generating shareholder value and having a positive impact on society.

The board usually meets twice a month and additionally as required.

Accountability (continued)

The EMT delegates authority for day-to-day management of the Group to the Senior Management Team (SMT), which it has oversight of, and which is made up of individuals with the appropriate knowledge, qualifications and industry experience to carry out their roles. The SMT comprises members who are responsible for specific operations and functions, which enables effective and efficient decision making. The Group has a delegation of authority policy which clearly details what decisions can be delegated and to whom, including any financial limits. In some instances, Skanska HQ approval is also required above the EMT levels of authority.

Integrity of information

The EMT receives regular and timely information on all key aspects of the business including Sustainability, health and safety, opportunities, risks, financial performance, strategy, operations, order bookings and other key performance indicators.

Information is reported from the Group's operational, commercial and accounting systems. The employees involved are appropriately qualified to ensure the integrity of this information and are provided with the necessary training to keep up to date with any regulatory changes. Financial controls are regularly and routinely reviewed by the ultimate parent company's internal audit function.

Principle 4 – Opportunity and Risk

The EMT aims to promote the long-term sustainable success of the Group by identifying opportunities to create and preserve value and by establishing oversight for the identification and mitigation of risks.

Opportunity

For our construction operations, several factors have a significant bearing on the eventual outcome of the project, including type and size, where it is located, how the contract and delivery approach are structured and the relationship with the customer. The Group has procedures and tools to manage risk and to deliver the Group's business plan. This platform provides a structured and efficient means of maximising profitability and achieving the business plan. It builds on the Group's fundamentals of focusing on core project types and the understanding of its customers and markets.

As part of our Laser Focus Plan, the goal is that every project must hit or beat tender margin, delivering an operating margin of 3.5% or greater. There are five work streams which have been prioritised as they will have most impact on improving our financial performance: the right people; design control; understanding and applying the deal; quality; forecasting and reporting.

We only bid on projects in areas which we have a proven track record of success and which delivers a 3.5% or greater operating margin. In order to identify these projects, we continuously monitor sectors we currently operate in from both a financial and performance perspective whilst also assessing the potential future opportunities. From time to time this evaluation protocol is also extended to newly emerging sectors. Combining these elements together has given us a good understanding of the projects we should bid for.

As part of the Laster Focus Plan, the 'Quality of Scrutiny' programme was introduced, an initiative undertaken by the Group to further enhance our abilities in scrutinising and managing projects. In order to improve our performance and achieve a high level of operational stability, we scrutinise and revisit continuously how we work with the estimating, planning, project execution, bid selection, risk assessment, administrative and support functions.

Risk

The way in which risk management is dealt with across the Group is set out in the Skanska Group Enterprise Risk Management Information Policy. The enterprise risks are classified in four categories: strategic; operational; financial; and regulatory. The Group's approach to risk is governed by Skanska AB, the ultimate parent company, who have identified the material risks in its operations that may, if not managed correctly, lead to errors in financial reporting and/or have an impact on the Company's performance results. Skanska AB's Group Leadership Team and its core functions are responsible for managing general risks relating to strategy, macroeconomics, and regulatory frameworks, while the main tasks relating to operational risks and opportunities are carried out at the local level within its individual business units.

The EMT reviews the Company's Enterprise Risk Register on a quarterly basis. This enables the board to monitor and assess risks at a local level and consider whether these are in line with the ultimate parent company's assessed risks at a global level. The principal risks for the Group are set out within the Strategic Report (page 3).

Responsibilities

The EMT has established an internal control framework with clearly defined roles and responsibilities for those involved. The Skanska UK policies, procedures and guidelines provide the basic rules and instructions to provide a clear structure for the business operations and they represent current best practice.

Principle 5 – Remuneration

At Skanska, a high-performance culture supported by appropriate remuneration and an award-winning employee development programme is critical to the delivery of individual and business objectives. This culture is driven by the alignment of clear and challenging responsibilities and ensuring that employees are aware of how their work impacts the Group.

Skanska stands by the principle of "equal pay for equal work". Accordingly, decisions relating to remuneration are never influenced by discriminatory factors. Furthermore, Skanska adopts the Grandparent Principle for any remuneration decisions. To ensure fair and objective remuneration, approval is required from the line manager and the line manager's manager.

The remuneration of the CEO is approved by the Skanska AB compensation committee, and external benchmarks are used in the setting of this. Remuneration of board members is approved by the CEO of Skanska AB in line with the requirements of the Skanska AB Compensation Committee.

The annual bonus plan for the CEO and other board members is based on two factors: profitability; and performance against a small number of strategic measures. Targets for both areas are set annually. The annual strategic measures are aligned with the three areas of the "Profit with Purpose" initiative – Great People, Operational Excellence, and Market Making.

Principle 6 – Stakeholder Relationships and Engagement

The EMT is clear that good governance and effective communication are critical to the Group's success. These factors enable us to deliver our purpose within our communities, and to protect the Group's brand, reputation and relationships with our stakeholders and our ultimate parent, Skanska AB.

Our Communities

The Group is committed to providing a sustainable future for its people, customers, and communities. The Group's work makes a clear contribution to society and to the environment. We are committed to supporting the communities in which we operate, and through our structured approach to community investment we provide our time, skills, and gifts in kind to leave a positive legacy wherever we work. Our focus is on strengthening local economies and championing education in our areas of expertise. We believe this is where we can have the greatest influence, and it directly supports our purpose to build for a better society.

Our projects may last for several years in construction and are designed to last for many years after that. We are committed to maintaining and improving the environment on our sites and in surrounding areas. We have a team of more than 70 environmental professionals who provide advice and support to our business and projects. This includes delivering on legal compliance, helping our customers to meet their own green ambitions, and delivering environmental management that goes above and beyond statutory requirements, including our plan to operate with net-zero carbon emission levels by 2045.

Stakeholder Relationships and Engagement

The EMT promotes accountability and transparency with its internal and external stakeholders. An open and ongoing dialogue with stakeholders is a key component in day-to-day operations and long-term planning. This provides important insights regarding their needs, expectations, and challenges.

The EMT continues to seek to align the Group's strategic direction with its purpose to build for a better society as well as Skanska's long-term sustainability goals of being a responsible business leader in health and safety, ethics, green, inclusion and diversity and community investment, focussing on scaling up climate solutions, and developing all our projects to ensure a high level of resilience. The EMT are the primary communicators between the Group and its ultimate parent company.

One of the Group's core values is Commit to Customers. By better understanding our customers' needs, we aim to provide innovative and industry-leading solutions. Relationships with our customers are most productive when we are involved in project planning at an early stage. This allows us to establish and work together towards common aims and provides the best environment for us to add value for them and for their stakeholders. We work on a variety of contracts including those in joint ventures, on frameworks and in partnerships, depending on the project requirements and the customer. The EMT has set the foundations for an initiative to become better engaged and connected with customers. This includes "Customer Insights and Measurement" which is a structured customer satisfaction measurement programme using Net Promoter Score.

During the year the EMT receives updates on key customers including any current or potential issues. Each member of EMT will meet regularly with customers - being visible, open and collaborative is key to our success. Whether it is sharing best practice, discussing success on a project or resolving challenges, the success of this engagement cannot be underestimated.

Stakeholder Relationships and Engagement (continued)

Each EMT member is also a direct contributor to professional bodies and associations that shape and give thought leadership to our industry. This interaction aims to keep the Group at the forefront of innovation, forward-thinking debate and collaboration with all stakeholders. The impact of this engagement can be seen from policy change through to challenging the mindsets about mental health within the industry.

The Group works closely with our supply chain partners who are essential to our success. The EMT aims to build collaborative relationships to develop solutions that will drive down costs, manage risk and improve sustainability standards. The EMT have implemented a structured relationship management and development programme, which includes the ISO44001 standard. In the wider industry, the Group is collaborating with the other main contractors in order to help deliver the UK government's Construction 2025 strategy targets – 33% lower costs, 50% faster build and 50% lower emissions – as well as to support the award-winning Supply Chain Sustainability School. The School now has over 85,000 registered users from across the supply chain who can improve their skills in sustainability competence.

The majority of the Group's spend is with small- and medium-sized businesses, which are often close to its project sites and offices – helping to support local people and the economy. The EMT is committed to applying fair and transparent payment terms for its supply chain, supporting the national Construction Supply Chain Payment Charter and Prompt Payment Code, which demonstrates its commitment to fair payment. The EMT strongly believes that fair and transparent on-time payment is essential to good supply chain partner relationships and the delivery of successful projects. In addition to this, the Group supports several areas of its supply chain to undertake research and development.

The Group is committed to managing the wider social, environmental, and economic impacts of its operations which includes the way it engages and builds relationships with its customers and manages sustainability. The EMT is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services, and actively working to minimise our impact on climate change. The EMT has set Skanska UK's aim to be the leading green contractor and we continue to make progress against our target to operate with net-zero carbon emissions by 2045 and deliver against our overall environmental business plan.

Investment in people is a priority for the Group, offering employees (including contractors) the opportunity to develop and learn, either within their current role or in one of the cross-Skanska schemes to build networks and improve collaboration. The EMT engages with employees in a number of ways throughout the year including recruitment and on-boarding platforms, Company-wide conferences, roadshows, development programmes and local communication events. Building on the new avenues discovered during COVID-19, board and employee engagement is maintained through several channels including online meetings, wellbeing surveys and live Company-wide updates including Q&A sessions with the CEO.

Over the past few years, the EMT has taken steps to improve employee relations by launching more interactive meetings, improving financial, commercial and operational systems, expanding the range of employee benefits, encouraging more flexible working practices and supporting wellbeing initiatives. An employee engagement survey, 'Your Voice, Our Success' (YVOS), is carried out annually to provide every employee with the opportunity to give input to improve Skanska and enable an approach for understanding strengths and development areas. The EMT treats the results of the YVOS survey as an important indicator of the workforce's confidence in the Group's strategic direction. Specific feedback is requested on how employees believe the EMT are performing and whether they are trustworthy and capable at leading the Business. Once again, the results of this survey in 2022 demonstrated a high level of trust and belief in the EMT.

Skanska's Code of Conduct connects all parts of the Group with Skanska's values, strengthening the business. The Code of Conduct defines how all Skanska employees should work and interact with each other, customers and other stakeholders. New employees are required to complete Code of Conduct training on or before their first day at Skanska, with a mandatory refresher course for all employees at two-year intervals. Skanska employees are expected to take action, without fear of recourse, if they believe that there has been a serious breach to the Code, for example, fraud, theft, bullying or health & safety violations. A number of channels are available for any employee to raise potential concerns, including anonymously via Skanska's Code of Conduct hotline. Reports are investigated by the Ethics Committee and case summaries are published internally for all employees to read.

The Group communicates regularly with the Trustees of its various defined benefit pension schemes, who are independent of the Group. The Boards of Trustees comprises individuals nominated by the respective pension scheme members and by the Group. These relationships are key to ensuring that the decisions made by both the Group and the schemes reflect the interests of all stakeholders.

The Company's website (www.skanska.co.uk), intranet and social media channels provide extensive and up-to-date news on recent developments.

Principal decision-making

The Group recognises the importance of engaging with stakeholders to help inform strategy and EMT decision-making. Relevant stakeholder interests, including those of employees, suppliers, customers, and other stakeholders are taken-into-account by the EMT when decisions are made. In doing so, the EMT considers the outcomes of relevant stakeholder engagement as well as the need to maintain reputation and shareholder value.

On behalf of the board:

MDuymaz

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M Duymaz Oludipe - Director

Date: 3 August 2023

Directors' Report
For The Year Ended 31st December 2022

The Directors present their report with the financial statements of the Company and the Group for the year ended 31st December 2022.

This Directors' Report should be read in conjunction with the Group Strategic Report, which shall be deemed to form part of this Directors' Report to the extent required by applicable law and regulations.

Principal activities

The principal activity of the Group in the year under review was that of a construction services business with core activities in construction, civil engineering, piling and ground engineering, design, mechanical and electrical works, and hard and soft facilities management. Our business model is to integrate our core disciplines to deliver project solutions across our chosen market sectors.

Dividends

An interim dividend of £65.0 million (1.9697p per share) in respect of the year ended 31st December 2022 (2021: £16.1 million, 0.4878p per share) was distributed to the ordinary shareholder on 6th December 2022.

Future developments

The Group will continue to focus on its new business plan in the year which will set out our direction for the next several years as well as continuing to focus on mitigation plans in respect of domestic and global economic conditions.

Directors

The Directors who have held office during the period from 1st January 2022 to the date of this report are:

A M McDonald (Appointed 2nd May 2023)
C K K Gangotra (Resigned 29th July 2022)
G L Craig (Resigned 2nd May 2023)
H J Francis
K M Dowding
M Duymaz Oludipe (Appointed 28th September 2022)
M G Neeson
S Paul
T P Faulkner

Directors' interests and transactions with Directors

None of the Directors as at 31st December 2022 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the Directors' interests between 31st December 2022 and the date of approving this report. No Director during the year had an interest in any contract significant to the Group's business.

Statement of corporate governance arrangements

From the 1st January 2018, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website). They embrace the Group's existing governance framework, which already contained many of the principles to satisfy the new legislative requirements.

The Corporate Governance Report approved by the Board is provided on pages 14 to 19.

Policy on payment of creditors

The Company and its subsidiary undertakings are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Company policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The Group's trade creditors at 31st December 2022 represented 9.9 days' purchases (2021: 6.9 days).

Research and Development

Innovation is important to enable Skanska to retain a leading market position, enabling the Group to provide the solutions needed by customers, now and well into the future. Through innovation, Skanska identifies, develops, and apply new technical products, services, and processes, increasingly working with external partners. This focus part of the 2024 business plan's Digital Productivity aspect – generates enhanced value for Skanska's shareholders and customers. Various internal networks and communications platforms facilitate sharing knowledge across the Group.

Research and development priority areas include Sustainability – including green and health and safety – and digitalisation.

Going concern

The Company's Directors have considered the preparation of these financial statements under the 'going concern' basis. They have considered:

- The quality, remaining duration and volume of construction contracts held;
- The liquidity levels maintained by the business;
- The principal risks and uncertainties outlined in the Group Strategic Report;
- The future forecasts for the Group.

In addition, we continue to assess the continuing impact of domestic political uncertainty and the continuing impact of the Ukraine crisis on the business through additional stress testing of the Group's budgets and forecasts. The stress testing has considered the Group's operational performance and cash flow based on a number of scenarios in accordance with the impacts on the wider economy, on our customers' markets and on our supply chain, looking at both the short- to medium-term. The outcome of which shows that the Group is expected to maintain positive cash flows giving the Group the ability to continue to operate for the foreseeable future.

After considering the above points and making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period from the date of signing these financial statements to 31st December 2024. Accordingly, they deem it appropriate to continue to prepare these financial statements on the going concern basis.

Employment policies

The Directors recognise that employees are fundamental to the Group's success and are committed to the involvement and development of employees at all levels. The Company is committed to a policy of providing equal opportunities for all, regardless of race, religion, sex, or disability. The Company is committed to training and management development, so-as-to ensure a supply of trained and skilled employees.

To reflect society at large, the areas in which the Company works, and its customer profile, the Company needs to increase the diversity of its workforce in terms of educational and occupational background, gender, and ethnicity. Therefore, the Company is broadening its recruitment base by attaching greater importance to these issues. Examples of our approach in this area include the establishment of employee networks to give a greater voice to under-represented groups, a mixed pair mentoring programme, and a Returners programme which provides a supportive bridge back into employment for people who have been out of the work arena for reasons such as caring responsibilities or raising a family.

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the Skanska Group. This is achieved through formal and informal meetings, the intranet, and in-house publications.

The Directors ensure that employees or their representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Environment

The Company and its subsidiary undertakings are required to pursue policies that comply with the relevant legislation and standards applicable to their industries.

The Group's Streamlined Energy and Carbon Reporting can be found within the Strategic Report on page 7.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Pensions

On an IAS 19 basis, the Group's defined benefit pension schemes had a surplus of £63.7 million at 31st December 2022 (2021: surplus of £54.0 million).

Total contributions paid into the main Skanska Pension Fund by the Group was £6.3 million (2021: £15.0 million).

Directors' indemnity provisions

In accordance with the Companies (Audit, Investigations and Community Enterprise) Act 2004, as at the date of this report, the articles of association contained provisions for third-party qualifying indemnities where the Group has agreed to indemnify the Directors in respect of losses arising out of, or in connection with, the execution of their duties and responsibilities as Directors of the Company, and this was in force throughout the financial year ended 31st December 2022.

Post balance sheet events

There have been no post balance sheet events that require disclosure or adjustment in these financial statements.

Disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Group's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, the auditors, Ernst & Young LLP, will be proposed for re-appointment at the following Annual General Meeting.

On behalf of the board:

M Duymaz

....
M Duymaz Oludipe - Director

Date: 3rd August 2023

Statement of Directors' Responsibilities
For The Year Ended 31st December 2022

The Directors are responsible for preparing the Group Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- state whether applicable IFRS, in conformity with the requirements of the Companies Act 2006, have been followed, subject to any material departures, disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Independent Auditors to the Members of Skanska UK Plc

Opinion

We have audited the financial statements of Skanska UK PLC ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Group Profit and Loss Account, the Group and Parent company Statement of Financial Position, Group and Parent company statement of cash flows, the Group statement of comprehensive income, the Group and Parent company statement of changes in equity and the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We assessed the risk around going concern in planning our audit and again at the year-end phase;
- We confirmed our understanding of the process followed by management to prepare the Group's going concern assessment, including assessing the inflation and supply chain impact of the ongoing conflict in Ukraine;
- We obtained management's going concern assessment, including the cash flow forecast for the going concern period to 31 December 2024;
- We identified and challenged the key assumptions underlying management's forecasts and models by checking to corroborative evidence. We also searched for contrary evidence to challenge the assumptions;
- We performed our own sensitivity analysis on the forecast in addition to sensitivity analysis performed by management;
- We performed reverse stress testing on the forecast prepared by management;
- We checked the logic and arithmetical accuracy of the models developed by management;
- We assessed the accuracy of management forecasting by comparing forecasts made in prior periods to actual outcomes;
- We assessed the Group's right to sufficiently access the cash held in the UK cash pooling arrangement;
- We obtained a copy of the Group's order book and vouched a sample of the population to contracted revenue; and
- We assessed the accuracy and appropriateness of management's disclosure in the Director's Report and the Going Concern basis of preparation note.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period from when the financial statements are authorised for issue to 31 December 2024.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Report of the Independent Auditors to the Members of Skanska UK Plc

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, Bribery Act 2010, Construction (Design and Management) Regulations 2015 and the relevant tax regulations in the United Kingdom.
- We understood how Skanska UK PLC is complying with those frameworks by through inquiry with management, and by identifying the Group's policies and procedures regarding compliance with laws and regulations. We corroborated our inquiries through our review of board minutes, compliance issues reported through a whistleblowing hotline and correspondence received from regulatory bodies. We assessed the susceptibility of the Group and Parent Company's financial statements to material misstatement, including how fraud might occur through inquiry with management (including legal) and those charged with governance to understand where they considered there was susceptibility to fraud. As part of this we understood the performance targets of management. We also considered the risk of management override.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing manual journal entries and other journals identified by specific risk criteria, review of board minutes and any legal correspondence, inquiries with senior management and where applicable, those charged with governance and obtaining written representations from the directors of the Group and Parent company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report of the Independent Auditors to the Members of Skanska UK Plc

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
3rd August 2023

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Profit or Loss
For The Year Ended 31st December 2022

	Notes	2022 £'000	2021 £'000
Continuing operations			
Revenue from contracts with customers	4	1,400,222	1,122,698
Cost of sales		(1,258,974)	(1,005,754)
Gross profit		141,248	116,944
Other operating income	5	352	302
Administrative expenses		(98,386)	(83,538)
Operating profit		43,214	33,708
Finance costs	7	(1,868)	(2,022)
Finance income	7	13,656	3,060
Profit before tax from continuing operations		55,002	34,746
Income tax	9	(14,322)	(10,760)
Profit for the year from continuing operations		40,680	23,986
Profit after tax for the year from discontinued operations	10	-	31,552
Profit for the year		40,680	55,538
Profit attributable to:			
Owners of the parent		40,680	55,538

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Comprehensive Income
For The Year Ended 31st December 2022

	2022 £'000	2021 £'000
Profit for the year	40,680	55,538
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Net actuarial gain on pension scheme	4,383	72,007
Employees share scheme	2,552	2,490
Current tax credit relating to items of other comprehensive Income	1,441	3,388
Deferred tax charge relating to items of other comprehensive Income	(2,522)	(21,416)
	5,854	56,469
Items that may be reclassified subsequently to profit or loss:		
Exchange difference	-	(1,402)
	-	(1,402)
Other comprehensive income for the year, net of income tax	5,854	55,067
Total comprehensive income for the year	46,534	110,605
Total comprehensive income attributable to:		
Owners of the parent	46,534	110,605

The notes on pages 36 to 77 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Financial Position
For The Year Ended 31st December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Intangible assets	12	8,877	9,634
Property, plant and equipment	13	27,816	19,989
Right-of-use assets	14	52,230	44,661
Investments	15	-	3,937
Pension asset	28	63,743	53,981
Deferred tax	27	5,625	9,293
		158,291	141,495
Current assets			
Inventories	16	565	4,573
Trade and other receivables	17	195,840	165,738
Contract assets	18	98,403	83,534
Cash and cash equivalents	19	441,472	519,650
		736,280	773,495
Total Assets		894,571	914,990
Equity			
Shareholder's equity			
Issued share capital	20	165,000	165,000
Retained earnings	21	179,216	197,682
Total equity		344,216	362,682
Liabilities			
Non-current liabilities			
Lease liabilities	24	58,604	50,434
Deferred tax	27	15,936	13,496
Provisions	26	80,326	98,808
		154,866	162,738
Current liabilities			
Trade and other payables	22	303,273	285,188
Contract liabilities	23	77,623	85,354
Tax payable		4,684	8,166
Lease liabilities	24	9,909	10,862
		395,489	389,570
Total liabilities		550,365	552,308
Total equity and liabilities		894,571	914,990

The financial statements were approved by the Board of Directors on 3rd August 2023 and were signed on its behalf by:

M Duymaz

M Duymaz Oladipe - Director

The notes on pages 36 to 77 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Company Statement of Financial Position
For The Year Ended 31st December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Non-current assets			
Intangible assets	12	8,877	9,634
Property, plant and equipment	13	12,302	6,457
Right-of-use assets	14	43,589	43,380
Investments	15	48,613	48,898
Pension asset	28	68,752	54,874
Deferred tax	27	2,058	2,576
		184,191	165,819
Current assets			
Trade and other receivables	17	287,526	259,490
Contract assets	18	42,310	32,788
Tax receivable		5,532	14,176
		335,368	306,454
Total Assets		519,559	472,273
Equity			
Shareholder's equity			
Issued share capital	20	165,000	165,000
Retained earnings		56,825	82,604
Total equity		221,825	247,604
Liabilities			
Non-current liabilities			
Lease liabilities	24	49,177	48,395
Deferred tax	27	17,188	13,718
Provisions	26	190	-
		66,555	62,113
Current liabilities			
Trade and other payables	22	138,009	138,594
Lease liabilities	24	7,270	7,359
Bank overdraft	19	85,900	16,603
		231,179	162,556
Total liabilities		297,734	224,669
Total equity and liabilities		519,559	472,273

The Directors have taken the exemption provided by Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company. The profit after tax for the year of the Company was £30,234,000 (2021: £27,406,000)

The financial statements were approved by the Board of Directors on 3rd August 2023 and were signed on its behalf by:

M Duymaz

M Duymaz Oludipe - Director

The notes on pages 36 to 77 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Changes in Equity
For The Year Ended 31st December 2022

	Issued share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2021	165,000	103,177	268,177
Profit for the year	-	55,538	55,538
Other comprehensive income	-	55,067	55,067
Total comprehensive income	-	110,605	110,605
Dividends paid	-	(16,100)	(16,100)
Balance as at 31st December 2021	165,000	197,682	362,682
Profit for the year	-	40,680	40,680
Other comprehensive income	-	5,854	5,854
Total comprehensive income	-	46,534	46,534
Dividends paid	-	(65,000)	(65,000)
Balance as at 31st December 2022	165,000	179,216	344,216

The notes on pages 36 to 77 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Company Statement of Changes in Equity
For The Year Ended 31st December 2022

	Issued share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2021	165,000	16,170	181,170
Profit for the year	-	27,406	27,406
Other comprehensive income	-	55,128	55,128
Total comprehensive income	-	82,534	82,534
Dividends paid	-	(16,100)	(16,100)
Balance as at 31st December 2021	165,000	82,604	247,604
Profit for the year	-	30,234	30,234
Other comprehensive income		8,987	8,987
Total comprehensive income	-	39,221	39,221
Dividends paid	-	(65,000)	(65,000)
Balance as at 31st December 2022	165,000	56,825	221,825

The notes on pages 36 to 77 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Cash Flow
For The Year Ended 31st December 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Cash generated from operations	32	5,996	85,489
Tax paid		(9,195)	(8,872)
Net cash (used in)/from operating activities		(3,199)	76,617
Cash flows from investing activities			
Purchase of intangible fixed assets	12	(325)	(2,804)
Purchase of tangible fixed assets	13	(12,168)	(3,471)
Proceeds from the sale of tangible fixed assets		648	572
Proceeds from the sale of investments		3,937	-
Proceeds from the sale of business operations	10	-	53,722
Bank and loan note interest received	7	12,689	2,876
Net cash from investing activities		4,781	50,895
Cash flows from financing activities			
Dividends paid		(65,000)	(16,100)
Principal paid on lease liabilities	24	(14,760)	(14,147)
Net cash used in financing activities		(79,760)	(30,247)
(Decrease)/increase in cash and cash equivalents		(78,178)	97,265
Cash and cash equivalents at beginning of year		519,650	422,385
Cash and cash equivalents at end of year	19	441,472	519,650

Skanska UK Plc (Registered number: 00784752)

Company Statement of Cash Flow
For The Year Ended 31st December 2022

	Notes	2022 £'000	2021 £'000
Cash flows from operating activities			
Cash used in operations	32	(34,167)	(24,167)
Tax paid		(5,159)	(8,872)
Net cash used in operating activities		(39,326)	(33,039)
Cash flows from investing activities			
Dividends received		50,000	40,000
Purchase of intangible assets	12	(325)	(2,804)
Purchase of tangible fixed assets	13	(7,632)	(1,559)
Proceeds from the sale of tangible fixed assets		553	-
Interest received		3,202	4,308
Net cash from investing activities		45,798	39,945
Cash flows from financing activities			
Dividends paid		(65,000)	(16,100)
Principal paid on lease liabilities	24	(10,769)	(10,248)
Net cash used in financing activities		(75,769)	(26,348)
Decrease in cash and cash equivalents		(69,297)	(19,442)
(Bank overdraft)/cash and cash equivalents at beginning of year		(16,603)	2,839
Bank overdraft at end of year	19	(85,900)	(16,603)

The notes on pages 36 to 77 form part of these financial statements

1. Corporate Statutory information

Skanska UK Plc (the 'Company') is a public Company, limited by shares, incorporated and domiciled in England and Wales. The Company's registered number and registered office address can be found on the Company Information page. The principal activity of the Company and the Group is construction.

The presentation currency of the financial statements is the Pound Sterling (£), the functional currency of the Group. All values are rounded to the nearest thousand pounds £'000, unless otherwise stated.

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared and approved by the Directors in conformity with the requirements of the Companies Act 2006 and under the historical cost convention and include the results of activities described in the Directors' report.

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence and meet its liabilities as they fall due, for the period from the date of signing these financial statements to 31st December 2024.

The Group has net current assets of £340.8 million and net assets of £344.2 million. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

The Group's financial forecasts, taking into consideration the current environment, show that the Group is expected to maintain positive cash flows giving the Group the ability to continue to operate for the foreseeable future. The Group has been able to utilise certain government stimulus initiatives and upon several productivity analyses preformed, the Directors do not anticipate requesting any support from its ultimate parent, Skanska AB.

In view of the circumstances referred to above, the Directors are satisfied that sufficient financial resources will be generated by the Group for the foreseeable future. Accordingly, the Directors of the Group believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

However, should sufficient positive cash flow not be available, the going concern basis would be invalid and adjustments would have to be made to provide for any further liabilities which might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to prepare a profit and loss account as the Company's results are included in the consolidated statement of profit or loss shown on page 29.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the 'Group') as at 31st December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. Accounting policies - continued

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss.

Associated undertakings and joint arrangements

A joint arrangement exists where the co-owners have rights to the assets of the arrangement and obligations for the liabilities of the arrangement. An arrangement that is not structured through the formation of a separate Company is a joint operation. Contracting projects performed in cooperation with outside contracting companies, with joint and several liability, are reported *by the Group as joint operations. If the arrangement is a separate Company but the majority of the Company's production is* acquired by the co-owners, then the arrangement is often considered to be a joint operation. If, on the other hand, the co-owners of the arrangement only have rights to the net assets of the arrangement, it is a joint venture. Classification of a joint arrangement requires consideration of its legal form, the terms agreed by the parties in the contractual arrangement and other circumstances.

An associated undertaking is an entity over which the Group holds a participating interest on a long-term basis and exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Interests in associated undertakings are included in the consolidated financial statements using the equity accounting method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately." (IAS 28.26-29).

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The Group has entered into a number of joint operations with different partners for the purposes of undertaking specific contracts. Interests in joint operations are accounted for by recognising the Group's share of income and expenses and assets and liabilities measured according to the terms of the arrangements.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Investment in subsidiaries

The Group holds investments in subsidiaries at cost less any applicable provision for impairment.

Early adoption of new or revised IFRS and interpretations

There has been no early adoption of new or revised IFRS or interpretations.

2. Accounting policies - continued

New standards and interpretations
The following new standards, amendments and interpretations were effective for the first time for the year ended 31st December 2022 but did not have a material effect on the Group.

- COVID-19 related rent concessions (Amendments to IFRS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3)

New standards, interpretations and amendments not yet effective
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows:

- Changes to accounting estimates and accounting polices (Amendments to IAS 1and IAS 8)[1];
- Deferred Tax assets and liabilities arising from a single transaction (Amendment to IAS 12)[1];
- Leases on sale and leaseback (Amendment to IFRS 16)[2]; and
- Non-current liabilities with covenants (Amendment to IAS 1)[2].

[1] Effective for the period beginning 1st January 2023
[2] Effective for the period beginning 1st January 2024

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The effective date of this amendment has been deferred to annual reporting periods beginning on or after 1st January 2024. Skanska UK Plc is currently assessing the impact of these amendments to accounting standards. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

Revenue

Revenue represents the sales value of work done on construction contracts and services activities in the period and excludes VAT. Profit and revenue on construction contracts is calculated in accordance with IFRS 15 Revenue from Contracts with Customers. When an outcome of a construction contract can be estimated reliably, the Company's preferred method of revenue is the output method in which revenue is recognised based on the units of work performed and the price allocated thereto. This method is applied provided that the progress of the work performed can be measured based on the contract and during the contract's performance. Under this output method the units of work completed under each contract are measured monthly and the corresponding output is recognised as revenue. Where it is not practicable to apply this 'units of production' output method, the 'percentage of completion' input method is used instead. Under this input method costs are recognised as incurred and revenue is recognised based on the proportion of total costs at the reporting date to the estimated total costs of the contract.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered highly probable i.e. agreed with the customer. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is highly probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately as a provision for forecast losses.

Contract Assets and Contract Liabilities

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on the monthly achievement of progress towards our performance obligation in the contract and on acknowledgement thereof by the customer, which takes the form of a contractual document call a 'certificate of completion' or 'work order'. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to or certified by the customer. In the case of contracts in which goods and services transferred to the customer exceed the related amount billed or certified, the difference is recognised as a contract asset. Whereas in contracts in which the goods or services transferred are lower than the amount billed to or certified by the customer, the difference is recognised as a contract liability.

2. Accounting policies - continued

Government Grants

The grants are recognised in other income within profit or loss when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. The grants are recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Profit from disposal of investments

Profit on disposal of the Company's investments is recognised when all three of the following criteria are met:

- contracts are exchanged prior to the year-end;
- conditions of the sale that need to be satisfied before legal completion are satisfied before the year-end. Any conditions not satisfied before the year-end must be administrative in nature only; and
- full consideration from the sale must be received shortly after the year-end.

Pre-contract costs

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written-off are deferred and amortised over the life of the contract. When financial close is achieved on Private Finance Initiative (PFI) contracts and pre-contract costs are recovered, those costs not previously capitalised are credited to the profit or loss.

Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. As per the corporate laws of Euroland, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal Groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal Groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal Group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal Group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal Group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a separate column in the statement of profit or loss.

Additional disclosures are provided in Note 10. All other notes to the financial statements comprise amounts for continuing operations, unless indicated otherwise.

2. Accounting policies - continued

Intangible assets and goodwill

Goodwill arising on the acquisition of subsidiaries, representing the difference between the fair value of purchase consideration and the fair value of net assets acquired, is capitalised in the statement of financial position. Goodwill is initially measured at cost and then reviewed for impairment at least annually. Any impairment is recognised immediately in the profit or loss within administrative expenses and is not subsequently reversed. The fair value of net assets in excess of the fair value of purchase consideration is credited to the income statement in the year of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Impairment losses are determined on the basis of the recoverable amount of goodwill, which is based exclusively on value in use, calculated by discounting the expected future cash flows generated by the asset. The discount factor is the weighted average cost of capital applicable to the parent Company. For goodwill, the recoverable amount is estimated for the cash-generating unit to which it is attributable. A cash-generating unit is the smallest Group of assets that generates cash flows which are independent of other Groups of assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the profit or loss on a straight-line basis over 7 years. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Research and development

Research costs which predominately relate to client technical solutions and IT are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Amortisation is recognised in the profit or loss on a straight-line basis over 7 years. During the period of development, the asset is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant, and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Leasehold improvements	3 - 30 years
Plant and Equipment	3 - 10 years

Freehold land is not depreciated. Provision for permanent diminution in the value of land is charged to the statement of profit or loss. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. (IAS 16.51)

2. Accounting policies - continued

Financial instruments

All financial instruments, including derivatives, are recognised as a financial asset or financial liability in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognised in and derecognised from the statement of financial position using trade date accounting. A financial asset is derecognised from the statement of financial position when the contractual rights to cash flows from the financial asset expire or when the Group transfers the contractual rights to receive cash flows from the financial asset or retains the contractual rights to receive cash flows, but assumes a contractual obligation to pay cash flows to one or more recipients. A financial liability is derecognised from the statement of financial position only when the contractual obligation is fulfilled, cancelled or expires.

Presentation of financial assets is based on the Group's business model and the contractual cash flows of the asset. A financial asset is measured at amortised cost if the asset is held within the framework of a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and the cash flows on specified dates are solely payments of principal and interest on the principal amount outstanding. A financial asset is measured at fair value through other comprehensive income if the asset is held according to a business model the objective of which can be achieved both by collecting contractual cash flows and selling financial assets, and the cash flows are solely payments of principal and interest on the principal amount outstanding. A financial asset is measured at fair value though profit or loss if it is not measured at amortised cost or at fair value through other comprehensive income. All financial assets are measured at amortised cost. The Group is only entitled to reclassify all relevant financial assets when the Group changes its business model for managing financial assets. Reclassification of financial liabilities is not permitted.

Financial assets and liabilities are initially measured at fair value plus or minus transaction costs upon acquisition of a financial asset or financial liability for a financial asset or financial liability that is not measured at fair value through profit or loss. Trade receivables that do not contain a significant financing component are measured upon initial recognition at their transaction price (as defined in IFRS 15). After initial recognition, financial assets are measured at amortised cost. Subsequent measurement of financial liabilities is at amortised cost or fair value through profit or loss.

The Group applies the impairment requirement to expected credit losses on financial assets and a loss provision for these is recognised as a deduction from the asset. On every closing day the loss provision is to be equivalent to an amount reflecting the expected credit losses for the remaining time until maturity if the credit risk has increased significantly since it was initially recognised. If the credit risk has not increased significantly since it was first recognised, the loss provision is to be equivalent to 12 months of expected credit losses. For trade receivables, contractual assets and lease receivables, the loss provision is always to be at an amount equivalent to the remaining time to maturity. The Group measures expected credit losses taking into account an objective and probability—weighted amount, the time value of money, reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

• The rights to receive cash flows from the asset have expired
Or
• The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to *recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated* liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2. Accounting policies - continued

Financial instruments - continued

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial assets and financial liabilities occurs when there is a legal right to offset items against each other and the intention to either settle these items on a net basis or simultaneously divest the asset and settle the liability.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: Purchase cost on a first-in/first-out basis

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash

Cash in the statement of financial position comprises cash at banks and on hand and with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the Consolidated and Company statement of cash flows, cash and cash equivalents consist of cash, as defined above.

2. Accounting policies - continued

Taxation

Current income tax is recognised in the statement of comprehensive income, except tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred taxation is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes except for temporary differences arising on the revaluation of assets and the future remittance of undistributed earnings from subsidiaries. Deferred tax assets are recorded only to the extent that they are considered recoverable.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. (IAS 12.56, 37)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

1. When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2. Accounting policies - continued

Employee benefit costs

Certain of the Group's employees are members of a Group-wide defined benefit pension plan. The cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the profit or loss reflects the current service cost of such obligations. The expected return on plan assets and the interest cost on scheme liabilities are included within financial income and expenses in the profit or loss. The retirement benefit deficit recognised in the statement of financial position represents the excess of the present value of scheme liabilities over fair value of scheme assets. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the consolidated statement of comprehensive income in the year.

The cost of defined contribution pension schemes is expensed to the profit or loss as incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2. Accounting policies - continued

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

2. Accounting policies - continued

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties from which it operates. In some cases, the lease contracts provide for payments to increase each year by inflation or reset periodically to market rental rates. In some property leases the periodic rent is fixed over the lease term.

The Group also leases certain items of plant and equipment. Leases of plant, equipment and vehicles comprise only fixed payments over the lease terms.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

31st December 2022

	Payments in the year £000	Lease contracts number	Fixed payments %	Variable payments %	*Sensitivity* £000
Property leases with payments linked to inflation	4,788	5	-	32	328
Property leases with fixed payments	3,608	12	24		
Leases of plant and equipment	2,527	27	17		
Vehicle leases	3,840	1,046	27		
	14,763	1,090	68	32	328

The Group sometimes negotiates break clauses in its property leases. On a case-by-case basis, the Group will consider whether the absence of a break clause would expose the Group to excessive risk.

At 31st December 2022, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on both dates it was considered reasonably certain that the Group would not exercise its right to exercise any right to break the lease. Total lease payments of £10,346,000 are potentially avoidable were the Group to exercise break clauses at the earliest opportunity.

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to non-property and non-vehicle leases of less than £25,000 that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

The interest capitalised is the gross interest incurred on the Group's development specific borrowings. Interest is capitalised from the commencement of the development work until the date of practical completion.

3. Accounting judgements and estimation uncertainty

The preparation of the financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and judgements in drawing up the financial statements are in connection with construction contracts in progress, claims on construction contracts, the valuation of pension liabilities and investments in subsidiary undertakings impairment tests and lease length and incremental borrowing rate used.

Principal assumptions underlying the valuation of defined benefit pension liabilities (Note 28) - These assumptions were set on the advice of the schemes' actuaries having regard to current market conditions, history, and factors specific to the scheme.

Determination of lease term for some lease contracts in which the Group is a lessee - The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Determination of the incremental borrowing rate used to measure lease liabilities - The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The IBR is determined on a quarterly basis, by the Group's ultimate parent entity, Skanska AB. Discount rates used are disclosed in Note 24 of these financial statements.

4. Revenue from contracts with customers

Expected revenue recognition for remaining performance obligations

Contracts may run for a period greater than one year. The expected revenue recognition relating to ongoing or won contracts, at 31st December 2022 is as follows

	2023 £'m	2024 £'m	2025 £'m	2026+ £'m	Total £'m
Expected revenue	887	634	572	1,022	3,115

	2022 £'000	2021 £'000
Construction works	1,299,042	944,014
Rendering of services	101,180	178,684
IFRS 15 revenue from contracts with customers	1,400,222	1,122,698

No revenue was derived from exchange of goods or services (2021: £nil). Revenue recognised in the year from amounts that were included in the contract liability at the beginning of the period equals £83,354,000 (2021: £88,065,000). There was no revenue recognised in the year from performance obligations satisfied in previous years. (2021: £2,700,000). Revenue is recognized according to IFRS 15 Revenue from Contracts.

5. Other operating income

	2022 £'000	2021 £'000
Income from sale of property, plant and equipment	352	-
Government grants	-	302
	352	302

Government grants in the prior year relate to supporting the payroll of the Company's employees during the COVID-19 pandemic. The Company had to commit to spending the assistance on payroll expenses and does not have any unfulfilled obligations relating to this program.

6. Employees and Directors

	2022 £'000	2021 £'000
Wages and salaries	229,287	222,807
Social security costs	26,715	23,759
Other pension costs	32,095	24,987
	288,097	271,553

The amount recognised as an expense for the following pension plans is as follows:

	2022 £'000	2021 £'000
Defined benefit costs	2,847	2,802
Defined contribution costs	29,248	22,185
	32,095	24,987

The average monthly number of employees during the year was as follows:

	2022	2021
Construction	805	1,042
Administration	2,630	2,814
	3,435	3,856

	2022 £	2021 £
Directors' remuneration	3,564,481	2,172,378
Long-term incentive plans	303,673	162,823
Pensions	26,933	19,060

Information regarding the highest paid Director is as follows:

	2022 £	2021 £
Director remuneration	757,936	383,501
Long-term incentive plans	126,045	55,147
Accrued pension as at 31st December	32,793	31,984

The number of Directors to whom retirement benefits were accruing at year end was as follows:

	2022	2021
Defined contribution schemes	1	1
Defined benefit schemes	-	-

7. Net finance income

	2022 £'000	2021 £'000
Finance income:		
Bank interest	9,560	3,060
Interest income on pension scheme assets	967	-
Loan note interest	3,129	-
	13,656	3,060
Finance costs:		
Interest expense on lease liabilities	1,868	1,676
Interest on pension scheme liabilities	-	346
	1,868	2,022
Net finance income	11,788	1,038

8. Profit before income tax

	2022 £'000	2021 £'000
Included in cost of sales:		
Cost of inventory recognised as expense	839	847
Depreciation of owned assets	2,438	2,841
Profit on disposal of fixed assets	-	(855)
Depreciation of right-of-use assets	7,162	6,925
Expense relating to short-term leases	3,700	2,512
Expense relating to low value leases	94	187
Research costs	-	178
Included in administrative expenses:		
Depreciation of owned assets	1,255	643
Depreciation of right-of-use assets	3,378	2,922
Impairment of right-of-use assets	2,000	1,446
Amortisation of intangible assets	1,082	-
Foreign exchange losses	103	-
Audit of Group's consolidated financial statements	5	5
Audit of parent Company's financial statements	2	2
Audit of parent Company's subsidiaries and related entities	570	577
Total audit fees	577	584
Audit related services	280	-
Other non-audit service fees	-	-
Total fees paid by Group	857	584

9. Income tax

The major components of income tax expense are:

Consolidated profit or loss	2022 £'000	2021 £'000
Current income tax		
Current income tax charge	8,120	8,676
Adjustments in respect of current income tax of previous year	2,616	3,594
Total current tax charge	10,736	12,270
Deferred tax		
Current year tax charge / (credit)	2,635	(481)
Adjustments in respect of current tax of previous year	951	2,869
Impact of change in corporate tax rate	-	(3,898)
Total deferred tax charge / (credit)	3,586	(1,510)
Total tax expense reported in the statement of profit or loss	14,322	10,760

Consolidated other comprehensive income	2022 £'000	2021 £'000
Current tax credit on pensions	(1,441)	(3,388)
Deferred tax charge on pensions	2,522	21,416
Total tax charge reported in other comprehensive income	1,081	18,028

Reconciliation of tax expense and the accounting profit multiplied by UK tax rate:

	2022 £'000	2021 £'000
Accounting profit before tax from continuing operations	55,002	34,746
Profit before tax from a discontinued operation	-	38,520
Accounting profit before income tax	55,002	73,266
Profit before tax multiplied by standard rate of corporation tax in the UK 19% (2021: 19%)	10,450	13,920
Expenses not deductible for tax purposes	34	716
Allowable deductions for tax purposes	(1,149)	-
Adjustment in respect of prior years	3,568	6,463
Change in rate	1,404	(3,345)
Employees share scheme adjustment to other comprehensive income	15	(26)
Total tax charge	14,322	17,728
Income tax attributable to continuing operations	14,322	10,760
Income tax attributable to discontinued operations	-	6,968
	14,322	17,728

Changes in corporation tax rate
The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. The Finance Act 2021 increased the UK's main corporation tax rate to 25% effective from 1 April 2023.

10. Discontinued operations

There were no discontinued operations in the year to 31st December 2022.

In 2020, the shareholders of the Company approved a plan to sell its Infrastructure Services operating unit. Infrastructure Services was subsequently classified as a discontinued operation up until the date of disposal. The sale of Infrastructure Services was completed on 30th April 2021 for cash proceeds of £53,722,000. The results of the operating unit included in the consolidated statement of comprehensive income for the year ended 31st December 2021 up until the date of disposal is presented below.

	2021
	£'000
Revenue from contracts with customers	126,888
Cost of sales	(110,644)
Gross profit	16,244
Other operating income	-
Administration expenses	(6,401)
Operating profit	9,843
Gain on disposal of business operations	29,069
Finance costs	(392)
Profit before tax from discontinued operations	38,520
Tax:	
Related to pre-tax profit from ordinary activities	(1,796)
Related to gain on sale of discontinued operation	(5,172)
Profit for the year from discontinued operations	31,552

The major classes of assets and liabilities of the Infrastructure Services operating unit at the date of disposal and the associated gain recognised in the financial statements is as follows:

	2021
	£'000
Assets	
Intangible assets	1,205
Property, plant and equipment	1,958
Right of use assets	24,840
Inventory	3,191
Contract assets	28,179
Debtors	38
	59,411
Liabilities	
Contract liabilities	26,349
Creditors	1,933
Provisions	1,168
Lease liabilities	23,132
	52,582
Net assets disposed	6,829
Sale proceeds	53,722
Net assets disposed	(6,829)
Disposal costs and warranties provided	(17,824)
Gain on disposal	29,069

The net cash flows incurred by Infrastructure Services, were as follows:	**2021**
	£'000
Operating	3,912
Investing	(103)
Financing	(2,302)
Net cash inflow	1,507

11. Profit/(loss) of parent Company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent Company is not presented as part of these financial statements. The Company's profit after tax for the financial year was £30,325,000 (2021: £27,406,000).

12. Intangible assets

Group and Company

	IT Software £'000
Cost	
At 1st January 2022	9,634
Additions	325
At 31st December 2022	9,959
Amortisation	
At 1st January 2022	-
Charge for the year	1,082
At 31st December 2022	1,082
Net book value	
At 31st December 2022	8,877
At 31st December 2021	9,634

13. Property, plant and equipment

Group

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Totals £'000
Cost				
At 1st January 2022	97	11,481	60,226	71,804
Additions	-	5,997	6,171	12,168
Disposals	-	(739)	(14,221)	(14,960)
At 31st December 2022	97	16,739	52,176	69,012
Depreciation				
At 1st January 2022	-	5,388	46,427	51,815
Charge for the year	-	734	2,959	3,693
Eliminated on disposal	-	277	(14,589)	(14,312)
At 31st December 2022	-	6,399	34,797	41,196
Net book value				
At 31st December 2022	97	10,340	17,379	27,816
At 31st December 2021	97	6,093	13,799	19,989

13. Property, plant and equipment (continued)

Company	Leasehold improvements £'000	Plant and machinery £'000	Totals £'000
Cost			
At 1st January 2022	11,365	19,951	31,316
Additions	7,632	-	7,632
Disposals	(639)	(13,069)	(13,708)
At 31st December 2022	18,358	6,882	25,240
Depreciation			
At 1st January 2022	5,272	19,587	24,859
Charge for the year	734	500	1,234
Eliminated on disposal	377	(13,532)	(13,155)
At 31st December 2022	6,383	6,555	12,938
Net book value			
At 31st December 2022	11,975	327	12,302
At 31st December 2021	6,093	364	6,457

14. Right-of-use Assets

Group	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2022	35,877	2,426	6,358	44,661
Additions	10,204	1,081	6,916	18,201
Depreciation	(4,466)	(2,470)	(3,604)	(10,540)
Impairment	(2,000)	-	-	(2,000)
Effect of modification of lease terms	1,927	27	(3)	1,951
Disposals	-	-	(43)	(43)
At 31st December 2022	41,542	1,064	9,624	52,230

Company	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2022	35,544	1,478	6,358	43,380
Additions	268	875	6,916	8,059
Depreciation	(1,929)	(2,241)	(3,604)	(7,774)
Impairment	(2,000)	-	-	(2,000)
Effect of modification of lease terms	1.970	-	(3)	1,967
Disposals	-	-	(43)	(43)
At 31st December 2022	33,853	112	9.624	43,589

15. Investments

Group	Shares in participations £'000
Cost	
At 1st January 2022	3,937
Disposals	(3,937)
At 31st December 2022	-
Provisions	
At 1st January 2022 and 31 December 2022	-
Net book value	
At 31st December 2022	-
At 31st December 2021	3,937

Company	Investment in Group undertakings £'000
Cost	
At 1st January 2022 and 31st December 2022	90,361
Provisions	
At 1st January 2022	41,463
Provision for year	285
At 31st December 2022	41,748
Net book value	
At 31st December 2022	48,613
At 31st December 2021	48,898

Skanska UK Plc (Registered number: 00784752)

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2022

15. Investments (continued)

Subsidiaries

The following subsidiary undertakings all have construction as their principal activity (except where marked * where the principal activity is the development of property to hold for investment purposes, ** where the principal activity is the development of property and *** where the subsidiary is dormant). The subsidiary undertakings marked **** are indirectly owned but not controlled by the Company and therefore the results of these companies are not included in the consolidated financial statements. All companies are registered in England and Wales except Cementation Skanska Ireland Ltd which is registered in Ireland and Skanska ESS Construction HB which is registered in Sweden. Unless stated otherwise, the registered office in England and Wales is: 1 Hercules Way, Leavesden, Watford WD25 7GS. The registered office in Ireland is: c/o KPMG, 1 Stokes Place, St Stephen's Green, Dublin 2 and the registered office in Sweden is Odarslövsvägen 113, 225 92 Lund.

The following subsidiaries are 100% directly owned. All shares are the same class of ordinary shares.

Skanska Construction UK Limited
Skanska Project Developments Limited**
Skanska Technology Limited
Cementation Construction Limited***
Cementation Mining Limited***
Davy Mining Limited***
Skanska Construction Company Limited***
Skanska Healthcare Trustees Limited***
Skanska Construction (Regions) Limited
Trollope & Colls Limited
Skanska Construction Services Limited
Skanska Trusteeships Limited***
Skanska Infrastructure Development UK Limited
Skanska Infrastructure Investment UK Limited

The following subsidiaries are 100% indirectly owned unless stated otherwise:

Cementation Skanska Limited
Cementation Skanska Ireland Limited (in liquidation)
Clark & Fenn Skanska Limited
Skanska J.V. Projects Limited
Skanska Major Projects Limited
Skanska Rashleigh Weatherfoil Limited
Wilson & Jennings Limited***
SPD Templegate Limited**
Skanska Construction Services Trustee Limited****
Skanska TAM Limited****
Skanska ESS Construction HB (25% owned)
Skanska RM PSP Limited**** (87.5% owned) - *(in liquidation; registered office: C/O Evelyn Partners LLP, Portwall Place, Portwall Lane, Bristol BS1 6NA)*
NPH Healthcare (Holdings) Limited **** (50% owned) - *(Registered office: 3rd Floor, South Building, 200 Aldersgate Street, London, EC1A 4HD)*

The following Companies are exempt from publishing audited accounts under Section 479A of the Companies Act 2006;

Trollope & Colls Limited - registration: 00079287
Skanska Construction (Regions) Limited - registration: 00225316
Skanska Construction Services Limited – registration: 04067668
Davy Mining Limited – registration: 00473118
Wilson & Jennings Limited – registration: 00752550
Skanska J.V. Projects Limited – registration: 03686027
Skanska Major Projects Limited – registration: 00993835
Clark & Fenn Skanska Limited – registration: 00679167
Skanska Technology Limited – registration: 00932158
Skanska Project Developments Limited – registration 06009021
Skanska Infrastructure Development UK Limited – registration 03024337
Skanska Infrastructure Investment UK Limited – registration 04624530
SPD Templegate Limited – registration 09794314

16. Inventories

	Group	
	2022 £'000	2021 £'000
Raw materials	565	484
Properties	-	4,089
	565	4,573

17. Trade and other receivables

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current:				
Trade receivables	49,549	59,444	5,396	8
Amounts owed by parent entity	38,727	39,493	38,727	39,493
Amounts owed by subsidiary companies	-	-	217,305	194,725
Amounts owed by other group undertakings	501	460	1,629	1,589
Other receivables	60,720	32,320	13,282	17,127
Prepayments and accrued income	46,343	34,021	11,187	6,548
	195,840	165,738	287,526	259,490

Trade and other receivables are part of the Group's operating cycle and are recognised as current assets. Trade and other receivables are non-interest bearing and are generally on terms of 30 to 90 days settlement. As at 31st December 2022, trade receivables with an initial carrying value of £nil (2021: £4,194,000) were impaired and fully provided for.

The table below shows the ageing profile of trade receivables and contract assets (£'000).

		Days past due					
	Current	*0-30*	*31-60*	*61-90*	*91-120*	*121+*	*Total*
Group							
Trade receivables	34,735	9,982	1,520	755	586	1,971	49,549
Contract assets	86,618	8,247	2,256	827	455	-	98,403
Expected credit loss	-	4,407	158	-	636	1,892	7,093
Expected loss rate	0%	24%	4%	0%	59%	98%	
Company							
Trade receivables	5,396	-	-	-	-	-	5,396
Contract assets	42,310	-	-	-	-	-	42,310
Expected credit loss	-	-	-	-	-	-	-

18. Contract assets

At 31st December 2022, the Group had contract assets of £98,403,000 (2021: £83,534,000). At 31st December 2022, the Company had contract assets of £42,310,000 (2021: £32,788,000). Contract assets consists of amounts recoverable on contracts. The change in contract assets in the year is due to normal activity and timing of certification of work done in the construction business.

19. Cash, cash equivalents, and bank overdrafts

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Bank accounts	441,472	519,650	(85,900)	(16,603)

Included in the Group total is £47,185,000 restricted cash held in joint arrangements (2021: £57,000,000). Cash in bank accounts earns interest based on daily deposit rates.

20. Issued share capital

Authorised, allotted, issued and fully paid share capital:

Number:	Class	Nominal Value:	2022 £	2021 £
3,300,000,000	Ordinary	£0.05	165,000,000	165,000,000

21. Reserves

Group

	Retained earnings £'000
At 1st January 2022	197,682
Profit for the year	40,680
Net actuarial gain on defined pension schemes	4,383
Employee share award scheme	2,552
Income tax relating to items of other comprehensive income	(1,081)
Dividends	(65,000)
At 31st December 2022	179,216

22. Trade and other payables

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current:				
Trade payables	41,524	39,571	7,817	3,149
Amounts owed to parent entity	-	-	-	-
Amounts owed to subsidiary companies	-	-	88,999	89,585
Other payables	65,896	52,904	18,809	19,195
Accruals and deferred income	195,853	192,713	22,384	26,665
	303,273	285,188	138,009	138,594

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally on 45-day payment terms.
- Other payables are non-interest bearing
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions with parent entity, subsidiary companies and other group undertakings, refer to Note 31.
- For explanations on the Group's liquidity risk management process, refer to Note 25.

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2022

23. Contract liabilities

At 31st December 2022, the Group had contract liabilities of £77,623,000 (2021: £85,354,000). Contract liabilities consists of billings-in-excess. At 31st December 2022, the Company had no contract liabilities (2021: £nil). The change in contract liabilities in the year is due to normal activity and timing of certification of work done in the construction business.

24. Lease liabilities

Group	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2022	52,480	2,475	6,341	61,296
Additions	10,204	1,081	6,916	18,201
Interest expense	1,607	41	220	1,868
Lease payments	(8,405)	(2,514)	(3,841)	(14,760)
Effect of modification of lease terms	1,927	27	(3)	1,951
Disposals	-	-	(43)	(43)
At 31st December 2022	57,813	1,110	9,590	68,513

Company	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2022	47,904	1,514	6,336	55,754
Additions	268	875	6,916	8,059
Interest expense	1,244	15	220	1,479
Lease payments	(4,647)	(2,281)	(3,841)	(10,769)
Effect of modification of lease terms	1,970	-	(3)	1,967
Disposals	-	-	(43)	(43)
At 31st December 2022	46,739	123	9,585	56,447

The table below shows the payments and commitments for operating leases not capitalised

	Group 2022 £'000	Company 2022 £'000
Short term lease expense	3,700	-
Low value lease expense	94	-

The table below shows incremental borrowing rate (IBR) used to measure lease liabilities:

	Discount rate (%)						
Lease Term	**1 year**	**2 years**	**3 years**	**5 years**	**10 years**	**15 years**	**30 years**
Q4 2021	1.6	1.9	2.0	2.4	3.1	3.1	3.3
Q1 2022	2.4	2.8	2.9	3.2	3.8	3.7	4.0
Q2 2022	3.2	3.5	3.6	3.8	4.4	4.4	4.5
Q3 2022	3.9	4.0	4.0	4.2	5.0	5.0	4.9
Q4 2022	5.1	5.2	5.1	5.3	6.1	6.2	6.1

25. Financial instruments

Exposure to credit, interest rate and liquidity risk arises in the normal course of the Group and the Company's business.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments. Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and contract assets at the statement of financial position date.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group and Company do not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

Liquidity risk

The Group uses cash-flow projections as a means of managing the fluctuations in short-term liquidity and to minimise the risk that it cannot meet its payment obligations due to lack of liquidity. As at 31st December 2022, the Group had cash and cash equivalents totalling £441,472,000 (2021: £519,650,000) and no debt. Included in this total is £47,185,000 restricted cash held in Joint arrangements (2021: £57,000,000).

Effective interest rates and maturity analysis

As at 31st December 2022, income-earning financial assets of the Group comprised cash and cash equivalents totalling £441,472,000 (2021: £519,650,000) and of the Company £nil (2021: £nil). Interest is earned on net cash balances at floating rates linked to the Swedish base rate. The Group has no overdraft or bank debt.

Fair Value

All of the Group's financial assets and liabilities are measured within the consolidated financial statements at amortised cost, with amortised cost considered a reasonable approximation of fair value given the short term nature of the Group's assets and liabilities. The only exception to this being the defined benefit pension plan surplus, which is measured at fair value with changes reflected through other comprehensive income. As a result, all financial assets and liabilities, with the exception of the defined benefit pension plan surplus are considered Level 3. The investments do not have a quoted price in an active market and are measured at cost because the fair value cannot otherwise be measured.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

There have been no transfers between Levels during the period.

Sensitivity analysis
At 31st December 2022 and 31st December 2021, it was estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

Capital Management
Capital requirements vary between business streams. The Group's construction projects are mainly based on customer funding. As a result, in its construction business stream, the Company can operate with low levels of cash investment (negative working capital). The free working capital within the construction business stream together with the Group's operations make it possible for the Group to finance investments in its own project development.

A number of financial targets have been established that are judged to best reflect the profitability of the operations and best demonstrate the financial scope for investment and growth. The return on equity and on capital employed is a measure of how well the capital provided by the shareholders and lenders is being used. No changes were made in the objectives, policies or processes for managing capital during the years ended 31st December 2022 and 2021.

25. Financial instruments – continued

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans and receivables				
Contract assets	98,403	83,534	42,310	32,788
Trade receivables	49,549	59,444	5,396	8
Amounts owed by fellow Group undertakings	39,228	39,953	257,661	235,807
Other receivables	60,720	32,320	13,282	17,127
Financial assets				
Cash and cash equivalents	441,472	519,650	-	-
Total Financial Assets	689,372	734,901	318,649	285,730
Financial liabilities				
Trade payables	41,524	39,571	7,817	3,149
Amounts owed to fellow Group undertakings	-	-	88,999	89,585
Other payables	65,896	52,904	18,809	19,195
Accruals and deferred income	195,853	192,713	22,384	26,665
Lease liabilities	68,513	61,296	56,446	55,754
Borrowings	-	-	85,900	16,603
Total financial liabilities	371,786	346,484	280,355	210,951

Maturity analysis for non-derivative financial liabilities

	On demand and less than 3 months	More than 3 months
	£'000	£'000
Year ended 31st December 2022		
Trade and other payables (Group)	93,250	14,170
Trade and other payables (Company)	22,533	-
Year ended 31st December 2021		
Trade and other payables (Group)	70,119	22,356
Trade and other payables (Company)	22,344	-

The table below shows the undiscounted maturity analysis for lease liability payments:

Group	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31st December 2022	£'000	£'000	£'000	£'000	£'000
Lease liabilities	2,638	7,428	10,990	17,468	49,009

Company	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31st December 2022	£'000	£'000	£'000	£'000	£'000
Lease liabilities	2,261	6,583	8,347	13,272	39,159

25. Financial instruments – continued

	2022 £'000	2021 £'000
Trade and other payables	303,273	285,188
Contract liabilities	116,409	85,354
Lease liabilities - current	9,909	10,862
Less: cash and short-term deposits	(441,472)	(519,650)
Net surplus	(11,881)	(138,246)
Shareholders' equity	344,216	362,682
Capital and net debt	332.335	224,436
Gearing ratio %	-3.6%	-61.6%

26. Provisions

Group	Forward loss on contracts & disputes £'000	Warranty £'000	Other £'000	Total £'000
At 1st January 2022	3,761	66,814	28,233	98,808
Released in year	(573)	(13,011)	(5,037)	(18,621)
Created in year	3,070	11,919	4,720	19,709
Reclassification	(108)	18	21	(69)
Utilised	(1,115)	(17,564)	(795)	(19,474)
Exchange differences	-	(27)	-	(27)
At 31st December 2022	5,035	48,149	27,142	80,326

Company	Other £'000	Total £'000
At 1st January 2022	-	-
Created in year	92	92
Reclassification	98	98
At 31st December 2022	190	190

The amount and timing of payment of provisions for liabilities is uncertain but they are expected to be made substantially within two years.

Warranty provisions are made in the normal cause of our business. Other provisions include provisions for insurance and legal claims, all of which are incurred in the normal course of business. Due to the nature of such potential liabilities the period of utilisation is not ascertainable.

No provision is made for any tax on capital gains or tax arising in the event of the distribution of profits retained by overseas subsidiaries and associates as no liability is expected to crystallise.

27. Deferred tax

Group

	2022			2021		
	Asset £'000	*Liability* £'000	*Total* £'000	*Asset* £'000	*Liability* £'000	*Total* £'000
Accelerated capital allowances	40	-	40	1,742	-	1,742
Deferred tax on pension balance	-	(15,936)	(15,936)	-	(13,496)	(13,496)
Unrelieved trading losses	309	-	309	610	-	610
Other	5,276		5,276	6,941	-	6,941
Total	5,625	(15,936)	(10,311)	9,293	(13,496)	(4,203)
At beginning of year	9,293	(13,496)	(4,203)	16,019	(2,556)	13,463
Deferred tax movement in P&L	(3,683)	97	(3,586)	1,194	2,556	3,750
Deferred tax direct to equity	15	(2,537)	(2,522)	(7,920)	(13,496)	(21,416)
Total	5,625	(15,936)	(10,311)	9,293	(13,496)	(4,203)

Company

	2022			2021		
	Asset £'000	**Liability** £'000	**Total** £'000	**Asset** £'000	**Liability** £'000	**Total** £'000
Accelerated Capital Allowances	388	-	388	741	-	741
Deferred tax on pension balance	-	(17,188)	(17,188)	-	(13,718)	(13,718)
Unrelieved trading losses	309	-	309	309	-	309
Other	1,361	-	1,361	1,526	-	1,526
Total	2,058	(17,188)	(15,130)	2,576	(13,718)	(11,142)
At beginning of year	2,576	(13,718)	(11,142)	8,346	-	8,346
Deferred tax movement in P&L	(533)	-	(533)	1,339	-	1,339
Deferred tax direct to equity	15	(3,470)	(3,455)	(7,109)	(13,718)	(20,827)
Total	2,058	(17,188)	(15,130)	2,576	(13,718)	(11,142)

The deferred tax asset has been recognised as the Directors have reviewed the Group's future forecast profits and are satisfied that there will be sufficient profits to utilise the deferred tax asset.

28. Employee benefit obligations

The Group, through trustees, operates a number of pension schemes; The Skanska Pension Fund, the Federated Pension Plan and The McNicholas Plc Retirement Benefits Scheme. Details of the latest actuarial valuations and reviews and the assumptions used by the actuaries are set out below.

For The McNicholas Plc Retirement Benefit Scheme the Group conclude that there is not an unconditional right of refund and therefore under IAS 19, IFRIC 14, the Group only recognises the asset of the pension fund up to the limit of the liability, (the asset ceiling). For the other pension schemes the Group conclude that that there is an unconditional right of refund and therefore if there is a pension surplus this will be recognised in the accounts.

Pension obligations and plan assets:

	2022 (%)	2021 (%)
Active members' portion of obligations	-	5
Dormant pension rights	77	56
Pensioners' portion of obligations	23	39
Weighted average duration	14 years	20 years

There are various types of risk inherent in the Company's defined-benefit pension plans. Pension obligations are mainly affected by the relevant discount rate, wage increases, inflation and life expectancy. The risk inherent in the plan assets is mainly market risk. Overall, these risks may result in volatility in the Company's equity and in increased future pension costs and higher than estimated pension disbursements. Skanska continually monitors changes in its pension obligations and updates the most important assumptions every quarter and other assumptions at least once a year. Pension commitments are calculated by independent actuaries. The Company has prepared policy documents for the management of plan assets in the form of investment guidelines regulating permitted investments and allocation frameworks for these. In addition, the Company uses external investment advisors who continually monitor development of the plan assets. The long duration of the pension obligations is partly matched by long-term investments in infrastructure projects and property investments, and investments in long-term interest-bearing securities.

a) The Skanska Pension Fund

The Group, in its capacity as employer, participates in The Skanska Pension Fund. The fund was closed to further accruals on 31st March 2018. Total contributions paid during the year by the Group (excluding employee contributions) were £6,304,000 (2021: £15,030,000). Ultimately, the contributions are met by the Group company for which the employees are working. The Group expects to contribute £1.9 million to the Fund in the next financial year.

There are various types of risk inherent in the Company's defined benefit pension plans. Pension obligations are mainly affected by the relevant discount rate, wage increases, inflation and life expectancy. The risk inherent in the plan assets is mainly market risk. Overall, these risks may result in volatility in the Company's equity and in increased future pension costs and higher than estimated pension disbursements. Skanska continually monitors changes in its pension obligations and updates the most important assumptions every quarter and other assumptions at least once a year. Pension commitments are calculated by independent actuaries.

The Company has prepared policy documents for the management of plan assets in the form of investment guidelines regulating permitted investments and allocation frameworks for these. In addition, the Company uses external investment advisors who continually monitor development of the plan assets. The long duration of the pension obligations is partly matched by the long-term investments in infrastructure projects and property investments, and investments in long-term interest-bearing securities.

The 31st December 2022 valuation is an update of the actuarial valuation at 31st March 2021 but uses a lower rate of return on assets to discount the scheme liabilities.

The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

	2022 (%)	2021 (%)	2020 (%)	2019 (%)
Inflation	3.25	3.25	3.00	3.00
Rate of increase of pension	3.05	3.10	2.90	2.90
Rate of increase for deferred pension	2.65	2.65	2.30	2.20
Pre and post-retirement rates to discount scheme liabilities	4.70	1.60	1.40	2.00

28. Employee benefit obligations - continued

Life expectancy after age 65 is 23 years for men and 24 years for women (2021: 22 years for men and 24 for women).

The financial position of the fund based on the above assumptions

	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Scheme liabilities	(563,735)	(912,551)	(928,099)	(840,819)
Scheme assets	632,487	967,425	899,984	807,748
Total surplus/(deficit)	68,752	54,874	(28,115)	(33,071)
Related deferred tax (liability)/asset	(17,188)	(13,719)	5,342	5,622
Net pension asset/(liability)	51,564	41,155	(22,773)	(27,449)

The fair value of the fund assets and the expected return on those assets are as follows:

	Valuation of assets 2022 £'000	Valuation of assets 2021 £'000	Expected return 2022 %	Expected return 2021 %
Quoted UK equities	23,111	67,285	4.70	1.60
Quoted overseas equities	29,361	107,096	4.70	1.60
Quoted gilts fixed	199,002	223,104	4.70	1.60
Quoted gilts index linked	184,900	212,911	4.70	1.60
Quoted UK corporate bonds fixed	34,248	3,590	4.70	1.60
Quoted UK corporate bonds index linked	-	2,215	4.70	1.60
Quoted government bonds fixed overseas	31,789	25,947	4.70	1.60
Quoted government bonds index linked overseas	4,366	10,243	4.70	1.60
Quoted overseas corporate bonds fixed	16,391	13,866	4.70	1.60
Cash	(24,069)	147,632	4.70	1.60
Infrastructure assets	556	1,448	4.70	1.60
Freehold property*	17,550	17,600	4.70	1.60
Other	115,282	134,488	4.70	1.60
Total	632,487	967,425	4.70	1.60

*The Company has a long-term lease with Skanska Construction Services Trustees Limited (a related party).

	2022 £'000	2021 £'000
Actual return on fund assets	(313,388)	77,478

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments in quoted government bonds.

28. Employee benefit obligations - continued

Analysis of the amount charged to the profit or loss

	2022 £'000	2021 £'000
Current service cost	-	-
Employee contribution	-	-
Total operating charge	-	-

Analysis of the amount charged to Other Finance Cost

	2022 £'000	2021 £'000
Expected return on pension scheme assets	15,382	12,517
Interest on pension liabilities	(14,409)	(12,821)
Net finance return	973	(304)

Analysis of amount recognised in Statement of Comprehensive Income

	2022 £'000	2021 £'000
Actual return less expected return on assets	(328,770)	64,961
Experience gains and losses on liabilities	(35,401)	-
Changes in demographic assumptions	-	-
Changes in financial assumptions	372,732	5,164
Actuarial gain/(loss) recognised in statement of comprehensive income	8,561	70,125
Cumulative loss recognised in statement of comprehensive income	(128,043)	(136,604)

	2022 £'000	2021 £'000
Movement in the present value of defined benefit obligation		
Present value of obligation 1st January	912,551	928,099
Interest cost	14,409	12,821
Benefits paid	(25,894)	(23,205)
Actuarial (gains)/losses	(337,331)	(5,164)
Obligation at 31st December	563,735	912,551
Changes in fair value of fund assets		
Fair value of plan assets, 1st January	967,425	899,984
Expected return on fund assets	15,382	12,517
Employer contribution	6,304	15,030
Benefits paid	(25,894)	(23,205)
Administrative expenses	(1,960)	(1,862)
Actuarial (losses)/gains	(328,770)	64,961
Fair value at 31st December	632,487	967,425
Scheme surplus/(deficit)	68,752	54,874

28. Employee benefit obligations - continued

History of experience gains and losses:

	2022	2021	2020	2019
Difference between expected and actual return on scheme assets £'000:	(328,770)	64,961	87,948	87,878
Percentage of scheme assets %	(52.0%)	6.7%	9.8%	10.9%
Experience gains and losses on scheme liabilities £'000:	35,401	-	(4,595)	-
Percentage of scheme liabilities %	6.3%	-	(0.5%)	-
Total amount recognised in statement of comprehensive income £'000:	8,561	70,125	(6,897)	(11,538)
Percentage of scheme liabilities %	1.5%	7.7%	(0.7%)	(1.4%)

Sensitivity Analysis
The sensitivity analysis is based on existing circumstances, assumptions, and populations. Sensitivity of pension obligation at the year-end to changes in assumptions

	2022 £'000	2021 £'000
Total pension liability at 31st December	563,735	912,551
Estimated decrease in pension liability if discount rate increases by 0.25%	(19,448)	(43,010)
Estimated increase in pension liability if discount rate decreases by 0.25%	20,590	45,933
Estimated increase in pension liability if inflation rate increases by 0.25%	9,317	22,123
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(12,375)	(21,385)

b) The Federated Pension Plan

The Group also sponsors The Federated Pension Plan, a defined benefit pension plan. The benefit provided by this plan is a final salary benefit. The assets of the Plan are held separately under Trust from those of the Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2022, in accordance with the Plan rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group expects to contribute approximately £3.1 million to the plan in the next financial year.

The following valuation is an update of the actuary's valuation at 5th April 2019. The actuarial valuation in accordance with IAS 19 used the projected unit actuarial valuation based on the following assumptions:

	2022 (%)	2021 (%)	2020 (%)	2019 (%)
Inflation	3.25	3.25	3.00	3.00
Rate of increase of salaries	3.50	3.50	3.25	3.25
Rate of increase of pension	3.25	3.25	3.00	3.00
Rate of increase of deferred pensions	3.25	3.25	3.00	3.00
Pre and post-retirement rates to discount scheme liabilities	4.70	1.60	1.40	2.00

28. Employee benefit obligations - continued

Life expectancy after age 65 is 22 years (2021: 22 years) for men and 24 years (2021: 24 years) for women. The financial position of the scheme based on the above assumptions is detailed below:

	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Scheme liabilities	(61,691)	(99,306)	(94,622)	(87,546)
Scheme assets	56,682	98,413	91,406	82,842
Scheme deficit	(5,009)	(893)	(3,216)	(4,704)
Related deferred tax asset	1,252	223	611	800
Net pension deficit	(3,757)	(670)	(2,605)	(3,904)

The fair value of the fund assets and the expected return on those assets are as follows:

	Valuation of assets 2022 £'000	Valuation of assets 2021 £'000	Expected return 2022 %	Expected return 2021 %
Quoted equities	25,374	44,744	4.70	1.60
Quoted gilts fixed	18,769	48,424	4.70	1.60
Quoted corporate bonds	9,009	5,245	4.70	1.60
Alternative	3,530	-	4.70	1.60
Total	56,682	98,413	4.70	1.60

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments in quoted government bonds.

Analysis of amount recognised to profit or loss

	2022 £'000	2021 £'000
Current service cost	3,249	3,250
Employee contribution	(402)	(448)
Total operating charge	2,847	2,802

Analysis of amount charged to Other Finance Cost

	2022 £'000	2021 £'000
Expected return on pension scheme assets	1,598	1,292
Interest on pension liabilities	(1,604)	(1,333)
Net finance return	(6)	(41)

Analysis of amount recognised in statement of comprehensive income

	2022 £'000	2021 £'000
Actual return less expected return on assets	(44,909)	3,893
Experience gains and losses on liabilities	(5,489)	(924)
Changes in demographic assumptions	-	-
Changes in financial assumptions	46,220	(1,087)
Actuarial gain recognised in statement of comprehensive income	*(4,178)*	*1,882*
Cumulative loss recognised in statement of comprehensive income	(16,054)	(11,876)

28. *Employee benefit obligations - continued*

Movement in the present value of defined benefit obligation

	2022 £'000	2021 £'000
Present value of obligation 1st January	99,306	94,622
Service cost	3,249	3,250
Interest cost	1,604	1,333
Benefits paid	(1,737)	(1,910)
Actuarial losses	(40,731)	2,011
Closing balance, 31st December	61,691	99,306

Changes in fair value of fund assets

	2022 £'000	2021 £'000
Fair value of plan assets, 1st January	98,413	91,406
Expected return on plan assets	1,598	1,292
Company contribution	3,119	3,407
Employee contribution	402	448
Benefits paid	(1,737)	(1,910)
Administrative expenses	(204)	(123)
Actuarial gains	(44,909)	3,893
Closing balance, 31st December	56,682	98,413

History of experience gains and losses:

	2022	2021	2020	2019
Difference between expected and actual return on scheme assets £'000:	(44,909)	3,893	5,332	11,084
Percentage of scheme assets %	79%	4%	6%	13%
Experience gains and losses on scheme liabilities £'000:	5,489	(924)	2,067	(3,112)
Percentage of scheme liabilities %	9%	(1%)	2%	(4%)
Total amount recognised in statement of comprehensive income £'000:	(5,009)	1,882	1,305	(201)
Percentage of scheme liabilities %	8%	2%	1%	(-)

The sensitivity analysis is based on existing circumstances, assumptions, and populations

Sensitivity of pension obligation at the year-end to changes in assumptions

	2022 £'000	2021 £'000
Total pension liability at 31st December	*61,691*	*99,306*
Estimated decrease in pension liability if discount rate increases by 0.25%	(2,352)	(5,036)
Estimated increase in pension liability if discount rate decreases by 0.25%	2,506	5,935
Estimated increase in pension liability if inflation rate increases by 0.25%	2,422	6,186
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(2,283)	(5,263)

28. Employee benefit obligations - continued

c) *The McNicholas Plc Retirement Benefits Scheme*

The Group also sponsors The McNicholas Plc Retirement Benefits Scheme, a defined benefit plan. The assets of the Scheme are held separately under Trust from those of the Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2022, in accordance with the Scheme rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group does not expect to contribute to the plan in the next financial year.

For The McNicholas Plc Retirement Benefit Scheme the Group believes there is not an unconditional right of refund and therefore under IAS 19 and IFRIC 14, the Group only recognises the asset of the pension fund up to the limit of the liability (the asset ceiling).

The scheme was closed to both new members and future accruals in 2003.

The valuation below is an update of the actuarial valuation at 28th February 2021. The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

	2022 (%)	2021 (%)	2020 (%)	2019 (%)
Inflation	3.25	3.25	3.00	3.00
Rate of increase of salaries	3.50	3.50	3.25	3.25
Rate of increase of pension	3.05	3.10	2.90	3.00
Rate of increase for deferred pensions	2.70	2.65	2.30	3.00
Pre and post retirement rates to discount scheme liabilities	4.70	1.60	1.40	2.00

Life expectancy after age 65 is 22 years (2021: 22 years) for men and 24 years (2021: 24 years) for women.

The financial position of the scheme based on the above assumptions is detailed below:

	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Scheme liabilities	(14,120)	(21,109)	(21,221)	(22,223)
Scheme assets excluding asset ceiling	16,498	24,822	24,901	22,632
Less asset ceiling provision	(2,378)	(3,713)	(3,680)	(409)
Pension deficit	-	-	-	-

The fair value of the fund assets and the expected return on those assets are as follows:

	Valuation of assets 2022 £'000	Valuation of assets 2021 £'000	Expected return 2022 %	Expected return 2021 %
Quoted UK equities	-	1,454	4.70	1.60
Quoted UK bonds	8,205	10,297	4.70	1.60
Other	8,293	13,071	4.70	1.60
Total	16,498	24,822	4.70	1.60

28. Employee benefit obligations – continued

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments in quoted government bonds.

Analysis of the amount charged to profit or loss.

	2022 £'000	2021 £'000
Current service cost	-	-

Analysis of amount charged to Other Finance Cost

	2022 £'000	2021 £'000
Expected return on pension scheme assets	335	294
Interest on pension liabilities	(335)	(294)
Net finance return	-	-

Analysis of amount recognised in statement of comprehensive income

	2022 £'000	2021 £'000
Actual return less expected return on assets	6,950	(2)
Experience gains and losses on liabilities	1,464	(243)
Changes in demographic assumptions	-	-
Changes in financial assumptions	(8,414)	245
Effect of the asset ceiling		-
Actuarial loss recognised in statement of comprehensive income	-	-
Cumulative gain recognised in statement of comprehensive income	1,921	1,921

Movement in the present value of defined benefit obligation

	2022 £'000	2021 £'000
Present value of obligation 1st January	21,109	21,221
Interest cost	335	294
Benefits paid	(374)	(404)
Actuarial gains	(6,950)	(2)
Closing balance, 31st December	14,120	21,109

Changes in fair value of plan assets

	2022 £'000	2021 £'000
Fair value of plan assets, 1st January	21,109	21,221
Expected return on plan assets	335	294
Benefits paid	(374)	(404)
Actuarial losses	(6,950)	(2)
Closing balance, 31st December	14,120	21,109

28. Employee benefit obligations – continued

History of experience gains and losses:

	2022	2021	2020	2019
Difference between expected and actual return on scheme assets £'000:	(6,950)	(2)	(901)	1,640
Percentage of scheme assets %	(49%	-	(4%)	7%
Experience gains and losses on scheme liabilities £'000:	1,464	(243)	230	450
Percentage of scheme liabilities %	10%	(1%)	1%	2%
Total amount recognised in statement of comprehensive income £'000:	-	-	-	(30)
Percentage of scheme liabilities %	-	-	-	(-)

The sensitivity analysis is based on existing circumstances, assumptions, and populations

Sensitivity of pension obligation at the year-end to changes in assumptions

	2022 £'000	2021 £'000
Total pension liability at 31st December	14,120	21,109
Estimated decrease in pension liability if discount rate increases by 0.25%	(469)	(1,009)
Estimated increase in pension liability if discount rate decreases by 0.25%	496	1,060
Estimated increase in pension liability if inflation rate increases by 0.25%	342	844
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(385)	(798)

29. Ultimate parent Company

The immediate parent undertaking is Skanska Construction Holdings UK Limited, a Company incorporated in the UK.

The ultimate parent Company is Skanska AB, a Company incorporated in Sweden, which heads the smallest and largest Group in which the results of the Group and Company are consolidated. The registered address for Skanska AB is Warfvinges väg 25, SE-112 74 Stockholm, Sweden.

Copies of the Skanska AB financial statements can be obtained from www.skanska.com.

30. Contingent liabilities

The Group faces contingent liabilities in respect of guarantees and potential claims by third parties under contracting agreements entered into by them in the normal course of business. These are provided as liabilities only to the extent that the Directors believe that the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. Contingent liabilities relating to the Group's portion of the joint and several liabilities for the obligations of joint operations totalled £4,027,000 (2021: £9,855,000).

31. Related party disclosures

Transactions between the parent entity, subsidiary companies and other Group undertakings are detailed below. Balances with the Parent entity, subsidiary companies and other Group undertakings are disclosed in the debtors and creditors notes. Amounts owed to and from these entities are unsecured and interest free.

Related party	Nature of relationship	Good/service provided	Transactions in year 2022 £'000	2021 £'000
Skanska Construction Holdings UK Limited	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc paid dividends to this entity in the year.	65,000	16,100
Skanska AB	Ultimate parent Company of Skanska UK Plc	Skanska AB provides management services to Skanska UK Plc	1,929	1,080
Skanska AB	Ultimate parent Company of Skanska UK Plc	Skanska AB receives management services from Skanska UK Plc	915	645
Skanska TAM Limited	Skanska TAM Limited holds Public Financial Initiative investments on behalf of the Skanska Pension Fund	Skanska UK Plc provides accounting services to the entity.	-	13
Skanska TAM (Nordic) Limited	Skanska TAM (Nordic) Limited holds Public Financial Initiative investments on behalf of the pension schemes of fellow group undertakings	Skanska UK Plc provides accounting services to the entity.	-	8
Skanska Construction Services Trustee Limited	Skanska Construction Services Trustee Limited is a corporate trustee of the Skanska Pension Fund	Skanska UK Plc rents an office in Doncaster from the Skanska Pension Fund.	1,636	1,388
Skanska Residential Developments UK Limited	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc provides management and facilities management services to the entity.	180	-
BoKlok UK Limited	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc provide payroll services and staff costs to the entity.	5,379	3,457
Skanska USA	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska USA recharges for staff costs provided to Skanska UK Plc.	2,330	618
Skanska Poland	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc recharges for staff costs provided to the entity.	(40)	45
Skanska Sverige AB	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc recharges for staff costs provided to the entity.	4	-

Remuneration of key management personnel

Details of remuneration of the Directors, who are the key management personnel of the Company, are contained in Note 6.

32. Reconciliation of profit before income tax to cash used in operations

Group

	Notes	2022 £'000	2021 £'000
Profit before income tax		55,002	73,266
Depreciation and impairment	8	16,233	14,777
Amortisation of intangible	12	1,082	-
Profit on sale of business operations	10	-	(29,069)
(Decrease)/increase in provisions	26	(18,482)	18,753
Employee ownership scheme		2,552	2,490
Pension service cost	28	2,847	2,802
Pension company contribution		(7,259)	(16,452)
Finance costs	7	1,868	2,022
Finance income	7	(13,656)	(2,876)
		40,187	65,713
Decrease in inventories		4,008	94
(Increase)/decrease in trade and other receivables		(48,553)	6,491
Increase in trade and other payables		10,354	13,191
Net cash from operations		5,996	85,489

Company

	Notes	2022 £'000	2021 £'000
Profit before income tax		27,140	24,991
Depreciation and impairment	8	11,008	9,657
Amortisation of intangibles	12	1,082	-
Impairment of investments		285	340
Increase in provisions	26	190	-
Dividends received		(50,000)	(40,000)
Employee ownership scheme		2,552	2,490
Pension company contribution		(4,344)	(13,168)
Finance costs		506	1,759
Finance income		(3,202)	(4,308)
		(14,783)	(18,239)
Increase in trade and other receivables		(18,799)	(6,548)
(Decrease)/increase in trade and other payables		(585)	620
Net cash used in operations		(34,167)	(24,167)

33. Joint operations

The Group has entered into a number of Joint operations with different partners for the purposes of undertaking specific contracts. The principal Joint arrangements within the Group (excluding those between Group companies) are as follows:

Name of Joint arrangements	Address	Joint arrangement partners	Control
Skanska Construction UK Limited			
Skanska BAM Northern Hub Joint Venture	1,7	BAM Nuttall Limited	50%
Costain Skanska C405 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C360 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C412 Joint Venture	1,2	Costain Limited	50%
SMB Joint Venture	1,4,5	Balfour Beatty Utility Solutions Limited / MWH Treatment Limited	33%
SEESA AMS Joint Venture	1,9,10	UK Grid Solutions Limited / Mott Macdonald Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
tRIIO	1,8	Morrison Water Service Limited	50%
HS2 Enabling	1,2	Costain Limited	50%
HS2 Main Works SCS S1	1,2,6	Strabag AG-UK Branch / Costain Limited	34%
HS2 Main Works SCS S2	1,2,6	Strabag AG-UK Branch / Costain Limited	34%
Skanska Porr A-Hak Joint Venture	1,11,12	Porr Bau GmbH / A-Hak International B.V.	40%
Bakerloo Line Link Joint Venture	1,2	Costain Limited	50%
A14 Huntingdon to Cambridge	1,2,4	Balfour Beatty Civil Engineering Limited / Costain Limited	33%
Skanska ESS Construction Handelsbolag	1,13	Skanska Sverige AB	25%
Cementation Skanska Limited			
Cementation Skanska Balfour Beatty GE Joint Venture	1,3	Balfour Beatty Ground Engineering Limited	50%
Skanska J.V. Projects Limited			
Skanska Balfour Beatty M25 Joint Venture	1,4	Balfour Beatty Civil Engineering Limited	50%

The addresses of these Joint arrangements are as follows:

1 1 Hercules Way, Leavesden, Watford, WD25 7GS
2 Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB
3 The Curve Building Axis Business Park Hurricane Way Langley Berkshire SL3 8AG
4 5 Churchill Place, Canary Wharf, London, E14 5HU
5 Spring Lodge, 172 Chester Road, Helsby, Cheshire, WA6 OAR
6 Strabag AG UK Branch, The Tower, 3rd Floor 65 Buckingham Gate, London, SW1E 6AS
7 St James House, Knoll Road, Camberley, Surrey, GU15 3XW
8 Abel Smith House, Gunnels Wood Road, Stevenage, Herts SG1 2ST
9 St Leonards Building, Harry Kerr Drive, Stafford, ST16 1WT
10 Mott Macdonald House, 8-10 Sydenham Road, Croydon, Surrey, CR0 2EE
11 Absberggasse 47, 1100 Vienna, Austria
12 Steenoven 2-6, NL-4196 HG Tricht, the Netherlands
13 Warfvinges väg 25, SE-112 74, Stockholm, Sweden

34. Post balance sheet events

There have been no post balance sheet events that require disclosure or adjustment in these financial statements.

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2022

35. Total results including discontinued operations

The Directors have presented the information below as an alternative performance measure so to demonstrate the total revenues and costs that were generatec by the Group in the prior year.

	Notes	2022 £'000 Continuing	2022 £'000 Discontinued	2022 £'000 Total	2021 £'000 Continuing	2021 £'000 Discontinued	2021 £'000 Total
Revenue	4	1,400,222	-	1,400,222	1,122,698	126,888	1,249,586
Cost of sales		(1,258,974)	-	(1,258,974)	(1,005,754)	(110,644)	(1,116,398)
Gross profit		141,248	-	141,248	116,944	16,244	133.188
Other operating income	5	352	-	352	302	-	302
Administrative expenses		(98,386)	-	(98,386)	(83,538)	(6,401)	(89,939)
Operating profit		43,214	-	43,214	33,708	9,843	43,551
Gain on disposal of business operations	10	-	-	-	-	29,069	29,069
Profit before interest and tax		43,214	-	43,214	33,708	38,912	72,620