Group Strategic Report, Report of the Directors and

Audited Consolidated Financial Statements For The Year Ended 31st December 2014

for

Skanska UK Plc

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For The Year Ended 31st December 2014

Company Information
For The Year Ended 31st December 2014

Directors:	R F Bayliss P Chandler H J Francis M L Galloway W J Hocking M C Putnam C K K Gangotra G L Craig T Faulkner
Secretary:	M L Galloway
Registered office:	Maple Cross House Denham Way, Maple Cross Rickmansworth Hertfordshire WD3 9SW
Registered number:	00784752 (England and Wales)
Auditor:	KPMG LLP Chartered Accountants 15 Canada Square London E14 5GL

Group Strategic Report
For The Year Ended 31st December 2014

The directors have pleasure in presenting their strategic report of the company and the group for the year ended 31st December 2014.

Skanska UK 2015 Business Plan
During 2010, we developed our UK Business Plan 2011-2015. The essence of our UK plan is about "Broadening the Base". This means generating stable, profitable and consistent growth through delivering more value in our existing chosen sectors, expanding our regional presence in the UK and focusing on a few new market sectors, including green business, energy, project development and water. We continue to build on our leading position amongst construction companies for green business and we are committed to being the UK's leading green contractor. The 2011-2015 Business Plan includes five focus areas where we aim to lead: Health & Safety, Green, Ethics, People Development and Risk Management. In 2015 we will be developing the next 5 year plan for the period 2016-2020, building on the progress made in the current plan.

Financial performance
In 2014 Group revenue increased by £0.14 billion (12.5%) to £1.26 billion from £1.12 billion in 2013.
Skanska UK made £41.3 million profit before tax for the year (2013: £44.2 million). Profit from operations including share of profits in associates was £38.0 million, equating to a 3.0% operating margin. This was a slight decline from 2013 (£40.0 million, 3.6%) but still represents a strong performance relative to the challenging economic and industry conditions that prevailed throughout the year.

Financial position
Skanska UK's financial position weakened by £3.6 million in the year. This was predominantly made up of £31.9 million post-tax profits offset by actuarial losses after tax of £35.6 million arising from the Group's pension schemes. Total equity attributable to our shareholders at the year end was £254.1 million (2013: £257.7 million).

Our consolidated financial position at the year end included cash and cash equivalents totalling £277.4 million, a decrease of £43.3 million in the year. This included a special contribution to the Skanska Pension Fund of £11.0 million as part of the pension deficit reduction plan. The company had no debt.

Order backlog and order bookings
Order bookings reflect work won in the year and amounted to £1.7 billion (2013: £1.0 billion) with an order backlog of £2.1 billion at the year end (2013: £1.9 billion). This is a book-to-build ratio in the year of 125% (i.e. bookings divided by revenue) and represents 19 months of revenue.

In accordance with Skanska group accounting rules only the next two years of projected revenue for maintenance projects are included in order backlog. If the full projected revenue were included (up to contract break points where appropriate) the total order backlog would be approximately £3.0 billion.

In January 2014, Skanska won a £34m contract to build the next phase at HMP Thameside, south London. It is an extension to the existing prison buildings, which were completed by Skanska at the beginning of 2012. The project will create an additional 332 prisoner places.

A £97 million contract was awarded to Skanska in February to build One New Street Square in the City of London on behalf of its client Land Securities. The team will use its expertise in construction, mechanical and electrical engineering and the installation of bespoke ceilings to deliver a modern office building over 20 floors.

SMB, a joint venture between Skanska, MWH Global and Balfour Beatty, was selected to deliver one of the largest and most varied water infrastructure improvement programmes in the UK. It will provide design-and-build solutions for the development and delivery of Thames Water's £2billion to £3billion AMP6 investment programme. A 23-month early contractor involvement phase preceded the start of AMP6 delivery, running from April 2015 to March 2020.

Skanska secured a contract to develop a new £50m cardiac wing at Great Ormond Street Hospital. The work is part of the revamp project at the world-renowned hospital in London and will involve part demolition of the existing seven-storey cardiac building down to the fourth floor. The plan is then to rebuild to eight storeys, aligning floors in the new wing with the remainder of the adjacent hospital. Once finished, it will be renamed The Premier Inn Clinical Building. Work is due to be completed in early 2017

In April Skanska was awarded a £95 million commercial contract to build Creechurch Place in the City of London for Helical Bar, one of the UK's leading property development companies. The new T-shaped development will provide 26,000sqm of category 'A' office space over 21 floors, served by 11 lifts. Designed by architect Sheppard Robson, the building is designed to be a sustainable City headquarters, with its landscaped square and distinctive, towering architecture.

Skanska was named as capital delivery partner on Anglian Water's £1.3 billion AMP6 framework in May. The contract will run for a proposed 15 years with a review after each AMP (Asset Management Plan) period, making it one of the longest collaborations in the industry. The contract is expected to be worth £40 million a year to Skanska and builds on the collaborative working relationship established with Anglian Water over the past 10 years, through the @oneAlliance. Work has begun with a 12-month Early Contractor Involvement (ECI) phase, involving all capital delivery partners, in preparation for the start of AMP6 delivery. It initially covers the AMP6 period, from April 2015 to April 2020, with an option to extend for a further five or 10 years.

In June Skanska was awarded a contract to build the new Defence College of Logistics, Policing and Administration at Worthy Down in Hampshire as part of a Ministry of Defence (MOD) project to upgrade this site and to redevelop the Princess Royal Barracks at Deepcut in Surrey. The contract, worth circa £250 million, includes the design, construction, mechanical and electrical fit-out of living and other facilities, as well as the supporting infrastructure for the new buildings at Worthy Down. The site will also accommodate Head Quarters of the Royal Logistic Corps, Head Quarters of the Adjutants Generals Corps along with other logistic and personnel training elements of the armed forces.

In July a Skanska-Hyder partnership was named as a capital delivery partner for Welsh Water, with a contract which could run for up to 10 years. Valued at an estimated £25 million a year to the partnership, it will run for an initial five years with a review at the end of the AMP6 (Asset Management Plan) period, which could lead to a five-year extension. Work has started with an ECI phase, involving all delivery partners, in preparation for the start of AMP6 delivery from April 2015.

Also in July Skanska won a Phase One Battersea Power Station contract. Over the next two years, Skanska will fit out 866 new homes as part of the Battersea Power Station redevelopment in London that lies to the west of the iconic building. Skanska has a two-year agreement to deliver the mechanical and electrical shell, core and fit-out works. The contract is worth £88.6 million. Skanska has also been selected as preferred bidder for Phase Two. The £600m redevelopment of the power station building, which constitutes the main element of the second phase, will feature retail and events space on the lower floors, 58,000m2 of offices above and 248 flats crowning the building. The scheme also incorporates a circular glass lift that will emerge out of the top of one of the building's rebuilt chimneys, giving visitors views across London.

In August Skanska won a £49.9 million contract from the University of Cambridge to deliver the site wide infrastructure for Phase 1 of the North West Cambridge Development, the University's largest single capital development project. Skanska had already won a £3 million junction improvement package and early site preparation works worth £1.5 million. As a result of the new contract it will now carry out the whole infrastructure project.

In October Skanska and Britain's first green energy company Ecotricity formed a joint venture - called Skylark - to build wind farm projects in the UK. Skylark will draw on the expertise of Ecotricity in developing green energy projects through planning, while Skanska will utilise expertise in construction and engineering. The joint venture will aim to put 350MW of new green energy projects into the planning system in the first 5 years, which would represent a potential investment of £500 million should the projects be consented, supplying green electricity to 200,000 homes.
Three development sites have already been identified for Skylark's first round of investment, representing around 100MW of generating capacity, with the target of delivering new renewable energy capacity for the UK as early as 2018.

During the year Skanska secured a £198m contract to build the 'Scalpel' tower project in the City of London. The project at 52 Lime Street is one of the largest construction contracts to come onto the London market in recent years. The Kohn Pedersen Fox designed, 190m-tall commercial office development will contain 400,000 sq ft of office floorspace over 35 floors as well as two basement levels, including shops and restaurants.

In December Skanska, in joint venture with Balfour Beatty, was selected for a £55m scheme to upgrade junction 30 of the M25 by the Highways Agency. The joint venture is a construction partner to Connect Plus, the company responsible for managing and upgrading the M25 network, and has already delivered £1.3bn worth of 'smart' motorway upgrades to 117km of the M25 since 2009. The work on junction 30 in Essex will provide enhancements to the motorway where it meets the A13 at Thurrock, as part of a project to reduce congestion, supporting the Government's National Infrastructure Plan.

Operational performance

In March 2014, Skanska handed over a new £40 million development to Bath Spa University. The new state-of-the-art academic building has a range of facilities, including 1,800 sq m of teaching and learning space and a superb new digital studio and editing suites for teaching media related courses. It also includes a giant two-storey high media wall as well as an outdoor amphitheatre, new places for students to socialise and a café.

The record of success of Skanska's joint venture with Costain on Crossrail continued in the year with the early hand over of the Western Ticket Hall Box at Bond Street station. The handover was accomplished six weeks ahead of schedule. The earlier Eastern Ticket Hall, completed in 2012, was four weeks ahead of plan.

June saw completion of the striking new commercial development, Moorgate Exchange, for clients BlackRock and CarVal Investors in conjunction with Quadrant Estates. Covering 12 storeys, the 20,204sqm office building, is located next to Moorgate Station. It features six landscaped roof terraces and a green roof with spectacular views of London

Skanska celebrated the handover of the new Thurrock Campus to South Essex College in July. The £45 million, 2000 student college, located 150 metres from Grays Station, offers training on everything from engineering and construction to hair and beauty. It houses impressive art and design studios, and an auditorium and outdoor amphitheatre which are ideal spaces for students to perform.

London commercial projects at 6 Bevis Marks and 100 Cheapside were also completed in the year.

Just before the end of the year Skanska divested its Bentley Works site to the Company's UK pension scheme for £16.5m. Bentley Works - Skanska's northern hub - has been redeveloped and accommodates colleagues from across the business. Skanska UK's project development team has led the collaboration of the various teams delivering our first Deep GreenTM project.

Construction work continued on the development at 66 Queen Square Bristol. Situated in one of Bristol's prime business locations, construction of this 61,000 sqft landmark office will complete in the summer of 2015 and is 85% let.

Demolition was completed at The Monument, another Skanska development under the banner of Workplaces by Skanska. The building will provide 90,000 sqft of Grade A office accommodation over nine floors, with stunning roof terraces and an iconic feature façade and will complete in the Spring of 2016.

The Barts and Royal London Hospitals projects both continued to progress well in the year. Both hospitals will reach completion in 2016.

Work on the £1.3 billion Ny Karolinska Solna Hospital in Stockholm also progressed well with completion scheduled for 2017. 30% of this internal joint venture with Skanska's Swedish arm is accounted for as an associate in the financial statements.

The Skanska and Morrison Utility Services joint venture successfully completed the second full year of an eight-year £1.6 billion project for National Grid, replacing gas mains in London and the east of England.

Work continued on six highways projects during 2014, following the acquisition of the operating and maintenance contracts from Atkins in 2013, contributing around £225m to revenue.

Market and outlook

The UK construction sector has continued to recover showing a 5% growth in construction new work output in 2014. Future growth is forecast at 6.1% during 2015 and 4.6% for 2016 (source: BCIS). Due to the upturn, forecasting of construction inflation continues to be a challenge. There remains a lack of skilled supply chain labour which falls behind the high demand. This has resulted in an increase in Construction Industry Tender Prices of 7.1% in 2014 with a further 4.3% predicted for 2015 (source:BCIS).

We continue to select our customers by assessing their strategic alignment to our own values of safety, ethics and sustainability. In addition, we also focus on understanding our customers ensuring we offer a service that meets their specific needs. We continue to apply our 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.

PFI (PF2) continues as a potential procurement opportunity for public sector work and we see a pipeline for opportunities in several sectors. However, the rewards need to be commensurate with the cost of investment and bidding. We will continue with caution in this market.

Commercial Construction remains extremely strong in central London. Appropriate delivery teams for major projects are not unlimited and along with many of our competitors we remain selective about the projects we pursue.

Local and national authorities continue to outsource the maintenance of premises and the roads network. This will continue to provide opportunities for our facilities management and infrastructure services businesses.

The outlook for our civil engineering business remains favourable with a number of major opportunities in the rail, roads and energy markets. This follows the Government's decision to increase investment in UK infrastructure. We are now actively preparing for High Speed 2 (HS2), the next major UK Infrastructure project, that will provide a high capacity rail connection between London, the Midlands and the north of England. This scheme will provide substantial opportunities across the whole of Skanska UK from 2016 and beyond.

Key performance indicators

Key performance indicators used by UK management to assess and monitor the performance of Skanska UK, in addition to income statement measures of performance, are as follows;

Revenue growth: Revenue achieved by Skanska UK relative to the prior year.
Revenue per employee: Revenue divided by average number of employees.
Gross margin %: Gross profit divided by revenue.
Operating margin %: Operating profit before interest and taxation divided by revenue.
Working capital: Net non-interest bearing receivables and liabilities.
Free cash flow: Generation of cash from operating profits and working capital, less capital expenditure and excluding interest, tax and strategic investment cash flows.
Order backlog: Total value of contracted activity remaining to be completed.
Order bookings: Recognised upon written orders or signed contracts. For term contracts, which are the norm in our Utilities and FM businesses and parts of our Civils and Infrastructure Services businesses, only two years' future activity is included in order bookings and backlog. Likewise when two-stage negotiations take place, contracts are only booked once a final contract sum is agreed. In the PFI sector, contracts are only booked once financial close has been achieved.
Book to build: The ratio of order bookings to revenue in the same period.

As well as these financial measures, Skanska also adopts sustainability measures (which are mentioned below) and qualitative targets, 'The 5 Zeros': Zero loss-making projects; Zero environmental incidents; Zero accidents, Zero ethical breaches and Zero defects. In addition we monitor each of the UK's business streams throughout the year against a scorecard of issues which includes: client satisfaction assessments; the number of employee performance appraisals and development plans undertaken; and adherence to our in-house commercial procedures. We also track our employment turnover rates.

Principal risks and uncertainties

Construction and project development operations require a considerable amount of risk management. Every project is unique, with size, design and the environment varying for each new assignment. The construction industry differs in this way from the typical manufacturing industry where companies have permanent facilities and serial production. In Skanska's operations, there are many different types of risks. Identifying, managing and putting a price on these risks are of fundamental importance to profitability. The risks are normally of a technical, legal and financial nature, but ethical, social and environmental aspects are also part of the process of assessing potential risks. There are many different types of contractual mechanisms in Skanska's operations, and this also has an impact on the portfolio. The degree of risk varies greatly depending on the contract type. In Construction operations, sharp increases in prices of materials may pose a risk, especially in long projects with fixed-price commitments. A shortage of human resources or of certain intermediate goods may potentially have a negative impact on operations. Delays in the design phase or changes in design are other circumstances that may adversely affect projects. Certain counterparties, for example clients, subcontractors or suppliers, may have difficulty fulfilling their contractual obligations. Skanska regularly makes assessments of counterparty risk in order to be prepared for this.

In the current UK construction environment, where good growth prospects follow a sustained period of recession, key risks include price inflation and supply chain capacity.

Skanska UK aspires to be a leader in risk management. To ensure a systematic and uniform assessment of risks and opportunities, Skanska uses a model involving common routines throughout the Group to identify and manage risk. Skanska uses this model to continuously evaluate projects from preparation of tenders to completion of assignments.

Health, safety, ethics, the environment, profitability and sustainability

Within Skanska UK it is understood that, through working in line with the Group's Code of Conduct and increasingly acting in a sustainable and responsible manner, the business can meet the long-term demands of the Group's shareholders, customers and employees, as well as society at large. Our aim, in accordance with our '5 Zeros' values, is to ensure that all projects are not only profitable, but are delivered without environmental incidents, damage to health, injury, accidents or ethical breaches and without defects.

Skanska UK is committed to outperform in the management of environment, health & safety, engagement with our workforce and the communities where we work, as well as in project performance and profitability.

Skanska UK's performance was recognised during 2014 and we received numerous awards including:
Construction News Awards
Judges' Supreme Award
Sustainable company of the year
Sustainable project of the year - M25 smart motorways scheme
Charted Institution of Highways & Transportation (CIHT) Awards
Employer Award for Excellence in Skills Development - The Operational Training Academy
Heating & Ventilation News awards
BIM Initiative of the Year award - Woodlands School - London and South East and SRW
FT ArcelorMittal Boldness in Business Awards
Corporate Responsibility and Environment winner - Skanska
CIBSE Building Performance Awards
Refurbishment Project of the Year - Hollywood House (Woking)
Highways Agency Supplier Awards
Delivering Sustainable Value - Skanska Balfour Beatty JV
RoSPA Gold Medal Awards
President's Award
Winner - Cementation - 11 consecutive gold awards
Winner - Clark & Fenn - 10 consecutive gold awards
International Dilmun Environmental Trophy
Winner - Skanska UK
Gold
Winner - Facilities Services
Winner - SRW
Winner - Utilities
Fleet World Honours Awards
Winner - Fleet Safety Award
Considerate Constructors Scheme
Considerate Constructor National Site Awards
AMS Joint Venture Bramford Substation - Most Considerate Site Runner Up
May Park Primary School - Most Considerate Site Runner Up
C405 Paddington School - Most Considerate Site Runner Up
Gold
HMP & YOI Grampian
Advanced Works at Bond Street - C411
C360 Eleanor Street and Mile End Park Shafts, 39-41 Eleanor Street
C360 Eleanor Street and Mile End Park Shafts, 190 Burdett Road
Silver
Phase 1 Academic Building & Energy Centre
6 Bevis Marks
Project Pride
South Essex College new Thurrock Campus
Moorgate Exchange
St John's Primary School Annex
St Bartholomew's Hospital Phase 2
M25 J23-27 Smart Motorways
Bronze
The Royal London Hospital
Bath and North East Somerset Highway Maintenance and Improvement Works
London Power Tunnels
A303 Longbarrow Roundabout Improvement
Institution of Civil Engineers (ICE)
Winner - James Rennie Medal - Sam Reed
International Green Apple Award
Winner - Skanska and Barts Health NHS Trust
Building Awards
Winner - Sustainable project of the Year - Brent Civic Centre

Health & Safety
At Skanska UK we have continued to work to reduce the number of incidences occurring and have remained focused and determined to work safely or not at all. Through various programmes which have been deployed through the year we are progressing towards our vision of zero accidents. Our progress is demonstrated through industry awards and recognition by our clients, staff and supply chain partners that we are a leader in terms of our culture and approach to H&S. During the year we have been invited to work with the HSE, clients and construction industry groups to be engaged in the revision of the Construction Design Management regulations 2015. This is the most significant change to H&S legislation since 2007 and we have represented the industry both in the role of a client as part of the client construction group and as a principal contractor in the UK construction group. Our role as a client and a principal contractor has given Skanska a unique opportunity to influence the changes. A highlight in the year was Skanska working with the HSE, CITB and Client construction group to develop and approve the Client's CDM guidance. We have also represented UKCG at the Construction Industry Advisory Group (CONIAC). This is the highest level construction industry forum. During October, Skanska took to the stage with Professor Ragnar Lofstedt, advisor to the government on H&S legislation, at the Capita Symonds lecture.

Our Injury Free Environment ('IFE') safety culture programme continues to deliver benefits and has been successfully introduced to all new staff and contractors. We have shared our IFE programme with two key client organisations, who have adopted IFE within their own organisations. Our largest Joint Venture partners continue to support the IFE programme and recognise the cultural shift it has achieved. During the year we have concentrated our efforts on supervising IFE and continuing to ensure new staff and suppliers are immersed in our culture at the earliest opportunity. Our Skanska culture survey results generally showed positive movement and have been useful in shaping our plan for the future. We are extremely pleased with the passion and engagement our staff have for IFE and several projects have developed project IFE leadership teams. We have held three IFE stand-ups during the year and these have ensured that relationships have grown and cemented across different levels in the organisation. Each area of the business has performed well against the IFE plan for 2014 and has developed a 2015 plan.

During the year we have continued to focus on five key areas, these are culture, competence, contractor, controls and communication. By developing strategies and delivering on the improvement plans in these five areas we are confident that we will deliver on our vision of zero accidents.

To support the delivery of our IFE and H&S programme we have four leading measures, these are; demonstration of leadership by senior managers, IFE orientation of our key supply chain MDs, IFE supervisor training and assessment and ongoing performance management of the supply chain. We continue to use Lost Time Accident Rates (LTAR) and Total Case Incident Rates (TCIR) to measure reduction in the frequency of injuries occurring both to our direct and supply chain workforces. We have seen an increase in the lost time accident rate of 0.31 against a target of >0.2 and our TCIR was 0.4 against a target of 0.36. We achieved 96% against a target of 90% for supply chain MD IFE training and 93% against a target of 90% for supervisors completing supervising IFE training. While we were disappointed with the LTAR overall we are overall proud of our achievements during the year and we have an excellent culture of compliance and empowerment which we are confident will deliver further improvement in 2015.

The introduction of a single H&S management system has delivered increased efficiencies and consistent H&S standards across Skanska UK. The first audits of the management system were concluded and there were some minor observations. Our H&S management system was recommended by LRQA to other organisations as being simple and effective. Thames water Alliance was so impressed that it has been adopted as the framework for the AMP 6 Alliance contract across all eight partner companies.

During the year we have increased our focus on Occupational Health and wellbeing. The Occupational Health and wellbeing function has transferred across to the H&S function and a manager appointed. During the year the business has assessed itself against an Occupational Health and wellbeing matrix and programmes are in place to improve across three key areas. These are worker, workplace and wellbeing. We have been heavily engaged in raising the importance of Occupational Health and wellbeing across the industry and have signed up to Institute of Occupational health (IOSH) "no time to lose" campaign and the Government's Health campaign. We are founder members of a health task group which will hold a UK-wide health summit in 2016. During the year we have held several health-related events across the business on several subjects, including mental health seminars, nutritional advice and wellbeing clinics. All of these have been well received by staff and supply chain partners and has ensured we remain a leader in this area.

In terms of engineering controls we have continued to drive and support the adoption of the vulnerable road users' policy throughout the construction industry. Having acquired Atkins Highways business in 2013 we have become instrumental in influencing the changes in Highways standards and policy and have developed a highways sector event in 2015 supporting the Highways Term Maintenance Association (HTMA). Skanska continues to be recognised as a leader in health & safety and our balanced and holistic approach to technical solutions, procedures and behaviour changes ensures that we are continuously evaluating our performance and improving our performance and recognition as a leader in the industry.

In the wider H&S arena and in the community we have trained ambassadors who have attended schools to deliver advice on safe driving in conjunction with the charity Brake. We have continued our work with MENCAP and developed a new relationship with Mind. Work has continued with the CITB to develop H&S training and IOSH to develop a competency framework for H&S professionals.

Environment

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

Skanska UK, in line with the Skanska AB Group, works actively to not only minimise climate change but to give back to society as well. We strive to become the leading green developer and contractor. This has been happening in two ways: first through setting a vision for 2015; and second through green construction. 2014 continued our focus on green leadership, engagement and embedding sustainability into the mind-set of our employees. Green was put at the heart of the UK Business Plan 2015 with the following areas which we believe will strengthen Skanska: develop a Skanska sustainability supply chain school; set up a Green Fund; skill-up employees in green; and measure new green metrics. The supply chain sustainability school continues to surpass all its targets and received further funding during 2014. The school has united us with our competitors and is instigating sustainability training and improvement plans throughout the supply chain. The goal of the green construction initiative is to develop economically attractive green solutions for our customers and ourselves. We have invested in greening our own offices with a green retrofit programme for our head office. Our expertise and know-how in green construction continued to grow through 2014 with green solutions and sustainability case studies made available to all employees through the 'Green Toolbox', launched during 2008. We continued to promote the need for green with our clients through a series of external events such as Skanska Future Day, Ecobuild, and BASE cities. Engagement with our staff and supply chain to find improvements continued with a series of green awards that rewards positive behaviours: Green Hard Hat and Green Solutions from the Supply Chain.

Progress against our green initiatives continually improves, with 97% of company cars being below 130gCO2/km in compliance with our green car policy, carbon footprint measurement accuracy greatly improved and Environment Week growing to include our supply chain.

In 2014, visible leadership and commitment to green was demonstrated through the UK arm of Skanska AB's global Green Business unit which concentrated on developing new markets in the area of green retrofit for commercial buildings.

During 2014, Skanska UK concentrated on the Green Strategic Indicators including: Brand, Leadership, Competency and the four areas of the Color PaletteTM (carbon, energy, materials and water). Continued higher-profile green communication has led to greater recognition in the industry of Skanska being the leaders in sustainability.

Brand and Leadership - the strong UK reputation for green led to Skanska UK president and CEO, Mike Putnam, being asked to co-chair the Green Construction Board with Government for a second term and help lead the industry to a low-carbon future. Senior management sit on sub-groups within the Green Construction Board and also present externally on our green credentials, to a total of 5,674 people in 2014. Internally, senior management carry out environmental site inspections, demonstrating a visible committed leadership standpoint and embedding further the importance of sustainability. Skanska sit on 66 external green groups influencing Government, industry and other sectors in green thinking.

Competency - the competency of Skanska UK staff in green, has increased with 855 staff completing green training to embed 'green thinking' in all disciplines and areas. We have delivered an environment training prospectus offering appropriate training to all levels of staff. We also deliver training to our clients and subcontractors in a collaborative approach to raising awareness and understanding.

Energy, carbon, materials and water - the UK metrics for the Color PaletteTM were set for 2014 with all major projects assessed. We met our energy target of 50% of projects to have greater than 25% reduction in energy. However we missed our materials target of <4% waste to landfill, achieving 5%, and 57% of projects had a carbon footprint calculated and reductions implemented, falling short of the 60% target. Our water target of 45% of projects with greater than a 25% reduction was not achieved, with 22% of projects meeting this target. We will continue to set challenging targets for our projects and provide them with the skills, tools and support to help them achieve excellence in sustainability.

Employees
A strong focus on the people agenda continues to be business-critical as the construction sector returns to growth. In-line with our clearly defined People Strategy, we have continued to focus on creating an open and transparent environment where highly-engaged people who are skilled, trained, motivated, fit and well, are able to succeed and develop their careers. We welcomed over 700 new people to the company during 2014.

People engagement
During the year we have sought to engage our people in many different ways, including toolbox talks, conferences and events, discussion groups, employee publications and a regularly-updated intranet.

We increased the number of people attending our annual management meeting in London by almost 50%, providing the opportunity to engage some 300 people in discussions around the strategic direction of the company. The management meeting was also attended by members of the Senior Executive Team from Skanska AB.

Our annual employee engagement survey once again showed strong results in all key indices, measuring progress towards our desired culture and satisfaction with leadership. Our results were benchmarked in the upper quartile for UK companies.

The Executive & Senior Management teams continued to undertake regular executive site safety tours. These tours also provide the opportunity for our senior leaders to engage with site teams around other business issues, such as ethics and general work satisfaction.

Employment policies and diversity
In line with our Code of Conduct, the Company remains committed to a policy of providing equal opportunities for all, regardless of gender, nationality, colour, ethnic origin, religious affiliation, sexual orientation, marital status, age or disability. The Company is committed to training and management development, so as to ensure a supply of trained and skilled employees, and places on our new management development programme portfolio remain in high demand.

The company launched a new diversity and inclusion vision with the aim of being recognised as a leader in diversity & inclusion; mirroring the diversity in society, and having leaders who are excellent in fostering an inclusive culture. The senior management team of Skanska UK participated in a workshop to develop a plan to turn this vision into reality.
We have continued to facilitate discussion across the company around diversity and inclusion issues, and ran a fifth cohort of our Skanska Female Mentoring Programme, achieving another increase in the number of mentoring pairs.

Learning and development
In line with our commitment to our global aspiration to be a leader in people development, we have further developed our comprehensive approach to our people's learning, based around a 70-20-10 approach - 70% of learning delivered through experience; 20% learning from others, and 10% via formal training. Learning requirements are identified through a formal review and development planning process, which involves a discussion between each of our people and their line manager. A wide range of learning interventions are accessed through our on-line Skanska Academy. During 2014 we introduced a new 'blended learning' Project Management programme, Ignite, which was met with enthusiasm by those participating in it.

Skanska Employee Ownership Program (SEOP)
Our long-term share ownership programme ran again during 2014, as part of a three-year investment programme approved by Skanska AB's shareholders. This long-term share ownership programme is available to all permanent Skanska employees, giving them the opportunity to invest in Skanska shares while receiving incentives in the form of an allocation of additional share awards, based on performance criteria.

Skanska UK Plc

Group Strategic Report
For The Year Ended 31st December 2014

On behalf of the board:

M L Galloway - Secretary

30th June 2015

Skanska UK Plc

Report of the Directors
For The Year Ended 31st December 2014

The directors present their report with the financial statements of the company and the group for the year ended 31st December 2014.

Principal activity
The principal activity of the group in the year under review was that of Skanska UK is a construction services business with core activities in construction, civil engineering, utilities, infrastructure services, piling and ground engineering, design, mechanical and electrical works, hard and soft facilities management and residential construction. We also develop our own projects by adding financing and development components to design and build projects.
Our business model is to integrate our core disciplines to deliver project solutions across our chosen market sectors.

Dividends
No dividends will be distributed for the year ended 31st December 2014.

Directors
The directors shown below have held office during the whole of the period from 1st January 2014 to the date of this report.

R F Bayliss
P Chandler
H J Francis
M L Galloway
W J Hocking
M C Putnam

Other changes in directors holding office are as follows:

C K K Gangotra , G L Craig and T Faulkner were appointed as directors after 31st December 2014 but prior to the date of this report.

Directors' interests and transactions with directors
None of the directors at 31st December 2014 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the directors' interests between 31st December 2014 and the date of this report. No director during the year had a material interest in any contract significant to the Company's business.

Political donations and expenditure
During the year, the Company made donations to various charitable organisations amounting to £42,889 (2013: £25,000) and the Group made charitable donations of £56,281 (2013: £35,000). No political donations were made in either year by the Company or the Group.

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

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 2014 represented 21 days' purchases (2013: 28 days).

Pensions
On an IAS 19 basis, the Group's defined benefit pension scheme showed a deficit of £47.7 million at 31st December 2014, compared with a £19.3 million deficit at the previous year end. The increase in the deficit has been driven by changes in actuarial assumptions largely offset by a special contribution of £6.7 million made as part of an agreed deficit reduction plan. Total contributions paid into the Skanska Pension Fund by the Company was £33.3 million.

Disclosure of information to auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves is aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 489 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board:

M L Galloway - Secretary

30th June 2015

Statement of Directors' Responsibilities
For The Year Ended 31st December 2014

The directors are responsible for preparing the Report of the Directors 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 as adopted by the European Union. 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's 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 Auditor to the Members of Skanska UK Plc

We have audited the financial statements of Skanska UK Plc for the year ended 31st December 2014 on pages fifteen to fifty. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statement is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the group's and the parent company's affairs as at 31st December 2014 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Stephen Wardell (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

30th June 2015

Consolidated Statement of Profit or Loss
For The Year Ended 31st December 2014

	Notes	2014 £'000	2013 £'000
Continuing operations			
Revenue	2	1,260,473	1,120,676
Cost of sales		(1,136,981)	(999,552)
Gross profit		123,492	121,124
Administrative expenses		(88,283)	(84,865)
Share of profit of associate		2,825	3,772
Operating profit		38,034	40,031
Finance costs	4	(26,390)	(22,221)
Finance income	4	29,632	26,379
Profit before income tax	5	41,276	44,189
Income tax	6	(9,332)	(13,697)
Profit for the year		31,944	30,492
Profit attributable to:			
Owners of the parent		31,944	30,492

The notes on pages 23 to 50 form part of these financial statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Year Ended 31st December 2014

	2014 £'000	2013 £'000
Profit for the year	31,944	30,492
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference	(1,503)	80
Net actuarial (loss) on pension scheme	(44,509)	(29,792)
Employees share scheme	1,549	2,052
Income tax relating to items of other comprehensive income	8,901	5,977
Other comprehensive income for the year, net of income tax	(35,562)	(21,683)
Total comprehensive income for the year	(3,618)	8,809
Total comprehensive income attributable to:		
Owners of the parent	(3,618)	8,809

The notes on pages 23 to 50 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Financial Position
31st December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Non-current assets			
Goodwill	9	38,921	38,921
Intangible assets	10	4,069	6,087
Property, plant and equipment	11	17,556	21,289
Investment in associates	12	11,815	10,223
Investments	12	-	-
Deferred tax	23	16,692	11,673
		89,053	88,193
Current assets			
Inventories	13	53,151	35,968
Trade and other receivables	14	336,215	391,060
Tax receivable		-	4,466
Cash and cash equivalents	15	277,405	320,663
		666,771	752,157
Total assets		755,824	840,350
Equity			
Shareholders' equity			
Called up share capital	16	165,000	165,000
Retained earnings	17	89,053	92,671
Total equity		254,053	257,671
Liabilities			
Non-current liabilities			
Trade and other payables	18	710	1,047
Pension liability	24	47,737	19,254
Provisions	22	64,349	74,967
		112,796	95,268
Current liabilities			
Trade and other payables	18	385,873	483,474
Financial liabilities - borrowings			
Interest bearing loans and borrowings	19	1,989	3,937
Tax payable		1,113	-
		388,975	487,411
Total liabilities		501,771	582,679
Total equity and liabilities		755,824	840,350

The financial statements were approved by the Board of Directors on 30th June 2015 and were signed on its behalf by:

R F Bayliss - Director

The notes on pages 23 to 50 form part of these financial statements

Company Statement of Financial Position
31st December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Non-current assets			
Goodwill	9	-	-
Intangible assets	10	-	-
Property, plant and equipment	11	3,521	3,745
Investment in associates	12	-	-
Investments	12	50,979	54,759
Deferred tax	23	12,964	5,121
		67,464	63,625
Current assets			
Trade and other receivables	14	152,075	237,360
Tax receivable		1,620	11,893
Cash and cash equivalents	15	89,150	70,098
		242,845	319,351
Total assets		310,309	382,976
Equity			
Shareholders' equity			
Called up share capital	16	165,000	165,000
Retained earnings	17	(79,180)	(69,151)
Total equity		85,820	95,849
Liabilities			
Non-current liabilities			
Pension liability	24	46,419	20,773
Current liabilities			
Trade and other payables	18	178,070	266,354
Total liabilities		224,489	287,127
Total equity and liabilities		310,309	382,976

The financial statements were approved by the Board of Directors on 30th June 2015 and were signed on its behalf by:

R F Bayliss - Director

Consolidated Statement of Changes in Equity
For The Year Ended 31st December 2014

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2013	165,000	83,862	248,862
Changes in equity			
Total comprehensive income	-	8,809	8,809
Balance at 31st December 2013	165,000	92,671	257,671
Changes in equity			
Total comprehensive income	-	(3,618)	(3,618)
Balance at 31st December 2014	165,000	89,053	254,053

The notes on pages 23 to 50 form part of these financial statements

Company Statement of Changes in Equity
For The Year Ended 31st December 2014

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2013	165,000	(59,467)	105,533
Changes in equity			
Total comprehensive income	-	(9,684)	(9,684)
Balance at 31st December 2013	165,000	(69,151)	95,849
Changes in equity			
Total comprehensive income	-	(10,029)	(10,029)
Balance at 31st December 2014	165,000	(79,180)	85,820

The notes on pages 23 to 50 form part of these financial statements

Consolidated Statement of Cash Flows
For The Year Ended 31st December 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Cash generated from operations	30	(43,043)	(12,786)
Tax paid		129	(8,242)
Net cash from operating activities		(42,914)	(21,028)
Cash flows from investing activities			
Purchase of tangible fixed assets		(4,842)	(5,657)
Sale of tangible fixed assets		3,222	203
Acquired division		-	(16,000)
Interest received		3,224	3,656
Net cash from investing activities		1,604	(17,798)
Cash flows from financing activities			
Capital repayments in year		(1,948)	(308)
Net cash from financing activities		(1,948)	(308)
Decrease in cash and cash equivalents		(43,258)	(39,134)
Cash and cash equivalents at beginning of year	31	320,663	359,797
Cash and cash equivalents at end of year	31	277,405	320,663

The notes on pages 23 to 50 form part of these financial statements

Company Statement of Cash Flows
For The Year Ended 31st December 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Cash generated from operations	30	(15,220)	(25,509)
Tax paid		8,695	(2,058)
Net cash from operating activities		(6,525)	(27,567)
Cash flows from investing activities			
Purchase of tangible fixed assets		(1,473)	(2,735)
Purchase of fixed asset investments		(5,000)	-
Sale of fixed asset investments		28,227	-
Interest received		3,823	3,198
Dividends received		-	10,372
Net cash from investing activities		25,577	10,835
Increase/(decrease) in cash and cash equivalents		19,052	(16,732)
Cash and cash equivalents at beginning of year	31	70,098	86,830
Cash and cash equivalents at end of year	31	89,150	70,098

The notes on pages 23 to 50 form part of these financial statements

1. **Accounting policies**

Accounting conventions
The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS") and under the historical cost convention and include the results of activities described in the directors' report all of which are continuing. The accounts have been prepared on a going concern basis.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings ('subsidiaries') and jointly controlled operations ('JCOs') made up to 31st December each year and have been presented in accordance with IAS 1 Presentation of Financial Statements. They include the Group's share of results and post-acquisition reserves of its associated undertakings ('associates'). The principal subsidiaries and associates and the principal JCOs are listed in the notes to the financial statements.

Associated undertakings and jointly controlled operations
An associated undertaking is an entity over which the Company holds a participating interest on a long-term basis and exercises significant influence. Interests in associated undertakings are included in the consolidated financial statements using the equity accounting method.

The Group has entered into a number of jointly controlled operations ('JCOs') with different partners for the purposes of undertaking specific contracts. Interests in JCOs 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.

Changes in accounting policies
There is no significant financial impact on the financial statements of the following new standards, amendments and interpretations that are in issue and mandatory for the financial year ending 31 December 2014:

IFRS 10 'Consolidated financial statements'
IFRS 11 'Joint arrangements'
IFRS 12 'Disclosure of interests in other entities'
Amendments to IAS 27 'Separate financial statements'
Amendments to IAS 28 'Investments in associates and joint ventures'
Amendments to IAS 32'Financial instruments:Presentation'
Amendments to IAS 36'Impairment of assets'
Amendments to IAS 39'Financial instruments:Recognition and measurement'

There are no standards, amendments or interpretations that are in issue but not yet effective that are expected to have a significant impact on the financial statements.

Revenue recognition
Revenue represents the sales value of work done on construction contracts and services activities in the period and excludes VAT. Profit on construction contracts is calculated in accordance with IAS 11 Construction contracts. Revenue from services activities performed is recognised in accordance with IAS 18 Revenue, based on the stage of completion at the period end.

The principal estimation technique used within the Group in establishing attributable profit on construction and services contracts is on a contract-by-contract basis, focusing on costs to complete and evaluating the final outcome anticipated on that contract. As soon as the outcome of a construction or services contract can be estimated reliably, revenue and expenses are recognised in proportion to the stage of completion of the contract. Provision is made for losses incurred on contracts (or foreseen to be incurred) as soon as they become apparent.

Amounts due from customers for contract work are valued at anticipated net value of work done on construction contracts after provision for contingencies and anticipated future losses on contracts. Claims are included in the valuation of contracts and credited to the income statement when entitlement has been established and the amount of economic benefit receivable can be estimated reliably. Small works are valued at the lower of cost plus attributable overheads and net sales value.

Cash received on account of contracts is deducted from amounts due from customers for contract work. Such amounts which have been received and exceed amounts due from customers are included in trade and other payables. Contract provisions in excess of amounts due from customers are included in provisions.

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Pre-contract costs

Costs associated with bidding for contracts are written off as incurred. Once the Company has secured preferred bidder status and it is probable that the contract will be awarded, future costs are capitalised in the statement of financial position. When financial close is achieved on PFI contracts and pre-contract costs are recovered, those costs that were not previously capitalised are credited to the income statement.

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 reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement 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.

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, which is an asset that does not generate cash flows that are essentially independent of other assets, the recoverable amount is estimated for the cash-generating unit to which it is attributable, which is effectively the subsidiary reporting to the parent company.

Intangible assets, other than goodwill, are stated at amortised cost. Amortisation is recognised in the income statement on a straight-line basis over the remaining years of the respective customer contracts

Property, plant and equipment

Property plant and equipment is stated at amortised cost.

Depreciation is not provided on freehold land. Provision for permanent diminution in the value of land to below its carrying value is charged to the income statement.

For other freehold and long leasehold buildings, depreciation is provided on the straight-line method on a 3 to 30 year useful economic life.

Depreciation on plant and equipment is provided on the straight-line method based on anticipated lives of 3 to 10 years.

Financial instruments

Financial assets and financial liabilities are recognised in the Group and Company statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Trade receivables and other receivables do not carry any interest and are stated at their nominal value, reduced by appropriate allowances for estimated irrecoverable amounts. Overdrafts are stated at their nominal value. Interest is accounted for on an accruals basis. Trade payables on normal terms are not interest bearing and are stated at their nominal value.

Inventories

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

Taxation

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 joint ventures and associates. Deferred tax assets are recorded only to the extent that they are considered recoverable.

UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the statement of financial position date.

continued...

1. **Accounting policies - continued**

Research and development
Expenditure is charged against profit in the period in which it is incurred, except that development expenditure is capitalised where it meets the recognition criteria of IAS38 Intangible Assets. Such assets would be recognised only if all the following conditions are met:
- an asset is created that can be separately identified
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Such assets that are capitalised are amortised through the income statement on a systematic basis over the period expected to benefit from the expenditure.

Foreign currencies
Trading results denominated in foreign currencies are translated into sterling at average rates of exchange. Assets and liabilities are translated into sterling at the rates ruling at the period end except where rates of exchange are fixed under contractual arrangements. Differences on exchange arising from the translation of opening net assets of foreign subsidiaries and branches denominated in foreign currencies and any related loans are taken to reserves. Other exchange differences are taken to the income statement when they arise.

Employee benefit costs
Certain of the Company'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 income statement 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 income statement. 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 income statement as incurred.

The Skanska AB Share Award Plan introduced in 2005 is recognised as share-based payments settled with equity instruments, in compliance with IFRS 2. The fair value of the share awards is calculated on the basis of estimated fulfilment of established income targets during the measurement period. There is no reappraisal after fair value is established during the remainder of the vesting period except for changes in the number of shares due to employees leaving in the period.

Fixed asset investments
Shares in subsidiary undertakings are stated at amortised cost.

Other investments are stated at fair value. Profits and losses on the sale of investments and permanent diminutions in the market value of investments are taken to the income statement. Unrealised gains and losses are taken to the revaluation reserve.

Financial guarantees
Where Group companies enter into financial guarantee contracts to guarantee the indebtedness or obligations of other companies within the Group, these are considered to be insurance arrangements, and accounted for as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the guarantor will be required to make a payment under the guarantee.

Borrowing costs
Borrowing costs are capitalised provided that it is probable that they will result in future economic benefits and the costs can be measured reliably. Capitalisation of borrowing costs is limited to assets that take a substantial period of time for completion, implies that capitalisation mainly covers the construction of properties and properties for the Group's own use. Capitalisation occurs when expenditures included in cost have arisen and activities to complete the building have begun. Capitalisation ceases when the building is completed. Borrowing costs during an extended period when work to complete the building is interrupted are not capitalised. If separate borrowing has occurred for the project, the actual borrowing cost is.

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2. Segmental reporting

Geographical information

Revenue by geographical area	2014 £'000	2013 £'000
United Kingdom	1,258,698	1,119,241
Rest of Europe	1,775	1,435
	1,260,473	1,120,676

Profit before tax by geographical area		
United Kingdom	39,341	40,406
Rest of Europe	1,935	3,783
	41,276	44,189

Net assets by geographical area		
United Kingdom	236,974	245 ,098
Rest of Europe	17,079	12,573
	254,053	257,671

All results are derived from the principal activity which is construction. Revenue from third parties by destination is not materially different to revenue from third parties by origin. Profit before tax includes profits relating to associate company.

3. Employees and directors

	2014 £'000	2013 £'000
Wages and salaries	227,415	202,703
Social security costs	25,015	21,579
Other pension costs	27,913	21,404
	280,343	245,686

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

	2014	2013
Construction	5,174	4,360

	2014 £	2013 £
Directors' remuneration	2,489,900	2,441,000

The number of directors to whom retirement benefits were accruing was as follows:

Defined benefit schemes	3	4

Information regarding the highest paid director is as follows:

	2014 £	2013 £
Emoluments etc	689,170	668,000
Accrued pension at 31st December 2014	105,102	102,000

continued...

4. **Net finance income**

	2014 £'000	2013 £'000
Finance income:		
Bank Interest	3,224	3,656
Interest income on pension scheme assets	26,408	22,723
	29,632	26,379
Finance costs:		
Interest on pension scheme liabilities	26,390	22,221
Net finance income	3,242	4,158

5. **Profit before income tax**

	2014 £'000	2013 £'000
Depreciation - owned assets	6,180	5,135
Profit on disposal of fixed assets	(827)	-
Other Intangible assets amortisation	2,018	1,249
Research and development	1,525	1,513
Hire of plant and machinery	18,721	16,655
Hire of Land and buildings	6,396	6,370
Audit fee	467	457

continued...

6. Income tax

	2014 £'000	2013 £'000
Current Tax		
Current year	7,430	1,428
Adjustments in respect of the prior year	(1,980)	2,848
Total current tax charge	5,450	4,276
Deferred Tax		
Current year	1,449	7,633
Adjustments in respect of the prior year	2,433	(68)
Impact of change in corporate tax rate	-	1,856
	3,882	9,421
Total tax charge	9,332	13,697

Reconciliation of profits to total tax charge:		
Profit before tax	41,276	44,189
Less : Associates profit	(2,825)	(3,772)
	38,451	40,417
Profit before tax multiplied by standard rate of corporation tax in the UK 21.50% (2013:23.25%)	8,267	9,397
Expenses not deductible for tax purposes	612	(336)
Adjustment in respect of prior years	453	2,780
Change in rate	-	1,856
Total tax charge	9,332	13,697

7. Profit 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 parent company's profit for the financial year was £20,910,000 (2013 - £12,487,000).

8. Construction contracts

The following information relates to all construction contracts in progress at the statement of financial position date.

	2014 £'000	2013 £'000
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	6,701,696	5,488,420
Advances received	58,331	59,306
Retentions	25,597	24,013

continued...

9. Goodwill

Group

	£'000
Cost	
At 1st January 2014	
and 31st December 2014	38,921
Net book value	
At 31st December 2014	38,921
At 31st December 2013	38,921

At 31st December 2014, management undertook an assessment of market conditions and updated revenue projections and concluded that there was no deterioration from the previous year's review and accordingly no further impairment loss has arisen.

Forecasts of expected cash flows include assessments of market variables such as likely demand, cost of input goods, labour costs and the competitive situation. The forecasts are based on previous experience, management's own assessments and external sources of information. The forecast period encompasses five years. The growth rate used to extrapolate cash flow forecasts beyond the five years is 2.5%, being management's view of the expected rate for the regulated utilities market sector. The discount factor is the Group's pre-tax weighted average cost of capital, calculated as 9% for 2014 (2013: 10.0%).

10. Intangible assets

Group

	Other Intangible assets £'000
Cost	
At 1st January 2014	
and 31st December 2014	7,336
Amortisation	
At 1st January 2014	1,249
Amortisation for year	2,018
At 31st December 2014	3,267
Net book value	
At 31st December 2014	4,069
At 31st December 2013	6,087

continued...

11. Property, plant and equipment

Group

	Freehold property £'000	Long leasehold £'000	Plant and machinery £'000	Totals £'000
Cost				
At 1st January 2014	2,528	5,646	61,099	69,273
Additions	-	216	4,626	4,842
Disposals	(2,270)	-	(2,899)	(5,169)
Reclassification/transfer	(161)	161	-	-
At 31st December 2014	97	6,023	62,826	68,946
Depreciation				
At 1st January 2014	487	4,920	42,577	47,984
Charge for year	-	197	5,983	6,180
Eliminated on disposal	(901)	-	(1,873)	(2,774)
Reclassification/transfer	414	(414)	-	-
At 31st December 2014	-	4,703	46,687	51,390
Net book value				
At 31st December 2014	97	1,320	16,139	17,556
At 31st December 2013	2,041	726	18,522	21,289

Company

	Long leasehold £'000	Plant and machinery £'000	Totals £'000
Cost			
At 1st January 2014	5,204	12,863	18,067
Additions	62	1,411	1,473
At 31st December 2014	5,266	14,274	19,540
Depreciation			
At 1st January 2014	3,979	10,343	14,322
Charge for year	83	1,614	1,697
At 31st December 2014	4,062	11,957	16,019
Net book value			
At 31st December 2014	1,204	2,317	3,521
At 31st December 2013	1,225	2,520	3,745

continued...

12. Investments

Group

	Interest in associate £'000
Cost	
At 1st January 2014	10,223
Share of profit/(loss)	2,825
Exchange differences	(1,233)
At 31st December 2014	11,815
Net book value	
At 31st December 2014	11,815
At 31st December 2013	10,223

Interest in associate

The investment in shares relates to a 30% shareholding acquired in 2009 in Skanska Health Care AB, a company incorporated in Sweden.

	2014 £'000	2013 £'000
Income statement of associate		
Revenue	75,301	93,433
Profit	2,825	3,772
Statement of financial position of associate		
Current assets	27,835	32,122
Current liabilities	(16,020)	(21,899)
Net assets	11,815	10,223
Total equity attributable to the equity holder	11,815	10,223

continued...

12. **Investments - continued**

Company

	Shares in group undertakings £'000
Cost	
At 1st January 2014	107,802
Additions	5,000
Disposals	(23,867)
At 31st December 2014	88,935
Provisions	
At 1st January 2014	53,043
Eliminated on disposal	(15,087)
At 31st December 2014	37,956
Net book value	
At 31st December 2014	50,979
At 31st December 2013	54,759

Interest in associate

The investment in shares relates to a 30% shareholding acquired in 2009 in Skanska Health Care AB, a company incorporated in Sweden.

	2014 £'000	2013 £'000
Income statement of associate		
Revenue	75,301	93,433
Profit	2,825	3,772
Statement of financial position of associate		
Current assets	27,835	32,122
Current liabilities	(16,020)	(21,899)
Net assets	11,815	10,223
Total equity attributable to the equity holder	11,815	10,223

continued...

12. **Investments - continued**

Company

The group or the company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiary

The following subsidiary undertakings all have construction as their principal activity (except where marked*, where the principal activity is to act as a holding company for employees' contracts, and where marked **, where the principal activity is to act as an investment company).

All companies: country of registration is England and Wales, except Cementation Skanska Ireland Ltd which is registered in Ireland, and all are 100% controlled by the company.

Cementation Skanska Limited*
Cementation Skanska Ireland Limited*
Clark & Fenn Skanska Limited*
Skanska Construction Services Limited**
Skanska Construction UK Limited
Skanska J.V. Projects Limited*
Skanska Major Projects Limited*
Skanska Rashleigh Weatherfoil Limited*
Skanska Technology Limited
Skanska Project Developments Limited
SPDL (Monument) Ltd*
SPD Bentley Ltd*
66 Queen Square Ltd*

On 31st December 2014 the following subsidiaries were sold to Skanska Construction UK Limited (a fellow subsidiary of company)

Cementation Skanska Limited
Cementation Skanska Ireland Limited
Clark & Fenn Skanska Limited
Skanska Major Projects Limited

13. **Inventories**

	Group	
	2014	**2013**
	£'000	**£'000**
Stocks	7,837	8,761
Properties	45,314	27,207
	53,151	35,968

continued...

14. Trade and other receivables

	Group		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Current:				
Trade debtors	80,306	95,545	-	15
Amounts owed by fellow undertakings	101,531	108,893	140,414	228,473
Amounts recoverable on contract	120,622	145,889	1,132	-
Other debtors	21,318	29,009	8,481	7,261
Prepayments and accrued income	12,438	11,724	2,048	1,611
	336,215	391,060	152,075	237,360

15. Cash and cash equivalents

	Group		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Bank accounts	277,405	320,663	89,150	70,098

16. *Called up share capital*

Allotted, issued and fully paid:

Number:	**Class:**	**Nominal value:**	**2014**	**2013**
			£'000	**£'000**
3,300,000,000	Ordinary	£0.05	165,000	165,000

continued...

17. Reserves

Group

	Retained earnings £'000
At 1st January 2014	92,671
Profit for the year	31,944
Net actuarial gain/loss on defined pension schemes	(44,509)
Tax effect on movement in pension scheme	8,901
Exchange difference	(1,503)
Employee share award scheme	1,549
At 31st December 2014	89,053

Company

	Retained earnings £'000
At 1st January 2014	(69,151)
Profit for the year	20,910
Net actuarial gain/loss on defined pension schemes	(40,610)
Tax effect on movement in pension scheme	8,122
Employee share award scheme	1,549
At 31st December 2014	(79,180)

18. Trade and other payables

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Current:				
Payments on account	73,683	92,155	-	-
Trade creditors	49,609	60,884	29	78
Amounts owed to fellow group undertakings	7,385	20,579	156,291	246,235
Other creditors	52,606	64,062	13,578	13,279
Accruals and deferred income	202,590	245,794	8,172	6,762
	385,873	483,474	178,070	266,354
Non-current:				
Contractual obligation to pension scheme	710	1,047	-	-
	710	1,047	-	-
Aggregate amounts	386,583	484,521	178,070	266,354

continued...

19. Financial liabilities - borrowings

	Group	
	2014	2013
	£'000	£'000
Current:		
Hire purchase contracts (see note 20)	1,989	3,937

Terms and debt repayment schedule

Group

	1 year or less
	£'000
Hire purchase contracts	1,989

20. Leasing agreements

Group

Minimum lease payments fall due as follows:

	Hire purchase contracts	
	2014	2013
	£'000	£'000
Net obligations repayable:		
Within one year	1,989	3,937

continued...

21. **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

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 amounts due from customers for contract work at the statement of financial position date.

Interest rate risk

The Group and Company do not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. As part of arrangements with Skanska UK's bankers (Skandinaviska Enskilda Banken AB) cash balances are transferred from subsidiaries to a fellow group company on a daily basis; such arrangements are commonplace in large groups and facilitate effective cash management.

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 2014, the Group had cash and cash equivalents totalling £277,405,000 (2013: £320,663,000) and no debt. Included in this total is £89,150,000 restricted cash held in JCOs (2013: £74,491,000).

Effective interest rates and maturity analysis

As at 31st December 2014, income-earning financial assets of the Group comprised cash and cash equivalents totalling £277,405,000 (2013: £320,663,000) and of the Company £89,150,000 (2013: £70,098,000), all of which is repayable on demand. Interest is earned on cash balances at floating rates linked to the Bank of England base rate. As at 31st December 2014, interest-bearing financial liabilities of the Company were £Nil (2013: £Nil), all of which is repayable on demand. Interest is payable on bank overdrafts at floating rates linked to the Bank of England base rate.

Fair values

The carrying amounts shown in the statement of financial position of all financial assets and financial liabilities are not considered to be materially different to their fair value.

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Loans and receivables				
Amounts due from customers for contract work	120,622	145,889	1,132	-
Trade receivables	80,306	95,545	-	15
Amounts owed by fellow group undertakings	101,531	108,893	140,414	228,473
Other receivables	21,318	29,009	8,481	7,261
Financial assets				
Cash and cash equivalents	277,405	320,663	89,150	70,098
Total financial assets	601,182	699,999	239,177	305,847
Financial liabilities				
Payments received on account	(73,683)	(92,155)	-	-
Trade payables	(49,609)	(60,884)	(29)	(78)
Amounts owed to fellow group undertakings	(7,385)	(20,579)	(156,291)	(246,235)
Other payables	(52,606)	(64,062)	(13,578)	(13,279)
Total financial liabilities	(183,283)	(237,680)	(169,898)	(259,592)

Sensitivity analysis

At 31st December 2014 and 31st December 2013, it was estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

continued...

22. **Provisions**

	Forward loss £'000	Warranty £'000	Other £'000	Total £'000
2014				
At 1 January 2014	19,881	49,681	5,405	74,967
Released in year	(5,618)	(12,807)	(540)	(18,965)
Created in year	7,447	11,103	4,406	22,956
Utilised	(5,398)	(5,367)	(3,844)	(14,609)
At 31 December 2014	16,312	42,610	5,427	64,349
2013				
At 1 January 2013	19,274	38,466	7,244	64,984
Released in year	(7,448)	(1,760)	(1,221)	(10,429)
Created in year	6,363	26,977	940	34,280
Utilised in year	(3,097)	(14,002)	(3,558)	(20,657)
On Acquisition	4,789	-	2,000	6,789
At 31 December 2013	19,881	49,681	5,405	74,967

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

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.

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.

23. **Deferred tax**

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Accelerated Capital Allowances	938	1,201	453	609
Deferred tax on pension liability	12,966	4,065	12,276	4,154
Unrelieved trading losses	666	3,705	-	-
Other	2,122	2,702	235	358
	16,692	11,673	12,964	5,121
Asset at start of period	11,673	14,230	5,121	4,844
Deferred tax movement in IS	(3,882)	(9,428)	(279)	(5,779)
On Acquisition	-	894	-	-
Deferred tax direct to equity	8,901	5,977	8,122	6,056
	16,692	11,673	12,964	5,121

24. **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 last actuarial valuations and reviews and the assumptions used by the actuaries are set out below.

(a) The Skanska Pension Fund

The Company, in its capacity as employing company, participates in The Skanska Pension Fund, which includes a defined benefit section and a defined contribution section. The assets of the Fund 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 2014, in accordance with the Fund rules, there were no outstanding contributions. The pension contributions are set by the Trustees of The Skanska Pension Fund based on the advice of the Fund actuary and after consultation with Skanska UK Plc. Total contributions paid during the year by the Group (excluding employee contributions) were £33,297,000 (2013: £42,151,000). Ultimately the contributions are met by the particular group company for which the employees are working. The Group expects to contribute approximately £23 million to the Fund in the next financial year.

During 2009 Skanska UK carried out a review of the pension benefits offered to staff, as a result of which and after consultation with staff, sections of the Skanska Pension Fund (final salary, career average and defined contribution) was closed to further accrual on 31st March 2010. Two new sections were opened in the Skanska Pension Fund: a new Career Average Scheme section (defined benefit) and a new Defined Contribution Scheme section which will provide both existing and future staff with a core defined benefit pension together with the option of a defined contribution top up scheme, with matching employer contributions for service from 1st April 2010.

The Company does not contribute to pension arrangements in respect of employees who are eligible for but elect not to join The Skanska Pension Fund.

This valuation is an update of the actuarial valuation at 31st March 2013 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:

	2014 (%)	**2013** (%)	**2012** (%)	**2011** (%)
Inflation	3.25	3.40	2.75	3.00
Rate of increase of salaries	3.75	3.75	3.50	3.75
Rate of increase of pension	3.15	3.30	2.70	3.00
Rate of increase for deferred pension	2.25	2.25	3.00	3.00
Pre and post retirement rates to discount scheme liabilities	4.25	4.70	4.50	4.75

Life expectancy after age 65 is 24 years for men and 25 years for women (2013: 24 years for men and 25 for women).

continued...

The financial position of the fund based on the above assumptions

	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Scheme Liabilities	(611,889)	(514,423)	(453,582)	(433,736)
Scheme assets	565,470	493,650	437,600	405,500
Total (deficit)/surplus	(46,419)	(20,773)	(15,982)	(28,236)
Related deferred tax asset	8,122	6,056	3,711	7,130
Net pension(liability)/asset	(38,297)	(14,717)	(12,271)	(21,106)

The fair value of the fund assets and the expected return on those assets

	Valuation of assets 2014 £'000	Valuation of assets 2013 £'000	Expected return 2014 £'000	Expected return 2013 £'000
Equity	207,500	182,210	4.75	4.50
Government bonds	38,610	20,240	4.75	4.50
Cooperate bonds	189,460	177,210	4.75	4.50
Hedge funds	41,620	59,590	4.75	4.50
Cash	9,860	27,160	4.75	4.50
Infrasture assets and property	45,420	21,900	4.75	4.50
Other	33,000	5,340	4.75	4.50
Total	565,470	493,650	4.75	4.50

	2014 £'000	2013 £'000
Actual return on fund assets	61,778	32,787

The expected long term returns on assets assumption is assessed by considering the current level of expected risk-free investments (primarily government bonds), the historical level of the risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns for each asset class. The expected return for each asset class is then weighted based on the asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Analysis of the amount charged to the Income Statement

	2014 £'000	2013 £'000
Current service cost	14,752	14,304
Employee contribution	(258)	(256)
Total operating charge	14,494	14,048

Analysis of the amount charged to Other Finance Cost

	2014 £'000	2013 £'000
Expected return on pension scheme assets	23,678	20,435
Interest on pension liabilities	(23,833)	(20,076)
Net finance return	(155)	359

continued...

Notes to the Consolidated Financial Statements - continued
For The Year Ended 31st December 2014

Analysis of amount recognised in Statement of Comprehensive Income

	2014 £'000	2013 £'000
Actual return less expected return on assets	38,100	12,352
Experience gains and losses on liabilities	(1,230)	5,090
Changes in assumptions	(77,480)	(47,721)
Actuarial loss recognised in statement of comprehensive income	**(40,610)**	**(30,279)**
Cumulative loss recognised in statement of comprehensive income	**(154,722)**	**(114,112)**

Movement in the present value of defined benefit obligation

Present value of obligation 1st January	514,423	453,582
Service cost	14,752	14,304
Interest cost	23,833	20,076
Benefits paid	(19,829)	(16,170)
Actuarial losses	78,710	42,631
Obligation at 31st December	611,889	514,423

Changes in fair value of fund assets

Fair value of plan assets, 1st January	493,650	437,600
Expected return on fund assets	23,678	20,435
Employer contribution	29,613	39,177
Member contribution	258	256
Benefits paid	(19,829)	(16,170)
Actuarial gains	38,100	12,352
Fair value at 31st December	565,470	493,650
Scheme (deficit)	(46,419)	(20,773)

History of experience gains and losses

	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Difference between expected and actual return on scheme assets:	38,100	12,352	10,013	(7,010)
Percentage of scheme assets %	6.7	2.5	2.3	(1.7)
Experience gains and losses on scheme liabilities	(78,710)	(42,631)	(350)	(31,911)
Percentage of scheme liabilities %	(12.9)	(8.3)	(0.0)	(7.4)
Total amount recognised in statement of comprehensive income:	(40,610)	(30,279)	9,663	(38,921)
Percentage of scheme liabilities	(6.6)	(5.9)	2.1	(9.0)

continued...

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

	2014 £'000	2013 £'000
Total pension liability at 31st December	611,889	514,423
Estimated decrease in pension liability if discount rate increases by 0.25%	(30,257)	(26,130)
Estimated increase in pension liability if discount rate decreases by 0.25%	32,545	28,035
Estimated increase in pension liability if inflation rate increases by 0.25%	23,148	19,811
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(23,804)	(21,650)

(b) The Federated Pension Plan

The Group also participates in The Federated Pension Plan, a defined benefit plan. The assets of the Plan are held separately under Trust from those of the Company and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2014, 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 following valuation is an update of the actuary's valuation at 5th April 2010. The actuarial valuation in accordance with IAS 19 used the projected unit actuarial valuation based on the following assumptions:

	2014	2013	2012	2011
Inflation	3.25	3.25	2.75	2.90
Rate of increase of salaries	3.75	3.75	3.50	4.15
Rate of increase of pension	3.15	3.30	2.70	3.40
Pre-and post-retirement rate to discount scheme liabilities	4.25	4.75	4.50	4.40

Life expectancy after age 65 is 23 years (2013: 23 years) for men and 26 years (2013: 26 years) for women.

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

	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Scheme liabilities	(49,502)	(40,724)	(36,246)	(39,009)
Scheme assets	48,182	42,243	36,549	31,621
Scheme surplus/(deficit)	(1,320)	1,519	303	(7,388)

The fair value of the plan assets and the return on those assets were as follows:

	Valuation of assets 2014 £'000	Valuation of assets 2013 £'000	Expected return 2014 %PA	Expected return 2013 %PA
Equities	-	28,539	4.25	4.75
Government bonds	48,182	13,704	4.25	4.75
Total/Weighted returns	**48,182**	**42,243**	**4.25**	**4.75**

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments (primarily government bonds), the historical level of the risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns for each asset class. The expected return for each asset class is then weighted based on the asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

continued...

Analysis of the amount charged to the Income Statement

	2014	2013
	£'000	£'000
Current service cost	2,860	2,443
Employee contribution	(401)	(380)
Total operating charge	2,459	2,063

Analysis of amount charged to Other Finance Cost

	2014	2013
	£'000	£'000
Expected return on pension scheme assets	2,032	1,697
Interest on pension liabilities	(1,951)	(1,668)
Net finance return	81	29

Analysis of amount recognised in statement of comprehensive income

	2014	2013
	£'000	£'000
Actual return less expected return on assets	1,228	2,176
Experience gains and losses on liabilities	395	481
Changes in assumptions	(5,393)	(2,007)
Actuarial gain/(loss) recognised in statement of comprehensive income	(3,770)	650
Cumulative (loss) recognised in statement of comprehensive income	(6,903)	(3,133)

Movement in the present value of defined benefit obligation:

	2014	2013
	£'000	£'000
Present value of obligation, 1st January	40,724	36,246
Service cost	2,860	2,443
Interest cost	1,951	1,668
Benefits paid	(1,182)	(1,159)
Transfers	151	-
Actuarial losses/(gains)	4,998	1,526
Closing balance, 31st December	49,502	40,724

Changes in the fair value of plan assets:

	2014	2013
	£'000	£'000
Fair value of plan assets, 1st January	42,243	36,549
Expected return on plan assets	2,032	1,697
Company contribution	3,309	2,600
Employer contributions	401	380
Benefits paid	(1,182)	(1,159)
Transfers	151	-
Actuarial gains	1,228	2,176
Closing balance, 31st December	48,182	42,243

continued...

History of experience gains and losses

	2014	2013	2012	2011
	£'000	£'000	£'000	£'000
Amount (£'000)	1,228	2,176	1,893	(385)
Percentage of scheme assets	3%	5%	5%	(1%)
Experience gains and losses on scheme liabilities:				
Amount (£'000)	395	869	5,214	(5,294)
Percentage of scheme liabilities	1%	2%	14%	(14%)
Total amount recognised in statement of comprehensive income:				
Amount (£'000)	5,393	3,045	7,107	(5,679)
Percentage of scheme liabilities	11%	7%	20%	(15%)

(c) The McNicholas Plc Retirement Benefits Scheme

The Group also participates in The McNicholas Plc Retirement Benefits Scheme, a defined benefit plan. The assets of the Scheme are held separately under Trust from those of the Company and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2014, 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 scheme was closed to both new members and future accruals in 2003.

The valuation below is an update of the actuarial valuation at 1st March 2009. The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

	2014	2013	2012	2011
	(%)	(%)	(%)	(%)
Inflation	3.25	3.25	2.75	3.00
Rate of increase of salaries	3.75	3.75	3.50	3.75
Rate of increase of pension	3.15	3.30	2.70	3.00
Rate of increase for deferred pensions	2.25	2.75	2.25	3.00
Pre-and post-retirement rate to discount scheme liabilities	4.25	4.75	4.50	4.75

Life expectancy after age 65 is 23 years (2013: 23 years) for men and 26 years (2013: 26 years) for women.

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

	2014	2013	2012	2011
	£'000	£'000	£'000	£'000
Scheme liabilities	(15,206)	(12,764)	(10,796)	(10,953)
Scheme assets	16,497	14,575	13,549	12,911
Less asset ceiling provision	(1,291)	(1,811)	(2,753)	(1,958)
Pension surplus/(deficit)	-	-	-	-

The fair value of the scheme assets and the return on those assets were as follows:

	Valuation of assets 2014	Valuation of assets 2013	Expected return 2014	Expected return 2013
Equity	6,220	6,180	4.25	4.75
Bonds	9,970	8,111	4.25	4.75
Other assets (inc cash)	307	284	4.25	4.75
Total/Weighted returns	16,497	14,575	4.25	4.75

continued...

Analysis of the amount charged to the Income Statement

	2014 £'000	2013 £'000
Current service cost	-	-

Analysis of amount charged to Other Finance Cost		
Expected return on pension scheme assets	698	591
Interest on pension liabilities	(606)	(477)
Net finance return	92	114

Analysis of amount recognised in statement of comprehensive income

	2014 £'000	2013 £'000
Actual return less expected return on assets	2,920	3,202
Changes in assumptions	(2,095)	(1,879)
Actuarial (loss)/gain recognised in statement of comprehensive income	825	1,323
Cumulative post acquisition gain recognised in statement of comprehensive income	3,632	2,807

Movement in the present value of defined benefit obligation:

	2014 £'000	2013 £'000
Present value of obligation, 1st January	12,764	10,796
Interest cost	606	477
Benefits paid	(259)	(388)
Actuarial loss/(gains)	2,095	1,879
Closing balance, 31st December	15,206	12,764

Changes in the fair value of plan assets:

	2014 £'000	2013 £'000
Fair value of plan assets, 1st January	12,764	10,796
Expected return on plan assets	698	591
Employer contributions	374	374
Benefits paid	(259)	(388)
Actuarial (losses)/gains	2,920	3,202
Provision for asset ceiling	(1,291)	(1,811)
Closing balance, 31st December	15,206	12,764

History of experience gains and losses

	2014	2013	2012	2011
Difference between expected and actual return on scheme assets:				
Amount (£'000)	2,920	3,202	(100)	462
Percentage of scheme assets	18%	22%	(1%)	4%
Experience gains and losses on scheme liabilities:				
Amount (£'000)	(2,095)	(1,879)	489	160
Percentage of scheme liabilities	(14%)	(15%)	5%	1%
Total amount recognised in statement of comprehensive income:				
Amount (£'000)	825	1,323	389	622
Percentage of scheme liabilities	5%	10%	4%	6%

continued...

25. **Ultimate parent company**

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 Company are consolidated.

Copies of the Skanska AB financial statements can be obtained from Skanska UK Plc at Maple Cross House, Denham Way, Rickmansworth, Herts WD3 9SW

26. **Contingent liabilities**

There are contingent liabilities in respect of performance bonds, guarantees and actual and potential claims by third parties under contracting and other agreements entered into during the normal course of business. Whilst the outcome of these matters is uncertain, the directors believe that appropriate provision has been made within the financial statements in respect of these matters. Contingent liabilities relating to the group's portion of the joint and several liabilities for the obligations of JCOs totalled £367,601,000 (2013: £481,310,000).

27. **Capital commitments**

	2014	2013
	£'000	£'000
Contracted but not provided for in the financial statements	725	750

28. **Related party disclosures**

Transactions between the Group and fellow group undertakings are detailed below. Balances with other group undertakings are disclosed in the debtors and creditors notes.

Trading transactions
During the year, the following transactions were carried out with related parties:

	2014	2013
	£'000	£'000
Sales to fellow group undertaking	298,690	364,893
Management fee received from fellow group undertaking	-	65

Remuneration of key management personnel

Details of the remuneration of the directors, who are the key management personnel of the Group, are contained in note 3.

29. **Reconciliation of movements in shareholders' funds**

Group

	2014	2013
	£'000	£'000
Profit for the financial year	31,944	30,492
Currency differences-Associate	(1,233)	128
Currency differences-foreign operations	(270)	(48)
Net actuarial (loss) pension scheme	(44,509)	(29,792)
Tax (credit)/charge on the above	8,901	5,977
Employees share scheme	1,549	2,052
Net (reduction)/addition to shareholders' funds	(3,618)	8,809
Opening shareholders' funds	257,671	248,862
Closing shareholders' funds	254,053	257,671

continued...

29. Reconciliation of movements in shareholders' funds - continued

Company

	2014 £'000	2013 £'000
Profit for the financial year	20,910	12,487
Net Actuarial gain on pension scheme	(40,610)	(30,279)
Tax charge	8,122	6,056
Employee share scheme	1,549	2,052
Net reduction of shareholders' funds	(10,029)	(9,684)
Opening shareholders' funds	95,849	105,533
Closing shareholders' funds	85,820	95,849

30. Reconciliation of profit before income tax to cash generated from operations

Group

	2014 £'000	2013 £'000
Profit before income tax	41,276	44,189
Depreciation and amortisation charges	8,198	6,384
Profit on disposal of fixed assets	(827)	-
(Decrease)/increase in provisions	(10,618)	3,195
Employee ownership scheme	1,549	2,052
Finance costs	26,390	22,221
Finance income	(29,632)	(26,379)
	36,336	51,662
Share of profit of associate	(2,825)	(3,772)
Increase in inventories	(17,183)	(10,223)
Decrease/(increase) in trade and other receivables	54,845	(17,296)
Decrease in trade and other payables	(97,870)	(7,117)
Difference between pension charge and cash contributions	(16,346)	(26,040)
Cash generated from operations	(43,043)	(12,786)

Company

	2014 £'000	2013 £'000
Profit before income tax	22,767	13,976
Depreciation charges	1,697	1,606
Profit on disposal of fixed assets	(19,447)	-
Employee share ownership	1,549	2,052
Finance costs	23,833	20,076
Finance income	(27,501)	(34,005)
	2,898	3,705
Decrease in trade and other receivables	85,285	37,789
Decrease in trade and other payables	(88,284)	(41,874)
Difference between pension charge and cash contributions	(15,119)	(25,129)
Cash generated from operations	(15,220)	(25,509)

continued...

31. Cash and cash equivalents

The amounts disclosed on the statements of cash flow in respect of cash and cash equivalents are in respect of these statement of financial position amounts:

	Group		Company	
Year ended 31st December 2014				
	31/12/14	1/1/14	31/12/14	1/1/14
	£'000	£'000	£'000	£'000
Cash and cash equivalents	277,405	320,663	89,150	70,098
Year ended 31st December 2013				
	31/12/13	1/1/13	31/12/13	1/1/13
	£'000	£'000	£'000	£'000
Cash and cash equivalents	320,663	359,797	70,098	86,830

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32. **Jointly controlled operations**

The Group has entered into a number of jointly controlled operations ('JCOs') with different partners for the purposes of undertaking specific contracts. All JCOs have 31st December as their year end. The principal JCOs within the group (excluding those between group companies) are as follows:

Name of JCO	Address	JCO Partner	Control
Skanska Construction UK Limited			
Skanska Aker Solutions Joint Venture	1,9	Aker Solutions E&C Limited	50%
Balfour Beatty Skanska Joint Venture	1,7	Balfour Beatty Civil Engineering Limited	50%
Skanska BAM Northern Hub Joint Venture	1,10	BAM Construct UK 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	1,11	MWH UK Ltd	33%
Balfour Beatty Skanska M25 Junction 30 Joint Venture	1,12	Balfour Beatty Civil Engineering Limited	50%
SEESA AMS Joint Venture	1,13	Alstom UK Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
tRIIO	1,14	Morrison Utility Services Limited	50%
Cementation Skanska Limited			
Cementation Stent Joint Venture	1,3	Balfour Beatty Ground Engineering	50%
Stent Cementation Joint Venture	1,3	Balfour Beatty Ground Engineering	50%
Cementation Bachy Joint Venture	1,4	Bachy Soletanche Limited	50%
Bachy Cementation Joint Venture	1,4	Bachy Soletanche Limited	50%
Cementation Franki Joint Venture	1,8	Franki Grondtechnieken BV	50%
Franki Cementation Joint Venture	1,8	Franki Grondtechnieken BV	50%
Skanska J.V. Projects Limited			
Costain Skanska Joint Venture	1,2	Costain Limited	50%
Costain Skanska Mowlem Joint Venture	1,2,5	Costain Limited and Mowlem Limited	30%
Costain Skanska Bachy Joint Venture	1,2,6	Costain Limited and Bachy Soletanche Limited	33%
Skanska Balfour Beatty M25 Joint Venture	1,7	Balfour Beatty Civil Engineering Limited	50%

The addresses of these JCOs are as follows:

1 Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW
2 Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB
3 Pavilion 2, Ashwood Park, Ashwood Way, Basingstoke, Hampshire, RG23 8BG
4 Henderson House, Langley Place, Higgins Lane, Burscough, Lancashire, L40 7JB
5 Foundation House, Eastern Road, Bracknell, Berkshire, RG12 2UZ
6 Foundation Court, Godalming Business Centre, Cattleshall Lane, Godalming, Surrey, GU7 1XW
7 86 Station Road, Redhill, Surrey, RH1 1PQ
8 Rederijweg 33, Oosterhout, 4906CX, Netherlands
9 Phoenix House, Surtees Business Park, Stockton on Tees, TS18 3HR
10 St James House, Knoll Road, Camberley, Surrey GU15 3X
11 Terriers House, 201 Amersham Rd, High Wycombe HP13 5AJ
12 130 Wilton Road, London, SW1V 1LQ
13 175 High Holborn, London, WC1V 7AA
14 Abel Smith House, Gunnels Wood Road, Stevenage, Herts SG1 2ST

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33. Accounting estimates and uncertainties

The preparation of the financial statements in conformity with IFRS 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 goodwill and investments in subsidiary undertakings impairment tests.

Note 1 Accounting Policies, details the principal estimation techniques used in establishing attributable profit on construction contracts.

Note 24 contains the principal assumptions underlying the valuation of defined benefit pension liabilities. These assumptions were set on the advice of the schemes' actuaries having regard to current market conditions, past history and factors specific to the scheme.

Goodwill and investments in subsidiary undertakings have been assessed for impairment by comparing their carrying amounts with the present value of the discounted cash flows expected to be generated by the relevant cash-generating units (CGUs) identified in note 9. After recognising the goodwill impairment charge in 2009 and reviewing the position at this year end, management does not consider that a reasonably possible change in one or more key assumptions as described in note 9, during the next year could cause the recoverable amount of either CGU to fall significantly below its carrying amount.