

REGISTERED NUMBER: 00784752 (England and Wales)

Skanska UK Plc

Group Strategic Report, Directors' Report and

Audited Consolidated Financial Statements

Year Ended 31st December 2019



Contents

Company Information	1
Group Strategic Report	2
Corporate Governance Report	9
Directors' Report	14
Statement of Directors' Responsibilities	17
Report of the Independent Auditors	18
Consolidated Statement of Profit or Loss	20
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Financial Position	22
Company Statement of Financial Position	23
Consolidated Statement of Changes in Equity	24
Company Statement of Changes in Equity	25
Consolidated Statement of Cash Flows	26
Company Statement of Cash Flows	27
Notes to the Consolidated Financial Statements	28

Skanska UK Plc (Registered number: 00784752)

**Company Information
For The Year Ended 31st December 2019**

Directors:

H J Francis
M L Galloway
G L Craig
C K K Gangotra
T P Faulkner
M G Neeson
K M Dowding

Secretary:

M L Galloway

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Registered number:

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Auditors:

Ernst & Young LLP
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London
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Skanska UK Plc (Registered number: 00784752)

Group Strategic Report For The Year Ended 31st December 2019

The directors present their strategic report of Skanska UK Plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31st December 2019.

Business model

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

Financial position

The Group recorded an Operating Profit of £12.1 million with an operating margin of 0.7%. Underlying operating profit, before the impairment of goodwill, was £41.9 million (2018: £42.1 million) on revenues of £1,789.8 million (2018: £1,935.4 million); underlying operating margin was 2.3% (2018: 2.2%). The impairment related to the write off of goodwill associated with two operating units being Infrastructure Services and Utilities.

The Group's total equity increased by £0.4 million. Total equity attributable to shareholders at the year-end was £284.1 million (2018: £283.7 million). Our consolidated year-end cash and cash equivalents totalled £473.7 million, an increase of £99.9 million in the year (2018: £373.8 million). The year on year movement was predominantly due to the cash generated through its construction activities and the proceeds from the sale of 51 Moorgate, a commercial development project, which was included in the trading result for 2019. In December 2019, the Group sold this investment for £61.2 million. Cash inflow from operating activities was £130.7 million (2018: inflow £5.2 million). The Group has no debt.

The impact on the financial position from the COVID-19 pandemic in 2020 is currently unclear, but it can be seen a fall in Operating profit and cash resources will be realised when compared to 2019.

Principle risks and uncertainties

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

- Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there was no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and amounts due from customers for contract work at the statement of financial position date.
- The Group does not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. As part of the arrangements with the Skanska Group'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/cash flow risk is the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Group aims to mitigate these risks by setting and monitoring cash flow targets and by assessing credit worthiness of all material business partners.
- COVID-19 has introduced increased risk to all areas of the Group in 2020. A risk averse culture coupled with open and collaborative relationships with our stakeholders has and will continue to mitigate the impact on delivery and financial performance.

COVID-19 Pandemic

On the 23 March 2020, the Government in the UK announced a national lockdown in response to the COVID-19 pandemic.

Since it was clear that the COVID-19 pandemic was going to fundamentally impact the economy and our industry, Management have been monitoring the situation closely. From early in 2020, Management introduced increased rigorous reporting and review across all areas to ensure visibility of the potential impact on productivity and delivery to our stakeholders. During this period of change, the Group has ensured to comply with all Government guidelines, and we have concentrated on cash management and stakeholder collaboration.

Throughout this period, the fundamental values that underpin our Business have been prominent in all decision making. Clear communication and standing side by side with our dedicated and exceptional employees have been key, alongside a supportive and collaborative level of engagement with our clients and supply chain partners. The Group's existing Health & Safety framework and culture has once again proven to be a real strength of our operational delivery, keeping everyone safe.

Skanska UK Plc (Registered number: 00784752)

Group Strategic Report For The Year Ended 31st December 2019

Major contract wins

The Featherstone building – Construction of a mixed-use scheme for Derwent London, worth £57.6 million. As well as the main build, Skanska will also design and install the mechanical, electrical, and plumbing engineering services. Cementation Skanska is designing and installing the contiguous and rotary bored piling works.

M42 Junction 6 improvement scheme – A five-year project with Highways England with a contract value of £143m for the delivery of the M42 improvement Scheme.

150 Holborn – Building Services is undertaking the MEP design and building for the full fit-out of 13 apartments, and shell and core for the commercial office and retail space. The value to the group is £9.9 million.

Kent County Council – Extension of existing contract worth a total of £12 million over two years. The facilities management team will continue to provide total facilities management services for public and education buildings across 310 locations.

Laser Focus & Further Review

In late 2017 as part of our Profit with Purpose Business Plan, which will guide us through 2020, the Laser Focus Plan was launched with the aim to ensure we remain a profitable and sustainable business. With an over-arching objective to hit or beat tender margin on every contract, the first phase of the plan is to focus on five key areas: Right people, Design control, Understanding and applying the deal, Quality, and Forecasting and Reporting. The second phase of the Laser Focus Plan was launched in the first quarter of 2018, which following a strategic review of our markets and sectors, resulted in a reorganisation of the Group's Operating Units, reducing the number from 9 to 7.

2019 saw a consolidation of the plan with the Group ensuring each key area had been fully embedded. Improved Project performance, continued de-risking of the Group financials, increased underlying Operating Income % and the strengthening of the Balance Sheet has given Management a strong belief that the plan is having the impact it was designed to achieve.

In early 2020, the Group announced that it would withdraw from the Highways Maintenance, Rail Maintenance and Street Lighting maintenance sectors, therefore divesting its Infrastructure Services operating unit. In addition, the decision was made to exit key contracts within the Utilities operating unit, running these down with an expected closure in 2021.

Governance Review & Update

In 2018, Skanska AB undertook a review of its Governance framework and associated procedures and processes. In 2019, the Group completed a similar process to ensure our framework was aligned and could achieve similar benefits. These benefits include improving effectiveness, continued reduction of risk throughout the Group and to help each and every employee live by Skanska values. The updated Governance framework is now leaner, has much clearer structure and is accessible to all users.

By the end of 2019, the review had been completed and the new Governance framework, processes and procedures had been communicated to the Group by Senior Management. Detailed and specific training programmes had commenced by the subject matter experts targeting the areas of the Business that needed to understand in detail what changes had been made. These training programmes continue into 2020.

In addition to the above, for the year ended 31st December 2019 the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (p11) which enhances the Skanska AB's governance framework that the Group has adhered to historically.

During the COVID-19 pandemic use of enhanced IT has ensured that the business and senior management have been able to ensure governance and control has remained consistent throughout.

Values provide business benefits

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

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

Safety, health and wellbeing

During 2019 we continued with significant improvements in all areas of safety, health and wellbeing. Our lost time accident rate reduced to our lowest ever rate at 2.0 (2018: 2.1). This has been achieved by focusing on the right balance between

**Group Strategic Report
For The Year Ended 31st December 2019**

compliance and a culture of care and concern. On a practical level this has been delivered through training on the H&S management system, developing effective pre-task planning and the competence of supervisors. The focus areas in 2019 have been on better data, shifting mind set, being a learning organisation and being committed to action. All of these are more examples of the key areas of the Laser Focus plan being embedded and producing successful outcomes.

Skanska UK have maintained their accreditation for Safe Effective Quality Occupational Health Service (SEQOHS) for the 4th year which means that the service meets the nationally recognised standard for the provision of occupational health and wellbeing for employees. It is recognised that the construction industry and allied industries have an increased likelihood of experiencing mental health conditions and suicide. Therefore, we have continued to build on our mental wellbeing programme to offer all employees and supply chain advice & information to support their mental wellbeing and to raise the mental health literacy through our internal awareness and training programmes.

Ethics

Within the Group we work in line with Skanska AB Group's Code of Conduct to increasingly act in a sustainable, transparent and responsible manner, to better meet the long-term demands of the Group's shareholders, customers and employees, as well as society at large. Our aim is to ensure all projects reflect our purpose and are not only profitable but are delivered without ethical breaches and with a transparent and inclusive culture. During 2019 we maintained our focus on ethics leadership by retraining all our employees on our Code of Conduct and ensuring all new employees are trained before they start work with Skanska. In addition, our employees are required to take part in regular 'dilemma' discussions where they debate how they would approach a variety of situations. A key action through 2019 was building on our good processes, via the new Group Governance Framework, to increase our focus on improving day-to-day ethical behaviours across our staff and supply chain. As well as internal communications, we place additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We developed our processes for scrutinising the ethical culture of potential partners, and to further engage our supply chain we work to ensure our Supplier Code is discussed in start-up meetings with suppliers, and include ethics as an agenda item at our various supplier engagement events.

In 2019, a total of 46 reports of alleged breach of the Code of Conduct were received by the Skanska UK Ethics Committee (2018: 32). Cases were categorised in line with the topics in Skanska's Code of Conduct. The largest number of reports were concerned with HR-related matters, such as behaviour in the workplace. Other frequent categories of reports were health and safety and company property. Across all categories, eight cases determined a breach of the Code of Conduct (2018: eight), however none of them were considered a high risk to the business.

Environment

The Company and its subsidiary undertakings are required to pursue environmental policies that comply with relevant legislation and standards applicable to their particular industries. Beyond this, the Group, in line with Skanska AB, is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services, and actively working to minimise our impact on climate change. Our aim is to be the leading green developer and contractor and we continue to make progress against the five focus areas of our 2015 - 2020 environment strategy, developed in collaboration with industry groups and customers:

- Operational environmental management, where our internal compliance leadership group sets annual continual improvement objectives, and has been focusing on improved monitoring and reporting, new methods to better manage waste, and better analysis of the causes and potential prevention of environmental incident near misses;
- Winning profitable green business, where we maintain our green brand through demonstrating visible leadership. In Q2 Skanska publicly committed to reducing our carbon emissions to net-zero impact by 2045 and achieving an interim target of 50% reduction by 2030 from a 2010 baseline, including the emissions of our supply chain. The net-zero commitment was widely reported across industry press and in some general media, such as a BBC online article. Our Director of Environment was appointed to the Green Construction Board (a workstream of the Construction Leadership Council). Key Skanska leaders spoke at several sustainability leadership events, such as at the Institute of Environment Management and Assessment's (IEMA) stand at UK Construction Week, a sustainability leadership event organised by UL, and at the Institute of Civil Engineer's (ICE) Carbon Crunch event. We achieved runner up to Construction News's Low Carbon Leader award and our facilities management business was runner-up of the Sustainable Facilities Management Index (SFMI). The Group's environmental professionals continue to engage with a wide range of external green groups, such as the UK Green Building Council and the All-Party Parliamentary Environment Group;
- Developing green skills, where we continue to focus on our environmental training requirements schedule, which aims to embed green strategic awareness at leadership levels and environmental management / technical skills at operational levels. During 2019 we developed and rolled out a new carbon technical course to support delivery of our net-zero by 2045 target;
- Making our design and procurement more sustainable, where we continue to influence green design and increase our sustainable procurement ambitions. We successfully achieved a second year external re-certification to the PAS2080 Carbon Management in Infrastructure specification. We develop annual plans based on our Low Carbon Roadmap to focus on various aspects of lower carbon design and procurement;

**Group Strategic Report
For The Year Ended 31st December 2019**

- Collaborating with our finance team to provide better measurement of our environmental impact and to commercialise green. In 2019 83.5% of our revenue was classified green or higher against our Colour Palette, which measures projects on four areas: carbon, energy, materials and water. We have also been working to improve our carbon emissions reporting processes, and as well as progression with CEMARS and Climate Disclosure Project reporting, we also published a report describing our direct emissions and an estimate of our project supply chain's emissions for the period 2010 – 2019. This report used an estimating methodology that was externally reviewed by consultant WSP and is believed to be the first report by a main contractor publicising a full company supply chain emissions estimate.

Awards Won:

- Health Service Journal Facilities & Estate Management Award – Barts Health NHS Waste Management
- Federation of Piling Specialists - Safety Innovation Award for developing the temporary works coordinators (TWC) training course.

Great People

We know that we will only be successful as a business, in both the short and long term, if we have the right people, with the right values, doing the right things in the right way. We continue to work hard at building an inclusive culture, which attracts and retains a diverse range of people, and encourages them to bring their whole self to work.

Having the right blend of skills and experience in our project teams remains central to ensuring that we are able to deliver the best outcomes for our customers, and a sustainable financial return for the group. Our Right People process for putting together project teams ensures that we are able to maximise the effectiveness of our teams at every stage of the project lifecycle, from bidding through to close out.

The Group remains committed to be the most attractive employer in its industry. Core to achieving this is our values-based culture, which emphasises inclusion, transparency, and high performance, with our people working collaboratively to build for a better society. The Group has a comprehensive approach to providing its people with opportunities for development learning & growth, and regular feedback tells us that these are highly valued and a key factor in driving engagement. We encourage our people to share in the success of the group by participating in SEOP, the Skanska employee ownership program. SEOP participation was measured at 29% of all employees.

Recruitment

The job market in construction continues to experience strong competition for talent and skills, which continues to place pressure on wages and retention. In-line with our clearly defined People Strategy, we have continued to focus on attracting and retaining great people who are skilled motivated and share our values. We welcomed circa 726 new employees to the Group during 2019, with a headcount at the year-end of 5,300 employees.

Careers and development

New opportunities are highlighted to all our people, using our job posting system. This ensures that anyone wishing to develop their career and skills have access to roles both in the UK and in other markets where Skanska operates. We actively encourage movement across our business to provide challenging and rewarding development for our people, building knowledge, skills and collaboration.

Every employee participates in a formal performance development review discussion, where they are able to discuss their work performance and development needs. Those development needs are then turned into development plans, which incorporate formal training programmes or qualifications, mentoring or coaching, stretch assignments, e-learning or on-the-job learning.

Our development portfolio is very comprehensive, demonstrating the Group's commitment to both technical training and management development. This commitment provides the group with the highest levels of employee competence, together with the strongest calibre of people and business leadership. We collaborate with leading business schools both in the UK and internationally to provide our leaders with leading edge and stimulating development and growth. Our continued approach to development and promoting from within wherever possible means we that are able to grow much of the leadership talent we will need for the future.

We have continued to enhance the range of content available via our on-line Skanska Academy, which places employees at the centre of their own development and encourages a continuous approach to learning. Our annual training schedule is driven by needs which have been identified to improve organisational capabilities in business critical areas. These include financial analysis, quality of scrutiny, forecasting and reporting, project management, health and safety, Environment and Business Information Modelling.

**Group Strategic Report
For The Year Ended 31st December 2019**

Inclusion & Diversity

The group has continued to take action to attract, recruit and retain people from a wide pool, with the aim of more closely mirroring the diversity in society. In particular we have re-energised our employee networks to ensure that the views of our people from our most under-represented groups are clearly heard. These include females, ethnic minorities, LGBT and those with disabilities.

All of our management development and recruitment training puts inclusive leadership and identification of unconscious bias at its core, and we have continued to receive awards and recognition for the work we have done in this area from our customers and wider industry.

People engagement

We remain focused on creating and maintaining high levels of people engagement and continue to invest in activities such as employee conferences, roadshows and new employee onboarding.

All of our senior leaders continued to undertake regular executive site safety tours, which we firmly believe provide valuable opportunities to engage with project teams at all levels on a range of business issues.

We have also invested in the Microsoft Office 365 platform, using Yammer and Teams to provide additional ways to connect and engage across the organisation. These have been well received with strong participation levels, with the benefits being particularly prominent during the impact of COVID-19 with remote working enabling project control and governance, whilst mitigating the impact of a non face to face environment.

Our organisational values - Care for Life, Act Ethically and Transparently, Be Better Together and Commit to Customers - continue to underpin everything we do in Skanska, every day. We know from our people's feedback that these values continue to be key to their engagement and commitment.

Using these values to guide our decision making has become even more important during the times we now find ourselves in with Covid-19.

Awards Won:

- ADEPT President's Award 2019 – Somerset County Council Working in Partnership
- CPA Stars of the Future Awards 2019 – Level 2 Plant Mechanic College Award – Cementation Operating Unit
- Royal Society for the Prevention of Accidents (RoSPA) – President's Award – Building Services Operating Unit
- Royal Society for the Prevention of Accidents (RoSPA) – Gold Award – Cementation Operating Unit
- Royal Society for the Prevention of Accidents (RoSPA) – Gold Award – Bristol & South West Internal Joint Venture
- Royal Society for the Prevention of Accidents (RoSPA) – Gold Award – London Underground Structural Maintenance
- Royal Society for the Prevention of Accidents (RoSPA) – Gold Award – Skanska Infrastructure Services - Street Lighting
- Royal Society for the Prevention of Accidents (RoSPA) – Order of Distinction – Building Services Operating Unit
- Federation of Piling Specialists - Early Careers Professional Award

Market Making

By understanding the needs of customers, the Group aims to provide them with better solutions. This requires the Group to become more structured and proactive in managing and developing customer relationships, and to have a more customer-focused mindset. The aim is for more customers to recommend and choose the Group as their partner.

The Group's engagement is underpinned by a board three-pronged strategy to become better engaged and connected with our customers.

- Customer Insights and Measurement – A structured customer satisfaction measurement and feedback programme using Net Promoter Score.
- Key Account Management - A structured account management process for our top six customers (who represent 50% of our profits)
- Data-driven decisions on markets and customers - Introducing an analytical approach to our future pipeline using Salesforce.

During 2019, we continued to develop the tools used for each of the initiatives. The programmes will allow us to understand our customers better and identify new ways in which we can work with them as well as ensuring our base delivery is meeting or exceeding their expectations.

**Group Strategic Report
For The Year Ended 31st December 2019**

The Group's broad capabilities continues to generate new business opportunities and long-term partnerships. Increasingly, the Group's values and how they are lived are appreciated by customers. Through the customer measurement programme we can already see that our values help differentiate the Group, particularly on the more desirable assignments in which price is not the only factor. Customers want to work with partners they can trust, and that also act responsibly.

We continue to select our customers by assessing their strategic alignment to our own values of safety, ethics and sustainability, this has resulted in repeat business with our customers who share the same values, separating us from our competitors which creates a sustained future growth. In addition, we also focus on understanding our customers to ensure 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.

Early contractor involvement

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

Operational Efficiency

Our focus on continuously improving operational efficiency centres around five key areas: Reducing the cost of poor quality by ensuring we get all construction activities right first time; Improving production productivity through rapid adoption of new innovations and industrialisation of our processes; Working closely with our supply chain to deliver best value through early engagement and collaboration; Controlling design to ensure best value solutions are delivered on time, meet our customer requirements and effectively manage change, and digitalisation. Initially, our focus with digitalisation has been to ensure we have a modern resilient and secure infrastructure, our data is trusted, protected and provides the right insight for good decision making and that the use of Building Information Modelling, mobile productivity tools, drones, virtual and augmented reality become business as usual.

Looking forward, we see increasing value in the vast amounts of data collected during design and construction. This data can improve our own efficiency, aid customers in managing their assets once construction is complete and open doors to the development of brand new value-adding services and products for our customers in the built environment. Underlying all operational efficiency and digitalisation efforts is ensuring that employees and our supply chain have the right skills and behaviours to take full advantage of new technology and ways of working.

Awards Won:

- Ultra Site of the Year – Considerate Constructors – A14 Project
- Ground Engineering Awards – Technical Excellence – 21 Moorfields Project

Compliance with the Modern Slavery Act 2015

The Group is committed to ensuring that all of its business operations are free from involvement with slavery or human trafficking and this it seeks to ensure, primarily, through its Sustainable Procurement Policy.

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

The Group ensures there is enhanced modern slavery education and awareness through our external Supply Chain Sustainability School with procurement guidance notes and toolbox talks for project being made available to the School's 40,000+ members.

Skanska's Modern Slavery and Human Trafficking Policy, which provides greater detail on our approach to the eradication of these issues from our business and our supply chain, is published via a link on the homepage of our website. This policy was approved by the Board of directors of the Company on 22 June 2020. It is reviewed and published on an annual basis.

**Group Strategic Report
For The Year Ended 31st December 2019**

Market & Outlook

While we have managed to maintain a healthy and more focussed order book, we apply a highly cautious approach to 2020 predominantly due to the COVID-19 pandemic, due to the uncertainty in the market place. Once this global epidemic subsides and the impact is understood, the Group is also wary of the direct and indirect impact arising from the UK's exit from the EU at the end of 2020. The industry remains in a state of uncertainty as the future impact remains unclear especially on issues such as access to labour, what non-tariff barriers will apply or the likelihood of tariffs being imposed. The Executive Management Team have been putting in place appropriate plans for possible Brexit outcomes.

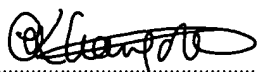
In 2020, a key Infrastructure project, High Speed 2, has been booked and is worth £1bn+ to the Group.

Section 172 Companies Act 2006

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board makes decisions for the long term success of the company and its stakeholders (see Principle 6 – Stakeholders, on page 12), but also having regard to how the Board ensures the Group complies with the requirements of section 172 of the Companies Act 2016. Our reporting against the Wates Principles has been included on pages 9 to 13.

Throughout 2020, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

On behalf of the board:



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C K K Gangotra - Director

Date: 29 June 2020

Statement of Corporate Governance arrangements

For the year ended 31st December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website).

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

Principle 1 – Purpose and Leadership

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

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

Purpose

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

Values and Culture

The Group's four core values are: care for life, act ethically & transparently, be better – together and commit to customers. Our values express our moral foundation and compass. They express who we are, how we behave and what we believe in, and help us in our day-to-day work. Values provide business benefits (p3) and living our values will make us successful. Actions that are not in line with or may jeopardise our values are not accepted.

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

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

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

Strategy

Our Business Plan, 'Profit with Purpose', outlines the strategic direction (p3). The aim is to increase shareholder value while working toward a more sustainable future for employees, customers and communities. This is how Skanska creates profit with purpose. The strategy is reviewed and updated as necessary, as are the policies and procedures of the Group.

Strategic objectives

The first stage of the Laser Focus Plan (p3) focused on strategic objectives in five key areas:

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

**Corporate Governance Report
For The Year Ended 31st December 2019**

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

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

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

Forecasting and reporting – It is fundamental that reporting needs to be accurate, transparent and consistent across the Business Unit. This also allows for more accurate Forecasting, empowering the BU to be able to understand the opportunities available to it and the challenges it faces. Rollout of new project valuation systems alongside training and support for Project teams have been vital in achieving this objective.

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

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

Principle 2 – Board Composition

The board is made up of the Executive Management Team (EMT) which is led by UK President and CEO, Gregor Craig, supported by six Executive Vice Presidents. The board comprises a balance of skills, backgrounds, experience and knowledge with each individual making a valuable contribution. The average tenure of the board is eight years.

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

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

Principle 3 – Director Responsibilities

Accountability

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

The board usually meets twice a month as an executive team and on an ad-hoc basis, as required.

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

Integrity of information

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

Information is reported from the Group's operational, commercial and accounting systems. The employees involved are appropriately qualified to ensure the integrity of this information and are provided with the necessary training to keep up to

**Corporate Governance Report
For The Year Ended 31st December 2019**

date with any regulatory changes. Financial controls are regularly and routinely reviewed by the ultimate parent's internal audit function.

Principle 4 – Opportunity and Risk

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

Opportunity

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

As part of our laser focus plan, the goal is that every project must hit or beat tender margin, delivering an operating margin of 3% or greater. There are five work streams which have been prioritised as they will have most impact on improving our financial performance: the right people; design control; understanding and applying the deal; quality; forecasting and reporting.

We only bid on projects in our "sweet spot" which we believe can deliver a 3%+ operating margin. In order to identify our sweet spots, we continuously monitor sectors we currently operate in from both a financial and performance perspective whilst also assessing the potential future opportunities. From time to time this evaluation protocol is also extended to new emerging sectors. The results of this process allow us to see where we can consistently make an operating margin of 3%+. Combining these elements together has given us a good understanding of the projects we should bid for. However, it is not just about what we do, but also how we do it. To make the laser focus plan a success we aim to: base our decisions on fact and realism; scrutinise effectively; learn from success and failure; address underperformance; and do what we say we will do.

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

Risk

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

The UK is required to carry out a business-wide enterprise risk assessment every two years, with the assessment being formally monitored by the ultimate parent in the interim year. This enables the board to monitor and assess risks at a local level and consider whether these are in line with the ultimate parent's assessed risks at a global level. The last review was carried out during 2019. The Group has subsequently ensured that they have policies and procedures in place to guarantee that these risks are managed. The principal risks for the Group are set out on page 2 of the Strategic Report.

Responsibilities

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

Principle 5 – Remuneration

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

Skanska stands by the principle of "equal pay for equal work". Accordingly, decisions relating to remuneration are never influenced by discriminatory factors. Skanska further adopts the Grandparent Principle for any remuneration decisions. To ensure fair and objective remuneration, any such decisions must be approved by the line manager and the line manager's manager.

**Corporate Governance Report
For The Year Ended 31st December 2019**

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

Salary levels for the board members take into account personal performance, market conditions, and external benchmarking. The annual bonus plan for the CEO and other board directors is based on two factors; profitability and performance against a small number of strategic measures. Targets for both areas are set annually. The annual strategic measures are aligned with the three areas of the 'Profit With Purpose' five year Business Plan – Great People, Operational Excellence, and Market Making.

Principle 6 – Stakeholder Relationships and Engagement

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

Our Communities

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

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

Stakeholder Relationships and Engagement

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

The EMT continues to seek to align the Group's strategic direction with its purpose to build for a better society as well as Skanska AB's long-term goals in health and safety, ethics, green, diversity and inclusion and corporate community investment - our Sustainability areas. The EMT are the primary communicators between the Group and its ultimate parent.

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

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

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

The Group works closely with our supply chain partners as these are essential to our success. The EMT aim to build collaborative relationships where we can work closely together with our supply chain to develop solutions that drive down costs, manage risk and improve sustainability standards. The EMT have implemented a structured relationship management and development programme, which includes the ISO44001 standard. In the wider industry, the Group is collaborating with the other main contractors in order to help deliver the UK government's Construction 2025 strategy targets – 33% lower costs, 50% faster build and 50% lower emissions – as well as support the award-winning Supply Chain Sustainability School. The School now has 40,000 members and 100 clients, main contractors and tier one supply chain upskilling their supply chain in sustainability competence.

**Corporate Governance Report
For The Year Ended 31st December 2019**

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

The Group is committed managing the wider social, environmental, and economic impacts of its operations which includes the way it engages and builds relationships with its customers and manages sustainability. The EMT is committed to protecting the environment and making a positive contribution to a more sustainable place through improving the environmental performance of all our products and services, and actively working to minimise our impact on climate change. The EMT has set the Group's aim to be the leading green developer and contractor and we continue to make progress against the five focus areas of our 2015 - 2020 environment strategy, developed in collaboration with industry groups and customers (p6).

Investment in people is a priority for the Group, offering employees (including contractors) the opportunity to develop and learn, either within their current role or in one of the cross-Skanska schemes to build networks and improve collaboration. The EMT engage with employees in a number of ways throughout the year. Employee engagement is maintained through a variety of channels (p6) including recruitment and on-boarding platforms, company-wide conferences, roadshows, development programmes and local communication events. During Covid-19 board and employee engagement has been retained through several channels including online meetings, wellbeing surveys and live companywide updates involving a Q&A section with the CEO.

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

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

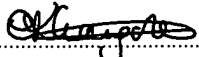
The Group communicates regularly with the Trustees of its various defined benefit pension schemes, who are independent of the Group. The Trustees comprise individuals nominated by both the pension scheme members and the Group. These relationships are key to ensuring that the decisions made by both the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

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

Principal decision-making

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

On behalf of the board:


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C K K Gangotra - Director

Date: 29 June 2020

**Directors' Report
For The Year Ended 31st December 2019**

The directors present their report with the financial statements of the Company and the Group for the year ended 31st December 2019.

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

Principal activities

The principal activity of the group in the year under review was that of a construction services business with core activities in construction, civil engineering, utilities, infrastructure services, piling and ground engineering, design, mechanical and electrical works and hard and soft facilities management. We also developed 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 dividend was paid in respect of the period ended 31st December 2019. An interim dividend in-specie of £15m million (0.454545p per share) in respect of the year ended 31st December 2018 was distributed to the ordinary shareholder on 11th December 2018.

Future developments

The Group will continue to focus on its Laser Focus Plan 2020. The future impact of the COVID-19 pandemic has been discussed in detail in the strategic report on page 2.

Directors

The directors who have held office during the whole of the period from 1st January 2019 to the date of this report are:

H J Francis
M L Galloway
G L Craig
C K K Gangotra
T P Faulkner
M G Neeson
K M Dowding

Directors' interests and transactions with directors

None of the directors at 31st December 2019 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the directors' interests between 31st December 2019 and the date of approving this report. No director during the year had an interest in any contract significant to the Group's business.

Statement of corporate governance arrangements

For the year ended 31st December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website). They embrace the Group's existing governance framework, which already contained many of the principles to satisfy the new legislative requirements.

The Corporate Governance Report approved by the Board is provided on pages 9 to 13.

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 2019 represented 7 days' purchases (2018: 4 days).

Research and Development

Innovation is crucial for Skanska to retain a leading market position, enabling the Group to provide the solutions needed by customers, now and well into the future. Through innovation, Skanska identifies, develops and apply new technical products, services, and processes, increasingly working with external partners. This focus – part of the 2020 business plan's Operation Excellence aspect – generates enhanced value for Skanska's shareholders and customers. Various internal networks and communications platforms facilitate sharing knowledge across the Group.

**Directors' Report
For The Year Ended 31st December 2019**

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

Going concern

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

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

In addition, the impact of the COVID-19 pandemic on the business has been considered through additional stress testing of the Group's budgets and forecasts. The stress testing has considered the Group's operational performance and cash flow based on a number scenarios in accordance with the impacts on the wider economy, our clients markets and supply chain, looking at both the short to medium-term. The outcome of which shows that the Group is expected to maintain positive cash flows giving the Group the ability to continue to operate for the foreseeable future

After considering the above points and making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they deem it appropriate to continue to prepare these financial statements on the going concern basis.

Employment policies

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

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

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

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

Environment

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

Disabled employees

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

Pensions

On an IAS 19 basis, the Group's defined benefit pension schemes had a deficit of £37.8 million at 31st December 2019 (2018: £37.8 million).

Total contributions paid into the main Skanska Pension Fund by the Group was £13.3 million (2018: £19.8 million).

**Directors' Report
For The Year Ended 31st December 2019**

Directors' indemnity provisions

In accordance with the Companies (Audit, Investigations and Community Enterprise) Act 2004, as at the date of this report, the articles of association contained provisions for third-party qualifying indemnities where the Group has agreed to indemnify the directors in respect of losses arising out of, or in connection with, the execution of their duties and responsibilities as directors of the Group, and this was in force throughout the financial year ended 31st December 2019.

Post balance sheet events

On 24 February 2020, as part of a strategic review, the Group announced its intention to divest its Infrastructure Services operating unit and exit highways, rail, and street lighting maintenance. In addition, the Group plans to close its Utilities operating unit and transfer the remaining contracts into its Infrastructure operating unit.

On the 23 March 2020 the Government in the UK announced a national lockdown in response to the COVID-19 pandemic. The potential impact of this pandemic on the Group's performance for the year to 31 December 2020 is still unclear and we are unable to quantify the likely impact on the full year results at this stage. The Group has however entered this period in a strong balance sheet position and the Board is confident of the Group's ability to traverse the challenges of the pandemic and to emerge in a strong position within the market.

On 22 May 2020 Skanska Infrastructure Investments Limited sold their investment in Skanska RM PSP Limited to Building Schools for the Future Investments LLP for £1,022k.

Disclosure of information to auditor

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

Auditors

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

On behalf of the board:


C K K Gangotra - Director

Date: 29 June 2020

**Statement of Directors' Responsibilities
For The Year Ended 31st December 2019**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards 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 those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Opinion

We have audited the financial statements of Skanska UK Plc ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Financial Position, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and the related notes 1 to 32, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements 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 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.

Basis for opinion

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

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

Emphasis of matter - Effects of COVID-19

We draw attention to note 2 and note 33 of the consolidated financial statements which describes the potential economic disruption the group may face as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

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

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

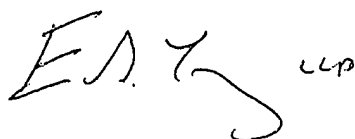
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



David Wilson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
1 More London Place
London
United Kingdom
SE1 2AF

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Profit or Loss
For The Year Ended 31st December 2019**

	Notes	2019 £'000	2018 £'000
Continuing operations			
Revenue	3	1,789,818	1,935,375
Cost of sales		<u>(1,660,512)</u>	<u>(1,801,396)</u>
Gross profit		129,306	133,979
Administrative expenses		<u>(117,220)</u>	<u>(91,884)</u>
Operating profit		12,086	42,095
Finance costs	5	(3,390)	(1,981)
Finance income	5	5,474	3,967
Dividends from investments		<u>83</u>	<u>-</u>
Profit before income tax	6	14,253	44,081
Income tax	7	<u>(4,087)</u>	<u>(3,638)</u>
Profit for the year		<u>10,166</u>	<u>40,443</u>
Profit attributable to: Owners of the parent		<u>10,166</u>	<u>40,443</u>

The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)**Consolidated Statement of Comprehensive Income
For The Year Ended 31st December 2019**

	2019 £'000	2018 £'000
Profit for the year	10,166	40,443
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Net actuarial (loss) / gain on pension scheme	(11,027)	34,109
Employees share scheme	1,922	851
Current tax credit relating to items of other comprehensive Income	1,879	-
Deferred tax charge relating to items of other comprehensive Income	(4)	(5,801)
	<u>(7,230)</u>	<u>29,159</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange difference	(512)	71
	<u>(512)</u>	<u>71</u>
Other comprehensive (loss)/income for the year, net of income tax	<u>(7,742)</u>	<u>29,230</u>
Total comprehensive income for the year	<u>2,424</u>	<u>69,673</u>
Total comprehensive income attributable to:		
Owners of the parent	<u>2,424</u>	<u>69,673</u>

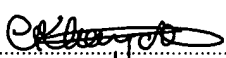
The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Financial Position
For The Year Ended 31st December 2019**

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Goodwill	9	-	29,821
Intangible assets	10	2,384	-
Property, plant and equipment	11	22,598	18,137
Right-of-use assets	12	80,093	-
Investments	13	5,658	-
Deferred tax	26	14,772	11,873
		<u>125,505</u>	<u>59,831</u>
Current assets			
Inventories	14	8,899	54,237
Trade and other receivables	15	150,434	173,228
Contract assets	16	148,318	182,080
Tax receivable		2,270	2,774
Cash and cash equivalents	17	473,710	373,849
		<u>783,631</u>	<u>786,168</u>
Total Assets		<u>909,136</u>	<u>845,999</u>
Equity			
Shareholder's equity			
Called up share capital	18	165,000	165,000
Retained earnings	19	119,098	118,749
Total equity		<u>284,098</u>	<u>283,749</u>
Liabilities			
Non-current liabilities			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	22	-	3,943
Lease liabilities	23	80,595	-
Pension liability	27	37,775	37,799
Provisions	25	69,145	79,625
		<u>187,515</u>	<u>121,367</u>
Current liabilities			
Trade and other payables	20	334,345	349,057
Contract liabilities	21	85,828	86,270
Financial liabilities - borrowings			
Interest bearing loans and borrowings	22	-	5,556
Lease liabilities	23	17,350	-
		<u>437,523</u>	<u>440,883</u>
Total liabilities		<u>625,038</u>	<u>562,250</u>
Total equity and liabilities		<u>909,136</u>	<u>845,999</u>

The financial statements were approved by the Board of Directors on 29 June 2020 and were signed on its behalf by:


C K K Gangotra - Director

The notes on pages 28 to 68 form part of these financial statements

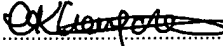
Skanska UK Plc (Registered number: 00784752)

**Company Statement of Financial Position
For The Year Ended 31st December 2019**

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	10	2,129	-
Property, plant and equipment	11	7,420	3,109
Right-of-use assets	12	66,010	-
Investments	13	49,238	48,046
Deferred tax	26	8,284	8,452
		<u>133,081</u>	<u>59,607</u>
Current assets			
Trade and other receivables	15	202,093	199,665
Contract assets	16	16,140	8,103
Tax receivable		8,885	754
Cash and cash equivalents	17	74,110	65,509
		<u>301,228</u>	<u>274,031</u>
Total Assets		<u>434,309</u>	<u>333,638</u>
Equity			
Shareholder's equity			
Called up share capital	18	165,000	165,000
Retained earnings		19,368	9,617
		<u>184,368</u>	<u>174,617</u>
Liabilities			
Non-current liabilities			
Lease liabilities	23	66,157	-
Pension liability	27	33,071	32,046
		<u>99,228</u>	<u>32,046</u>
Current liabilities			
Trade and other payables	20	137,719	126,975
Contract liabilities	21	1,315	-
Lease liabilities	23	11,679	-
		<u>150,713</u>	<u>126,975</u>
Total liabilities		<u>249,941</u>	<u>159,021</u>
Total equity and liabilities		<u>434,309</u>	<u>333,638</u>

The directors have taken the exemption provided by Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company. The profit for the year of the Company was £18,197,000 (2018: profit of £165,571,000)

The financial statements were approved by the Board of Directors on 29 June 2020 and were signed on its behalf by:


C K K Gangotra Director

The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Changes in Equity
For The Year Ended 31st December 2019**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	165,000	96,776	261,776
Profit for the year	-	40,443	40,443
Other comprehensive income	-	29,230	29,230
Total comprehensive income	-	69,673	69,673
Dividends paid	-	(47,700)	(47,700)
Balance as at 31 December 2018	165,000	118,749	283,749
Effect of adoption of IFRS 16 (net of tax) (note 2)	-	(2,075)	(2,075)
Balance at 1 January 2019 as restated	165,000	116,674	281,674
Profit for the year	-	10,166	10,166
Other comprehensive loss	-	(7,742)	(7,742)
Total comprehensive income	-	2,424	2,424
Balance as at 31 December 2019	165,000	119,098	284,098

The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)**Company Statement of Changes in Equity
For The Year Ended 31st December 2019**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	165,000	(138,516)	26,484
Profit for the year	-	165,571	165,571
Other comprehensive income	-	30,262	30,262
Total comprehensive income	-	195,833	195,833
Dividends paid	-	(47,700)	(47,700)
Balance as at 31 December 2018	165,000	9,617	174,617
Effect of adoption of IFRS 16 (net of tax) (note 2)	-	(926)	(926)
Balance at 1 January 2019 as restated	-	8,691	8,691
Profit for the year	-	18,197	18,197
Other comprehensive loss	-	(7,520)	(7,520)
Total comprehensive income	-	10,677	10,677
Balance as at 31 December 2019	165,000	19,368	184,368

The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Cash Flow
For The Year Ended 31st December 2019**

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash generated from operations	31	130,870	3,736
Tax (paid)/received		(156)	1,467
Net cash from operating activities		130,714	5,203
Cash flows from investing activities			
Purchase of intangible fixed assets	10	(2,384)	(3,831)
Purchase of tangible fixed assets	11	(10,060)	(5,423)
Purchase of fixed asset investments	13	(5,658)	-
Sale of tangible fixed assets		429	737
Sale of right-of-use assets		619	-
Proceeds from disposal of subsidiary undertaking		-	79,838
Dividends from investments		83	-
Interest received		5,474	3,967
Net cash from investing activities		(11,497)	75,288
Cash flows from financing activities			
Capital repayments in year		-	(313)
Principal paid on lease liabilities (2018: principal paid on finance leases)	23	(19,356)	-
Net cash from financing activities		(19,356)	(313)
Increase in cash and cash equivalents		99,861	80,178
Cash and cash equivalents at beginning of year		373,849	293,671
Cash and cash equivalents at end of year		473,710	373,849

The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Company Statement of Cash Flow
For The Year Ended 31st December 2019**

	Notes	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash generated from operations	31	25,443	(41,802)
Tax (paid)/received		(156)	6,859
Net cash from operating activities		<u>25,287</u>	<u>(34,943)</u>
Cash flows from investing activities			
Purchase of intangible assets	10	(2,129)	-
Purchase of tangible fixed assets	11	(5,793)	(1,298)
Purchase of investments	13	(1,426)	-
Sale of tangible fixed assets		-	-
Interest received		4,475	4,654
Net cash from investing activities		<u>(4,873)</u>	<u>3,356</u>
Cash flows from financing activities			
Principal paid on lease liabilities (2018: principal paid on finance leases)	23	(11,813)	-
Net cash from financing activities		<u>(11,813)</u>	<u>-</u>
Cash flows from financing activities			
Increase/(decrease) in cash and cash equivalents		8,601	(31,587)
Cash and cash equivalents at beginning of year		65,509	97,096
Cash and cash equivalents at end of year		<u>74,110</u>	<u>65,509</u>

The notes on pages 28 to 68 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Notes to the Consolidated Financial Statements For The Year Ended 31st December 2019

1. Statutory information

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

The presentation currency of the financial statements is the Pound Sterling (£).

All values are rounded to the nearest thousand pounds (£000), unless otherwise stated.

2. Accounting policies

Basis of preparation

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 financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future and meet its liabilities as they fall due.

The group has net current assets of £346.1 million and net assets of £284.1 million. The Group meets its day to day working capital requirements through an inter-company pooling arrangement and does not have any bank debt or other external borrowings or facilities.

The Directors have considered the impact of the COVID-19 crisis on the group's business operations and future prospects. The Group's operations do not feature on the list of business premises which need to close, and specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for our people in order to maintain operational activity for the majority of our sites. Since the pandemic was declared by the World Health Organization on 11 March 2020, the Group productivity on its site is higher than was originally expected by the Board and continues to strengthen.

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

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

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

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to prepare a profit and loss account as the Company's results are included in the consolidated statement of profit or loss shown on page 24.

Accounting judgements and estimation uncertainty

The preparation of the financial statements in conformity with IFRS as adopted by the EU 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, goodwill and investments in subsidiary undertakings impairment tests and lease length and incremental borrowing rate used.

Principal assumptions underlying the valuation of defined benefit pension liabilities (Note 27) - These assumptions were set on the advice of the schemes' actuaries having regard to current market conditions, history, and factors specific to the scheme.

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

Goodwill and investments in subsidiary undertakings - these 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. During the year remaining goodwill was fully impaired.

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the 'Group') as at 31st December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

2. Accounting policies - continued

Associated undertakings and joint arrangements

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

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

The Group has entered into a number of joint arrangements with different partners for the purposes of undertaking specific contracts. Interests in joint arrangements 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.

Investment in subsidiaries

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

Early adoption of new or revised IFRS and interpretations

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

New standards and interpretations

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2019 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- IFRS 9 (2014) Financial Instruments (Amendment – Prepayment Features with Negative Compensation and Modification of Financial Liabilities)
- IAS 28 Investments in Joint Ventures (Amendment – Long-term Interests in Associates and Joint Ventures)
- Annual Improvements to IFRSs 2015 – 2018 Cycle (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, IAS 23 Borrowing Costs)
- IAS 19 Employee Benefits (Amendment – Plan Amendment, Curtailment or Settlement)
- IFRIC 23 Uncertainty over Income Tax Treatments

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

• IFRS 16 Leases

Details of the impact the standard has been given below. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

The Group adopted IFRS 16 with a transition date of 1 January 2019. The Group has chosen not to restate comparatives on adoption of the standard, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2019) and recognised in the opening equity balances. Details of the impact of the standard has been given below. Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

2. Accounting policies - continued

IFRS 16 Leases

Effective 1 January 2019, IFRS 16 has replaced IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease Liabilities
Operating leases	The carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.	Measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions.
Finance leases	Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).	

The expected marginal interest rates on loans used upon transition to IFRS16 are as follows:

Lease Term	1 year	2 years	3 years	5 years	10 years	15 years	30 years
Discount rate (%)	2.2	2.3	2.4	2.6	3.1	3.4	4.0

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

2. Accounting policies - continued

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

31 December 2019

Group	Adjustments	31 December 2018 as originally presented £'000	IFRS 16 Adjustment £'000	1 January 2019 restated £'000
Assets				
Right-of-use assets	(a)	-	77,747	77,747
Deferred tax assets	(b)	11,875	425	12,300
Inventory - property	(c)	48,704	(9,542)	39,162
Liabilities				
Loans and borrowings	(d)	9,449	(9,226)	223
Lease liabilities	(e)	-	79,832	79,832
Equity				
Retained earnings		118,749	(2,075)	116,674

(a) The adjustment to right-of-use assets is as follows:

	£'000
Finance type leases	9,542
Operating type leases	68,205
Right-of-use assets	<u>77,747</u>

- (b) Deferred tax assets were adjusted to reflect the tax effect of the other adjustments recorded.
(c) Amounts included in Inventory (property) under finance lease were reclassified as right-of-use assets.
(d) Loans and borrowings were adjusted to reclassify leases previously classified as finance type to lease liabilities.
(e) The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019 £'000
Minimum operating lease commitment at 31 December 2018	82,294
Less: short-term leases not recognised under IFRS 16	(4,289)
Less: low value leases not recognised under IFRS 16	(2)
Plus: effect of extension options reasonably certain to be exercised and other adjustments	<u>4,652</u>
Undiscounted lease payments	82,655
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	<u>(12,322)</u>
Lease liabilities for leases classified as operating type under IAS 17	70,333
Plus: leases previously classified as finance type under IAS 17	<u>9,499</u>
Lease liability as at 1 January 2019	79,832

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

2. Accounting policies - continued

Company	Adjustments	31 December 2018 as originally presented £'000	IFRS 16 Adjustment £'000	1 January 2019 restated £'000
Assets				
Right-of-use assets	(a)	-	45,378	45,378
Deferred tax assets	(b)	8,452	190	8,642
Liabilities				
Lease liabilities	(c)	-	46,494	46,494
Equity				
Retained earnings		9,617	(926)	8,691

(a) The adjustment to right-of-use assets is as follows:

	£'000
Adjustment noted in (a) - finance type leases	-
Operating type leases	45,378
Right-of-use assets	<u>45,378</u>

(b) Deferred tax assets were adjusted to reflect the tax effect of the other adjustments recorded.

(c) The following table reconciles the minimum lease commitments disclosed in the Group's 31 December 2018 annual financial statements to the amount of lease liabilities recognised on 1 January 2019:

	1 January 2019 £'000
Minimum operating lease commitment at 31 December 2018	66,042
Less: short-term leases not recognised under IFRS 16	(1,119)
Less: low value leases not recognised under IFRS 16	(923)
Less: Other adjustments	<u>(9,818)</u>
Undiscounted lease payments	54,182
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	<u>(7,688)</u>
Lease liabilities for leases classified as operating type under IAS 17	46,494
Plus: leases previously classified as finance type under IAS 17	-
Lease liability as at 1 January 2019	<u>46,494</u>

e) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment – Definition of Material)
- IFRS 3 *Business Combinations* (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

Skanska UK Plc is currently assessing the impact of these new accounting standards and amendments.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the group.

2. Accounting policies - continued

Revenue

Revenue represents the sales value of work done on construction contracts and services activities in the period and excludes VAT. Profit and revenue on construction contracts is calculated in accordance with IFRS 15 Revenue from Contracts with Customers.

When an outcome of a construction contract can be estimated reliably, the Company's preferred method of revenue is the output method in which revenue is recognised based on the units of work performed and the price allocated thereto. This method is applied provided that the progress of the work performed can be measured based on the contract and during the contract's performance. Under this output method the units of work completed under each contract are measured monthly and the corresponding output is recognised as revenue. Where it is not practicable to apply this 'units of production' output method, the 'percentage of completion' input method is used instead. Under this input method costs are recognised as incurred and revenue is recognised based on the proportion of total costs at the reporting date to the estimated total costs of the contract.

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately as a provision for forecast losses.

Contract Assets and Contract Liabilities

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

Profit from disposal of investments

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

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

Pre-contract costs

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

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 profit or loss within administrative expenses and is not subsequently reversed. The fair value of net assets in excess of the fair value of purchase consideration is credited to the income statement in the year of acquisition.

Impairment losses are determined on the basis of the recoverable amount of goodwill, which is based exclusively on value in use, calculated by discounting the expected future cash flows generated by the asset. The discount factor is the weighted average cost of capital applicable to the parent company. For goodwill, the recoverable amount is estimated for the cash-generating unit to which it is attributable. A cash-generating unit is the smallest group of assets that generates cash flows which are independent of other groups of assets.

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

2. Accounting policies - continued

Intangible assets, other than goodwill, relate to IT software purchased and not internally developed or generated. The useful life of intangible asset is finite and it is amortised over 7 years. Amortisation is recognised in the profit or loss in cost of sales on a straight-line basis over the remaining years of the respective intangible asset. Intangible assets, other than goodwill, are assessed for impairment when there are indicators present.

Property, plant and equipment

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

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

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

Freehold land is not depreciated. Provision for permanent diminution in the value of land is charged to the statement of profit or loss.

Financial instruments

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

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

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

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

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

3. Accounting policies - continued

Inventories

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

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

- Stocks: Purchase cost on a first-in/first-out basis
- Properties: Cost comprises direct materials and where applicable, direct labour costs and those overheads, not including any general administrative overheads, that have been incurred in bringing the property to its present location and condition, as well as directly attributable borrowing costs.

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

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. 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 substantively enacted by the statement of financial position date.

Research and development

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Foreign currencies

The Group's financial statements are presented in sterling, which is also the Group's functional currency.

Foreign currency transactions and balances

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

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

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

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

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

2. Accounting policies - continued

Employee benefit costs

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

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

Provisions

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

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

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

Leases

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

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

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2 "changes in accounting policies". The following policies apply subsequent to the date of initial application, 1 January 2019.

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

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

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

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

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

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

2. Accounting policies - continued

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

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

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

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

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

Nature of leasing activities (in the capacity as lessee)

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

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

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

31 December 2019

	Payments in the year £000	Lease Contracts Number	Fixed Payments %	Variable payments %	Sensitivity £000
Property leases with payments linked to inflation	2,218	5	-	11%	63
Property leases with fixed payments	6,616	32	34%	-	-
Leases of plant and equipment	5,159	381	27%	-	-
Vehicle leases	5,363	1,581	28%	-	-
	<u>19,356</u>	<u>1,999</u>	<u>89%</u>	<u>11%</u>	<u>63</u>

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

2. Accounting policies - continued

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

At 31 December 2019, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on both dates it was considered reasonably certain that the group would not exercise its right to exercise any right to break the lease. Total lease payments of £7,394,620 are potentially avoidable were the group to exercise break clauses at the earliest opportunity.

Cash

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

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

Borrowing costs

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

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

3. Revenue

Expected revenue recognition for remaining performance obligations

Contracts may run for a period greater than one year. The expected revenue recognition relating to ongoing or won contracts, at 31 December 2019 is as follows

	2020 £'m	2021 £'m	2022 £'m	2023+ £'m	Total £'m
Expected Revenue	896	551	336	993	2,776
				2019 £'000	2018 £'000
Construction works			1,259,611		1,466,581
Rendering of services			469,046		468,794
IFRS revenue from contracts with customers			1,728,657		1,935,375
Sale of property			61,161		-
Revenue from continuing operations			1,789,818		1,935,375

No revenue was derived from exchange of goods or services (2018: £nil). Revenue recognised in the year from amounts that were included in the contract liability at the beginning of the period equals £86,270,000 (2018: £105,953,000). Revenue recognised in the year from performance obligations satisfied in previous years equals £13,700,000 (2018: £13,000,000).

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

4. Employees and Directors

	2019	2018
	£'000	£'000
Wages and salaries	272,426	298,261
Social security costs	30,750	31,842
Other pension costs	29,210	30,745
	<u>332,386</u>	<u>360,848</u>

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

	2019	2018
	£'000	£'000
Defined benefit costs	2,472	7,667
Defined contribution costs	26,738	23,078
	<u>29,210</u>	<u>30,745</u>

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

	2019	2018
Construction	1,627	1,678
Administration	3,912	4,059
	<u>5,539</u>	<u>5,737</u>

	2019	2018
	£	£
Directors' remuneration	2,954,536	2,001,901
Long-term incentive plans	111,923	53,911
Pensions	<u>48,676</u>	<u>88,495</u>

Information regarding the highest paid director is as follows:

	2019	2018
	£	£
Directors' remuneration	600,460	364,617
Long-term incentive plans	34,479	23,709
Accrued pension as at 31 December	<u>31,281</u>	<u>30,548</u>

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

	2019	2018
Defined contribution schemes	1	4
Defined benefit schemes	<u>-</u>	<u>-</u>

Skanska UK Plc (Registered number: 00784752)**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019****5. Net finance costs**

	2019 £'000	2018 £'000
Finance income:		
Bank interest	<u>5,474</u>	<u>3,967</u>
Finance costs:		
Interest expense on lease liabilities (2018: finance leases)	2,513	-
Interest on pension scheme liabilities	<u>877</u>	<u>1,981</u>
	3,390	1,981
Net finance income	<u>2,084</u>	<u>1,986</u>

6. Profit before income tax

	2019 £'000	2018 £'000
Included in cost of sales:		
Cost of inventory recognised as expense	1,038	692
Depreciation of owned assets	5,170	6,734
Loss / (profit) on disposal of fixed assets	429	(704)
Depreciation of right-of-use assets	12,388	-
Intangible asset amortisation	-	848
Impairment of intangible assets	-	6,243
Expense relating to short-term leases	10,009	-
Expense relating to low value leases	187	-
Operating lease expense	-	24,033
Research costs	319	447
Included in administrative expenses:		
Impairment of goodwill	29,821	-
Depreciation of right-of-use assets	3,668	-
Impairment of right-of-use assets	7,254	-
Foreign exchange (gains)/losses	(33)	3
Audit of Group's consolidated financial statements	5	5
Audit of parent company's financial statements	2	2
Audit of parent company's subsidiaries and related entities	<u>558</u>	<u>558</u>
Total audit fees	565	565
Audit related services	-	-
Other non-audit service fees	-	24
Total fees paid by group	<u>565</u>	<u>589</u>

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

7. Income tax

	2019 £'000	2018 £'000
Current tax		
Current year	2,632	794
Adjustments in respect of prior year	3,792	(1,206)
Total current tax charge / (credit)	6,424	(412)
Deferred tax		
Current year	66	6,821
Adjustments in respect of prior year	(2,403)	(2,771)
Total deferred tax (credit) / charge	(2,337)	4,050
Total tax charge	4,087	3,638
Reconciliation of profits to total tax charge:		
Profit before tax	14,253	44,081
Profit before tax multiplied by standard rate of corporation tax in the UK 19% (2018: 19%)	2,708	8,375
Expenses not deductible for tax purposes	(33)	189
Gain on disposal not subject to tax	(207)	(321)
Adjustment in respect of prior years	1,389	(3,977)
Change in rate	228	(697)
SEOP adjustment to OCI	2	69
Total tax charge	4,087	3,638

Changes in corporation tax rate

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. Accordingly, these rates are applicable in the measurement of the deferred tax asset at 31 December 2019. Deferred tax has been provided at 17% being the rate at which temporary differences were expected to reverse. However, in accordance with the March 2020 budget the rate will not now reduce to 17% with effect from 1 April 2020 and instead will remain at 19%. As the reversal of the rate reduction was not substantively enacted at the balance sheet date, deferred tax has been provided at 17%. Calculating the deferred tax asset at 19% would have led to a £1.9m increase in the deferred tax asset at year end.

Income tax recognised in other comprehensive income is as follows:

	2019 £'000	2018 £'000
Current tax on pensions	1,879	-
Deferred tax on pensions (note 26)	(2)	(5,801)

8. Profit/(loss) of parent company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements. The Company's profit after tax for the financial year was £18,197,000 (2018: £165,571,000).

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

9. Goodwill

Group	£'000
Cost	
At 1 January 2019	54,415
Additions	-
At 31 December 2019	<u>54,415</u>
Impairment	
At 1 January 2019	24,594
Impairment for year	<u>29,821</u>
At 31 December 2019	<u>54,415</u>
Net book value	
At 31 December 2019	<u>-</u>
At 31 December 2018	<u>29,821</u>

In 2018 the Goodwill was attributable to two cash generating units (CGUs); Infrastructure Services (£23.4m) and Utilities (£6.4m).

On 24 February 2020, as part of a strategic review, the Group announced its intention to divest its Infrastructure Services operating unit and close its Utilities operating unit.

Following this, the Directors carried out an impairment review and concluded that the carrying value of the remaining goodwill exceeds its recoverable amount, where the recoverable amount is the higher of fair value less costs to sell and value-in-use. As a result, goodwill has been fully impaired. A cost of £29.8m has been included in administrative expenses in the Consolidated Statement of Profit and Loss.

10. Intangible assets

Group	IT Software £'000
Cost	
At 1 January 2019	14,448
Additions	<u>2,384</u>
At 31 December 2019	<u>16,832</u>
Amortisation	
At 1 January 2019 and 31 December 2019	<u>8,205</u>
Impairment	
At 1 January 2019 and 31 December 2019	<u>6,243</u>
Net book value	
At 31 December 2019	<u>2,384</u>
At 31 December 2018	<u>-</u>

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

10. Intangible assets - continued

Company

	IT Software £'000
Cost	
At 1 January 2019	-
Additions	2,129
At 31 December 2019	2,129
Amortisation	
At 1 January 2019 and 31 December 2019	-
Net book value	
At 31 December 2019	2,129
At 31 December 2018	-

11. Property, plant and equipment

Group

	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Totals £'000
Cost				
At 1 January 2019	97	5,957	66,109	72,163
Additions	-	4,742	5,318	10,060
Disposals	-	-	(3,123)	(3,123)
At 31 December 2019	97	10,699	68,304	79,100
Depreciation				
At 1 January 2019	-	4,475	49,551	54,026
Charge for the year	-	142	5,028	5,170
Eliminated on disposal	-	-	(2,694)	(2,694)
At 31 December 2019	-	4,617	51,885	56,502
Net book value				
At 31 December 2019	97	6,082	16,419	22,598
At 31 December 2018	97	1,482	16,558	18,137

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

11. Property, plant and equipment – continued

Company	Leasehold improvements £'000	Plant and machinery £'000	Totals £'000
Cost			
At 1 January 2019	5,841	17,973	23,814
Additions	4,742	1,051	5,793
Disposals	-	-	-
At 31 December 2019	10,583	19,024	29,607
Depreciation			
At 1 January 2019	4,358	16,347	20,705
Charge for the year	142	1,340	1,482
Eliminated on disposal	-	-	-
At 31 December 2019	4,500	17,687	22,187
Net book value			
At 31 December 2019	6,083	1,337	7,420
At 31 December 2018	1,483	1,626	3,109

Group & Company

The net carrying value of motor vehicles includes amounts held under hire purchase contracts at 31st December 2018 of £607,913. For the period ended 31 December 2019, assets arising from leases where the Group is a lessee have been accounted for under IFRS 16. See note 2.

12. Right-of-use Assets

Group	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1 January 2019	46,666	20,065	11,016	77,747
Additions	30,259	1,256	3,403	34,918
Depreciation	(6,193)	(4,827)	(5,036)	(16,056)
Impairment	(7,254)	-	-	(7,254)
Effect of modification of lease terms	794	-	-	794
Disposals	(10,056)	-	-	(10,056)
At 31 December 2019	54,216	16,494	9,383	80,093
Company	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1 January 2019	15,197	19,166	11,015	45,378
Additions	31,643	1,256	3,404	36,303
Depreciation	(1,556)	(4,059)	(5,036)	(10,651)
Impairment	(5,400)	-	-	(5,400)
Effect of modification of lease terms	380	-	-	380
At 31 December 2019	40,264	16,363	9,383	66,010

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

13. Investments

Group	Shares in participations £'000
Cost	
At 1 January 2019	-
Additions upon acquisition of subsidiaries	5,690
Disposals	(32)
	<u>5,658</u>
As at 31 December 2019	
Provisions	
At 1 January 2019 and 31 December 2019	-
Net book value	
At 31 December 2019	<u>5,658</u>
At 31 December 2018	<u>-</u>

The additions above are a result of the acquisition of the investment in Skanska Infrastructure Development UK Limited and Skanska Infrastructure Investment UK Limited.

Company	Investment in group undertakings £'000
Cost	
At 1 January 2019	88,935
Additions	1,426
	<u>90,361</u>
As at 31 December 2019	
Provisions	
At 1 January 2019	40,889
Provision for year	234
	<u>41,123</u>
At 31 December 2019	
Net book value	
At 31 December 2019	<u>49,238</u>
At 31 December 2018	<u>48,046</u>

The addition in the year relates to the acquisition of the investment in Skanska Infrastructure Development UK Limited and Skanska Infrastructure Investment UK Limited.

Skanska UK Plc (Registered number: 00784752)

Notes to the Consolidated Financial Statements For The Year Ended 31st December 2019

13. Investments continued

On 1 January 2019 the company purchased 100% of the issued share capital of Skanska Infrastructure Development UK Limited and Skanska Infrastructure Investment UK Limited, companies incorporated in England and Wales, which were previously owned by Skanska AB. The consideration of £1,426,000 was equal to the fair value of the net assets acquired as part of the acquisition.

Net assets acquired were as follows:

	£'000
Shares in participations	5,690
Trade and other receivables	1,750
Trade and other payables	(6,014)
	<hr/>
	1,426

The Company's investments at the Statement of Financial Position date in the share capital of companies are listed below:

Subsidiary

The following subsidiary undertakings all have construction as their principal activity (except where marked*, where the principal activity is the development of property to hold for investment purposes,** where the principal activity is the development of property, and *** where the company is dormant). The subsidiary undertakings marked **** are indirectly owned but not controlled by the Company and therefore the results of these companies are not included in the consolidated financial statements. All companies are registered in England and Wales except Cementation Skanska Ireland Ltd which is registered in Ireland. Unless stated otherwise, the registered office in England and Wales is: Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW. The registered office in Ireland is: 1 Stokes Place, St Stephen's Green, Dublin 2.

The following subsidiaries are 100% directly owned. All shares are the same class of ordinary shares with the exception of Davy Mining which is made up of 50% ordinary shares and 50% 3% non-cumulative preference shares.

Skanska Construction UK Ltd
Skanska Project Developments Ltd**
Skanska Technology Ltd
Cementation Construction Ltd***
Cementation Mining Ltd***
Davy Mining Ltd***
McNicholas Group Ltd***
McCauley Strathcona Ltd ***
Redpath Dorman Long Ltd***
Skanska Construction Company Ltd***
Skanska Healthcare Trustees Ltd***
Skanska Construction (Regions) Ltd
Trollope & Colls Ltd
Skanska Construction Services Ltd
Skanska Trusteeships Ltd****
Skanska Infrastructure Development UK Limited
Skanska Infrastructure Investment UK Limited

The following subsidiaries are 100% indirectly owned unless stated otherwise

Cementation Skanska Ltd
Cementation Skanska Ireland Ltd (In liquidation)
Clark & Fenn Skanska Ltd
Skanska J.V. Projects Ltd
Skanska Major Projects Ltd
Skanska MGT Ltd (In liquidation)**** - (Registered office: 25 Farringdon Street, London, EC4A 4AB)
MG Telecomunicatti SRL(In liquidation)****
Skanska Rashleigh Weatherfoil Ltd
Skanska Utilities Ltd
66 Queen Square Ltd*
SPD Bentley Ltd*

Skanska UK Plc (Registered number: 00784752)**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019****13. Investments continued**

SPD Moorgate Ltd*
 SPD Moorgate 2 Ltd**
 SPD Temple Circus Ltd**
 SPD Engine Shed 2 Ltd**
 SPD Templegate Ltd**
 Skanska Construction Services Trustee Ltd****
 Skanska TAM Ltd****
 Skanska ESS Construction HB (25% owned)
 Bristol LEP Ltd**** (80% owned)
 Skanska RM PSP Limited**** (87.5% owned)
 Essex LEP Ltd**** (80% owned)
 NPH Healthcare (Holdings) Limited shares**** (50% owned) - (Registered office: 3rd Floor, South Building, 200 Aldersgate Street, London, England, EC1A 4HD)

The registered office of Bristol LEP Ltd, Skanska RM PSP Limited and Essex LEP Ltd is Third Floor Broad Quay House, Prince Street, Bristol, United Kingdom, BS1 4DJ)

The following Companies are exempt from publishing audited accounts under Section 479A of the Companies Act 2006; Trollope & Colls Ltd - registration: 00079287, and Skanska Construction Regions Ltd - registration: 00225316.

14. Inventories

	Group	
	2019	2018
	£'000	£'000
Stocks	4,810	5,533
Properties	4,089	48,704
	<u>8,899</u>	<u>54,237</u>

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31st December 2019 was £nil (2018: £747,000).

Finance leases

The carrying value of properties held under a finance lease at 31st December 2018 was £44,491,000. For the period ended 31 December 2019, assets arising from leases where the Group is a lessee have been accounted for under IFRS 16. See note 2.

15. Trade and other receivables

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Current:				
Trade receivables	72,698	86,478	-	-
Amounts owed by fellow undertakings	41,384	44,832	184,733	176,873
Other receivables	25,003	29,680	14,799	19,881
Prepayments and accrued income	11,349	12,238	2,561	2,911
	<u>150,434</u>	<u>173,228</u>	<u>202,093</u>	<u>199,665</u>

Trade and other receivables are part of the Group's operating cycle and are recognised as current assets. Trade and other receivables are non-interest bearing and are generally on terms of 30 to 90 days settlement. As at 31 December 2019, trade receivables with an initial carrying value of £236,000 (2018: £250,200) were impaired and fully provided for.

The table below shows the ageing profile of trade receivables (£'000);

Current	31-60 days	61-90 days	91-120 days	120+ days	Total
54,730	7,650	6,060	805	3,453	72,698

Skanska UK Plc (Registered number: 00784752)**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019****16. Contract assets**

At 31 December 2019, the Group had contract assets of £148,318,000 (2018: £182,080,000). At 31 December 2019, the Company had contract assets of £16,140,000 (2018: £8,103,000). Contract assets consists of amounts recoverable on contracts. The change in contract assets in the year is due to normal activity and timing of certification of work done in the construction business.

17. Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Bank accounts	<u>473,710</u>	<u>373,849</u>	<u>74,110</u>	<u>65,509</u>

Included in this total is £86,603,580 restricted cash held in joint arrangements (2018: £74,930,000).

18. Called up share capital**Authorised, allotted, issued and fully paid share capital:**

Number:	Class	Nominal Value:	2019	2018
			£	£
3,300,000,000	Ordinary	£0.05	165,000,000	165,000,000

19. Reserves

Group	Retained earnings £'000
At 1 January 2019	118,749
Effect of adoption of IFRS 16 (net of tax) (note 2)	(2,075)
At 1 January 2019 restated	<u>116,674</u>
Profit for the year	10,166
Net actuarial loss on defined pension schemes	(11,027)
Foreign exchange loss	(512)
Employee share award scheme	1,920
Income tax relating to items of other comprehensive income	1,877
At 31 December 2019	<u>119,098</u>

As detailed in the 2018 statutory accounts, during 2019, the directors became aware that dividends in specie were distributed in February 2018 and December 2018 totalling £47.7m in contravention of the Companies Act 2006. A resolution was passed on 27th June 2019 that returned all parties to the position they would have been in so far as possible had the relevant dividends been made in full compliance with the Companies Act 2006.

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

20. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current:				
Trade payables	61,693	58,379	2,253	2,347
Amounts owed to fellow undertakings	3,807	2,794	96,045	90,404
Other payables	52,137	40,277	19,139	17,488
Accruals and deferred income	216,708	247,607	20,282	16,736
	<u>334,345</u>	<u>349,057</u>	<u>137,719</u>	<u>126,975</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 45-day terms.
- Other payables are non-interest bearing
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions with related parties, refer to Note 30.
- For explanations on the group's liquidity risk management process, refer to Note 24.

21. Contract liabilities

At 31 December 2019, the Group had contract liabilities of £85,828,000 (2018: £86,270,000). Contract liabilities consists of billings-in-excess. At 31 December 2019, the Company had contract liabilities of £1,315,000 (2018: £nil). The change in contract liabilities in the year is due to normal activity and timing of certification of work done in the construction business.

22. Financial liabilities – borrowings

	Group	
	2019 £'000	2018 £'000
Current:		
Hire purchase contracts (see note 2)	-	245
Finance leases (see note 2)	-	5,311
	<u>-</u>	<u>5,556</u>
Non-current:		
Hire purchase contracts (see note 2)	-	28
Finance leases (see note 2)	-	3,915
	<u>-</u>	<u>3,943</u>

Group terms and debt repayment schedule

2018	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Totals £'000
Hire purchase contracts	245	27	1	-	273
Finance leases	5,311	1	2	3,912	9,226
	<u>5,556</u>	<u>27</u>	<u>3</u>	<u>3,913</u>	<u>9,499</u>

For the period ended 31 December 2019, liabilities arising from leases where the Group is a lessee have been accounted for under IFRS 16. See note 2 and note 23.

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

23. Lease liabilities

Group	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1 January 2019	48,620	20,188	11,024	79,832
Additions	39,193	1,256	3,404	43,853
Interest expense	1,739	469	305	2,513
Lease payments	(8,834)	(5,159)	(5,363)	(19,356)
Effect of modification of lease terms	540	-	-	540
Disposals	(9,437)	-	-	(9,437)
At 31 December 2019	71,821	16,754	9,370	97,945

Company	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1 January 2019	16,178	19,293	11,023	46,494
Additions	36,577	1,256	3,405	41,238
Interest expense	774	458	305	1,537
Lease payments	(2,069)	(4,381)	(5,363)	(11,813)
Effect of modification of lease terms	380	-	-	380
At 31 December 2019	51,840	16,626	9,370	77,836

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

	Group 2019 £'000	Company 2019 £'000
Short term lease expense	10,009	-
Low value lease expense	187	70
Aggregate undiscounted commitments for short-term leases	240	-

Sale and leaseback transaction

During the year the Group entered into a sale and leaseback transaction whereby a development site owned by the group was sold to a third party and leased back by Skanska UK Plc. The property was sold in December 2019 and the lease agreement is for a term of 15 years from July 2019. The property was sold for £61.2m and a development profit of £5.2m was recognised in the year. The cash flow effect of the sale and leaseback transaction after direct costs was £56.8m. The property was previously held in inventory (note 14).

24. 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 contract assets at the statement of financial position date. The Group expects there to be little or no impact of Covid-19 on the credit risk of the Group.

24. Financial instruments – continued

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 the Group'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 2019, the Group had cash and cash equivalents totalling £473,710,000 (2018: £373,849,000) and no debt. Included in this total is £86,603,580 restricted cash held in Joint arrangements (2018: £74,930,000).

The Board is confident that the Group has sufficient cash resources to in light of the challenges arising from the COVID-19 pandemic and are continually assessing the impact of Covid-19 on cash flow and forecasts across the business (note 2).

Effective interest rates and maturity analysis

As at 31st December 2019, income-earning financial assets of the Group comprised cash and cash equivalents totalling £473,710,000 (2018: £373,849,000) and of the Company £74,110,000 (2018: £65,509,000). Interest is earned on net cash balances at floating rates linked to the Swedish base rate. The Group has no overdraft or bank debt.

Fair Value

The carrying amounts shown in the financial position of all financial assets and financial liabilities are not considered to be materially different to their fair value. The investments do not have a quoted price in an active market and are measured at cost because the fair value cannot otherwise be measured.

Sensitivity analysis

At 31st December 2019 and 31st December 2018, it was estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

Capital requirements vary between business streams. The Group's construction projects are mainly based on customer funding. As a result, in its Construction Business stream, the Group can operate with negative working capital. However, the equity requirement for a construction company is substantial and is related to the large business volume and to the risks inherent in the various types of construction assignments carried out. The Group must also take into account the financing of goodwill and the performance guarantees required in procured projects. The Board has determined that the Group's equity is at a reasonable level based on what its financial position requires.

Capital Management

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

A number of financial targets have been established that are judged to best reflect the profitability of the operations and best demonstrate the financial scope for investment and growth. The return on equity and on capital employed is a measure of how well the capital provided by the shareholders and lenders is being used. The target for 2016-2020 is a return on the Group's equity of at least 18% and a return on capital employed, calculated jointly for the business streams within project development. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

24. Financial instruments – continued

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loans and receivables				
Contract assets	148,318	182,080	16,140	8,103
Trade receivables	72,698	86,478	-	-
Amounts owed by fellow group undertakings	41,384	44,832	184,733	176,873
Other receivables	25,003	29,680	14,799	19,881
Financial assets				
Cash and cash equivalents	473,710	373,849	74,110	65,509
Total Financial Assets	<u>761,113</u>	<u>716,918</u>	<u>289,782</u>	<u>270,367</u>
Financial liabilities				
Contract liabilities	85,828	86,270	1,315	-
Trade payables	61,693	58,379	2,253	2,347
Amounts owed to fellow undertakings	3,807	2,794	96,045	90,404
Other payables	52,137	40,277	19,139	17,488
Lease liabilities	97,945	-	77,836	-
Total financial liabilities	<u>301,410</u>	<u>187,720</u>	<u>196,588</u>	<u>110,239</u>

Maturity analysis for non-derivative financial liabilities

	On demand £'000	Less than 3 months £'000	More than 3 months £'000
Year ended 31 December 2019			
Trade and other payables (Group)	-	92,633	21,197
Trade and other payables (Company)	-	21,392	-
Year ended 31 December 2018			
Trade and other payables (Group)	-	62,513	36,143
Trade and other payables (Company)	-	19,835	-

Amounts due in more than three months relate to retentions payable to subcontractors.

Maturity analysis for lease liability payments (undiscounted)

Group	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2019					
Lease liabilities	5,200	14,511	16,340	22,591	56,262
Company					
At 31 December 2019					
Lease liabilities	3,569	10,006	11,846	17,013	48,849

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

24. Financial instruments – continued

	2019 £'000	2018 £'000
Trade and other payables	334,345	349,057
Contract liabilities	85,828	86,270
Lease liabilities	17,350	-
Less: cash and short-term deposits	(473,710)	(373,849)
Net (surplus) / deficit	(36,187)	61,478
Shareholders' equity	284,098	283,749
Capital and net debt	247,911	345,227
Gearing ratio %	-14.6%	17.8%

25. Provisions

	Forward loss on contracts & disputes £'000	Warranty £'000	Other £'000	Total £'000
2019				
At 1 January 2019	37,344	35,933	6,348	79,625
Released in year	(13,787)	(13,868)	(8,871)	(36,526)
Created in year	9,043	28,296	14,056	51,395
Reclassification	-	(968)	13,464	12,496
Utilised	(16,606)	(15,496)	(5,743)	(37,845)
At 31 December 2019	15,994	33,897	19,254	69,145
2018				
At 1 January 2018	36,340	44,676	5,389	86,405
Released in year	(843)	(12,647)	-	(13,490)
Created in year	40,223	21,436	2,670	64,329
Reclassification	(10,317)	12,163	(1,403)	443
Utilised	(28,059)	(29,695)	(308)	(58,062)
At 31 December 2018	37,344	35,933	6,348	79,625

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

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

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

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

26. Deferred tax

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Accelerated Capital Allowances	2,669	1,719	737	787
Deferred tax on pension liability	6,422	6,426	5,621	5,448
Unrelieved trading losses	3,352	4,577	853	2,136
Other	2,329	(849)	1,073	81
Total	14,772	11,873	8,284	8,452
At beginning of year	11,873	21,726	8,452	18,799
IFRS 16 Adjustment (note 2)	425	-	190	-
Restated	12,298	-	8,642	-
Deferred tax asset acquired	139	-	-	-
Deferred tax movement in P&L	2,337	(4,052)	(532)	(4,244)
Deferred tax direct to equity	(2)	(5,801)	174	(6,103)
Total	14,772	11,873	8,284	8,452

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

27. Employee benefit obligations

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

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

Pension obligations and plan assets:

	2019 (%)	2018 (%)
Active members' portion of obligations	15	4
Dormant pension rights	45	57
Pensioners' portion of obligations	40	39
Weighted average duration	20 years	20 years

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

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations - continued

a) The Skanska Pension Fund

The Group, in its capacity as employer, participates in The Skanska Pension Fund. The fund was closed to further accruals on 31 March 2018. Total contributions paid during the year by the Group (excluding employee contributions) were £13,279,000 (2018: £19,837,000). Ultimately, the contributions are met by the particular group company for which the employees are working. The Group expects to contribute approximately £14.5 million to the Fund in the next financial year.

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

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

The 31 December 2019 valuation is an update of the actuarial valuation at 31st March 2016 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:

	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Inflation	3.00	3.25	3.25	3.25
Rate of increase of salaries	3.25	3.50	3.50	3.50
Rate of increase of pension	2.90	3.15	3.05	3.15
Rate of increase for deferred pension	2.20	2.25	2.25	2.25
Pre and post retirement rates to discount scheme liabilities	2.00	2.75	2.50	2.75

Life expectancy after age 65 is 23 years for men and 24 years for women (2018: 23 years for men and 24 for women).

The financial position of the fund based on the above assumptions

	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Scheme liabilities	(840,819)	(747,751)	(856,844)	(786,400)
Scheme assets	807,748	715,705	754,510	692,450
Total deficit	(33,071)	(32,046)	(102,334)	(93,950)
Related deferred tax asset	5,622	5,448	17,397	15,972
Net pension (liability)	(27,449)	(26,598)	(84,937)	(77,978)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations - continued

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

	Valuation of assets 2019 £'000	Valuation of assets 2018 £'000	Expected return 2019 %	Expected return 2018 %
Quoted UK equities	73,759	62,769	2.00	2.75
Quoted overseas equities	205,318	182,051	2.00	2.75
Quoted gilts fixed	88,092	100,497	2.00	2.75
Quoted gilts index linked	136,396	114,288	2.00	2.75
Quoted UK corporate bonds fixed	6,976	23,833	2.00	2.75
Quoted UK corporate bonds index linked	1,034	856	2.00	2.75
Quoted government bonds fixed overseas	46,917	-	2.00	2.75
Quoted government bonds index linked overseas	16,522	-	2.00	2.75
Quoted overseas corporate bonds fixed	15,203	22,696	2.00	2.75
Cash	27,389	34,504	2.00	2.75
Infrastructure assets	75,732	93,183	2.00	2.75
Freehold property*	18,567	17,170	2.00	2.75
Other	95,843	63,858	2.00	2.75
Total	807,748	715,705	2.00	2.75

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

	2019 £'000	2018 £'000
Actual return on fund assets	107,147	(15,818)

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

Analysis of the amount charged to the profit or loss

	2019 £'000	2018 £'000
Current service cost	-	7,776
Employee contribution	-	(109)
Total operating charge	-	7,667

Analysis of the amount charged to Other Finance Cost

	2019 £'000	2018 £'000
Expected return on pension scheme assets	19,269	18,585
Interest on pension liabilities	(19,995)	(20,455)
Net finance return	(726)	(1,870)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations – continued

Analysis of amount recognised in Statement of Comprehensive Income

	2019 £'000	2018 £'000
Actual return less expected return on assets	87,878	(34,403)
Experience gains and losses on liabilities	-	11,128
Changes in demographic assumptions	(3,702)	-
Changes in financial assumptions	(95,714)	58,929
Actuarial gain/(loss) recognised in statement of comprehensive income	(11,538)	35,654
Cumulative loss recognised in statement of comprehensive income	(199,832)	(188,294)
Movement in the present value of defined benefit obligation		
Present value of obligation 1st January	747,751	856,844
Service cost	-	7,776
Interest cost	19,995	20,455
Benefits paid	(26,343)	(40,860)
Curtailment benefit	-	(26,407)
Actuarial (gains)/losses	99,416	(70,057)
Obligation at 31 st December	840,819	747,751
Changes in fair value of fund assets		
Fair value of plan assets, 1st January	715,705	754,510
Expected return on fund assets	19,269	18,585
Employer contribution	13,279	19,837
Member contribution	-	109
Benefits paid	(26,343)	(40,860)
Administrative expenses	(2,040)	(2,073)
Actuarial (losses)/gains	87,878	(34,403)
Fair value at 31st December	807,748	715,705
Scheme deficit	(33,071)	(32,046)

History of experience gains and losses:

	2019	2018	2017	2016
Difference between expected and actual return on scheme assets £'000:	87,878	(34,403)	28,580	85,822
Percentage of scheme assets %	10.9	(4.8)	3.8	12.4
Experience gains and losses on scheme liabilities £'000:	-	11,128	1,482	26,274
Percentage of scheme liabilities %	-	1.5	0.2	3.3
Total amount recognised in statement of comprehensive income £'000:	(11,538)	35,654	(12,200)	(38,646)
Percentage of scheme liabilities %	(1.4)	4.8	(1.4)	(4.9)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations – continued

Sensitivity Analysis

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

	2019 £'000	2018 £'000
Total pension liability at 31st December	840,819	747,751
Estimated decrease in pension liability if discount rate increases by 0.25%	(40,659)	(34,907)
Estimated increase in pension liability if discount rate decreases by 0.25%	43,669	37,426
Estimated increase in pension liability if inflation rate increases by 0.25%	28,407	24,845
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(29,477)	(25,762)

b) The Federated Pension Plan

The Group also sponsors The Federated Pension Plan, a defined benefit pension plan. The benefit provided by this plan is a final salary benefit. The assets of the Plan are held separately under Trust from those of the Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2019, in accordance with the Plan rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group expects to contribute approximately £3.2 million to the plan in the next financial year.

The following valuation is an update of the actuary's valuation at 5th April 2016. The actuarial valuation in accordance with IAS 19 used the projected unit actuarial valuation based on the following assumptions:

	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Inflation	3.00	3.25	3.25	3.25
Rate of increase of salaries	3.25	3.50	3.50	3.50
Rate of increase of pension	3.00	3.25	3.25	3.00
Pre and post retirement rates to discount scheme liabilities	2.00	2.75	2.50	2.75

Life expectancy after age 65 is 22 years (2018: 22 years) for men and 24 years (2018: 24 years) for women.

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

	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Scheme liabilities	(87,546)	(73,411)	(73,963)	(65,600)
Scheme assets	82,842	68,473	69,432	62,931
Scheme deficit	(4,704)	(4,938)	(4,531)	(2,669)

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

	Valuation of assets 2019 £'000	Valuation of assets 2018 £'000	Expected return 2019 %	Expected return 2018 %
Quoted UK equities	51,126	42,335	2.00	2.75
Quoted gilts fixed	31,565	26,138	2.00	2.75
Cash	151	-	2.00	2.75
Total	82,842	68,473	2.00	2.75

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

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations – continued

Analysis of amount recognised to profit or loss

	2019	2018
	£'000	£'000
Current service cost	2,770	2,947
Employee contribution	(436)	(437)
Total operating charge	<u>2,334</u>	<u>2,510</u>

Analysis of amount charged to Other Finance Cost

	2019	2018
	£'000	£'000
Expected return on pension scheme assets	1,902	1,753
Interest on pension liabilities	(2,031)	(1,863)
Net finance return	<u>(129)</u>	<u>(110)</u>

Analysis of amount recognised in statement of comprehensive income

	2019	2018
	£'000	£'000
Actual return less expected return on assets	11,084	(4,147)
Experience gains and losses on liabilities	(3,112)	(243)
Changes in demographic assumptions	(38)	(25)
Changes in financial assumptions	(8,135)	3,814
Actuarial loss recognised in statement of comprehensive income	<u>(201)</u>	<u>(601)</u>
Cumulative loss recognised in statement of comprehensive income	<u>(15,063)</u>	<u>(14,862)</u>

Movement in the present value of defined benefit obligation

	2019	2018
	£'000	£'000
Present value of obligation 1st January	73,411	73,963
Service cost	2,770	2,947
Interest cost	2,031	1,863
Benefits paid	(2,089)	(1,816)
Curtailment losses	138	-
Actuarial losses	11,285	(3,546)
Closing balance, 31 st December	<u>87,546</u>	<u>73,411</u>

Changes in fair value of fund assets

	2019	2018
	£'000	£'000
Fair value of plan assets, 1st January	68,473	69,432
Expected return on plan assets	1,902	1,753
Company contribution	3,193	2,947
Employee contribution	436	437
Benefits paid	(2,089)	(1,816)
Administrative expenses	(157)	(133)
Actuarial losses	11,084	(4,147)
Closing balance, 31st December	<u>82,842</u>	<u>68,473</u>

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations – continued

History of experience gains and losses:

	2019	2018	2017	2016
Amount £'000:	11,084	(4,147)	1,947	6,494
Percentage of scheme assets %	<u>13%</u>	<u>(6%)</u>	<u>3%</u>	<u>10%</u>
Experience gains and losses on scheme liabilities £'000:	(3,112)	(243)	(1,417)	(1,061)
Percentage of scheme liabilities %	<u>(4%)</u>	<u>(-)</u>	<u>(2%)</u>	<u>(3%)</u>
Total amount recognised in statement of comprehensive income £'000:	(201)	(601)	(3,126)	(3,671)
Percentage of scheme liabilities %	<u>(-)</u>	<u>(1%)</u>	<u>(4%)</u>	<u>(6%)</u>

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

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

	2019 £'000	2018 £'000
Total pension liability at 31st December	<u>87,546</u>	<u>73,411</u>
Estimated decrease in pension liability if discount rate increases by 0.25%	(4,309)	(3,626)
Estimated increase in pension liability if discount rate decreases by 0.25%	<u>4,542</u>	<u>3,887</u>
Estimated increase in pension liability if inflation rate increases by 0.25%	4,590	3,813
Estimated decrease in pension liability if inflation rate decreases by 0.25%	<u>(4,360)</u>	<u>(3,037)</u>

c) The McNicholas Plc Retirement Benefits Scheme

The Group also sponsors The McNicholas Plc Retirement Benefits Scheme, a defined benefit plan. The assets of the Scheme are held separately under Trust from those of the group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2019, in accordance with the Scheme rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group does not expect to contribute to the plan in the next financial year.

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

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

The valuation below is an update of the actuarial valuation at 1st March 2015. The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations – continued

	2019	2018	2017	2016
	(%)	(%)	(%)	(%)
Inflation	3.00	3.25	3.25	3.25
Rate of increase of salaries	3.25	3.50	3.50	2.25
Rate of increase of pension	3.00	3.25	3.25	3.00
Rate of increase for deferred pensions	3.00	3.25	3.25	2.25
Pre and post retirement rates to discount scheme liabilities	2.00	2.75	2.50	2.75

Life expectancy after age 65 is 22 years (2018: 23 years) for men and 24 years (2018: 25 years) for women.

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

	2019	2018	2017	2016
	£'000	£'000	£'000	£'000
Scheme liabilities	(22,223)	(20,285)	(21,210)	(20,917)
Scheme assets	22,223	20,212	20,966	20,167
Less asset ceiling provision	(409)	(742)	-	-
Pension deficit	<u>(409)</u>	<u>(815)</u>	<u>(244)</u>	<u>(750)</u>

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

	Valuation of assets	Valuation of assets	Expected return	Expected return
	2019	2018	2019	2018
	£'000	£'000	%	%
Quoted UK equities	1,609	1,440	2.00	2.75
Quoted UK bonds	12,477	11,170	2.00	2.75
Other	8,137	7,602	2.00	2.75
Total	<u>22,223</u>	<u>20,212</u>	<u>2.00</u>	<u>2.75</u>

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

Analysis of the amount charged to profit or loss.

	2019	2018
	£'000	£'000
Current service cost	<u>-</u>	<u>2,510</u>

Analysis of amount charged to Other Finance Cost

	2019	2018
	£'000	£'000
Expected return on pension scheme assets	532	523
Interest on pension liabilities	<u>(554)</u>	<u>(524)</u>
Net finance return	<u>(22)</u>	<u>(1)</u>

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

27. Employee benefit obligations – continued

Analysis of amount recognised in statement of comprehensive income

	2019	2018
	£'000	£'000
Actual return less expected return on assets	1,640	(1,239)
Experience gains and losses on liabilities	450	48
Changes in demographic assumptions	-	(150)
Changes in financial assumptions	(2,120)	1,139
Effect of the asset ceiling	-	(742)
Actuarial loss recognised in statement of comprehensive income	<u>(30)</u>	<u>(944)</u>
Cumulative loss recognised in statement of comprehensive income	<u>1921</u>	<u>1,951</u>

Movement in the present value of defined benefit obligation

	2019	2018
	£'000	£'000
Present value of obligation 1st January	20,285	21,210
Interest cost	554	524
Benefits paid	(286)	(412)
Actuarial losses/(gains)	1,670	(1,037)
Closing balance, 31 st December	<u>22,223</u>	<u>20,285</u>

Changes in fair value of plan assets

	2019	2018
	£'000	£'000
Fair value of plan assets, 1st January	20,212	20,966
Expected return on plan assets	532	523
Employer contribution	125	374
Benefits paid	(286)	(412)
Actuarial gains/(losses)	1,640	(1,239)
Closing balance, 31st December	<u>22,223</u>	<u>20,212</u>

History of experience gains and losses:

	2019	2018	2017	2016
Amount £'000:	1,640	(1,239)	575	2,407
Percentage of scheme assets %	<u>7%</u>	<u>(6%)</u>	<u>3%</u>	<u>12%</u>
Experience gains and losses on scheme liabilities £'000:	450	48	605	80
Percentage of scheme liabilities %	<u>2%</u>	<u>-</u>	<u>3%</u>	<u>4%</u>
Total amount recognised in statement of comprehensive income £'000:	(30)	(944)	148	(1,150)
Percentage of scheme liabilities %	<u>(-)</u>	<u>(5%)</u>	<u>1%</u>	<u>(5%)</u>

27. Employee benefit obligations – continued

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

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

	2019 £'000	2018 £'000
Total pension liability at 31st December	<u>22,223</u>	<u>20,285</u>
Estimated decrease in pension liability if discount rate increases by 0.25%	(1,082)	(1,086)
Estimated increase in pension liability if discount rate decreases by 0.25%	<u>1,137</u>	<u>1,170</u>
Estimated increase in pension liability if inflation rate increases by 0.25%	845	851
Estimated decrease in pension liability if inflation rate decreases by 0.25%	<u>(814)</u>	<u>(801)</u>

28. Ultimate parent company

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

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

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

29. Contingent liabilities

The Group faces contingent liabilities in respect of guarantees and potential claims by third parties under contracting agreements entered into by them in the normal course of business. These are provided as liabilities only to the extent that the directors believe that the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. Contingent liabilities relating to the group's portion of the joint and several liabilities for the obligations of joint arrangement totalled £458,245,000 (2018: £1,032,104,000).

30. 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.

Remuneration of key management personnel

Details of remuneration of the directors, who are the key management personnel of the Company, are contained in Note 4.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019**

30. Related party disclosures – continued

Trading transactions

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

Related party	Nature of relationship	Good/service provided	Transactions in year		Amount owed to or by Skanska UK Plc at year end	
			2019 £'000	2018 £'000	2019 £'000	2018 £'000
Skanska AB	Ultimate parent company of Skanska UK Plc	Skanska AB provides management services to Skanska UK Plc	2,066	2,858	2	-
Skanska AB	Ultimate parent company of Skanska UK Plc	Skanska AB receives management services from Skanska UK Plc	2,124	1,855	137	84
Skanska TAM Limited	Skanska TAM Limited holds Public Financial Initiative investments on behalf of the Skanska Pension Fund	Skanska UK Plc provides accounting services to Skanska TAM Limited	12	-	12	-
Skanska Construction Services Trustee Limited	Skanska Construction Services Trustee Limited is a corporate trustee of the Skanska Pension Fund	Skanska UK Plc rents an office in Doncaster from the Skanska Pension Fund	1,332	1,304	-	-
Skanska Residential Developments UK Limited	Fellow group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc provides management and facilities management services to Skanska Residential Developments UK Limited	852	354	606	824

In addition to the above, on 1 January 2019 the company purchased 100% of the issued share capital of Skanska Infrastructure Development UK Limited and Skanska Infrastructure Investment UK Limited, companies incorporated in England and Wales, which were previously owned by Skanska AB. Further details on the purchase are disclosed in note 13.

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019

31. Reconciliation of profit/loss before income tax to cash generated from operations

Group

	2019 £'000	2018 £'000
Profit before income tax	14,253	44,081
Depreciation	21,226	6,734
Amortisation of intangibles	-	848
Goodwill impairment	29,821	-
Impairment of intangibles	-	6,243
Impairment of right of use assets	7,254	-
Decrease in provisions	(10,480)	(6,780)
Employee ownership scheme	1,922	851
Pension service cost	2,334	10,177
Pension company contribution	(14,400)	(20,951)
Pension curtailment	138	(26,407)
Finance costs	3,390	1,981
Finance income	(5,557)	(3,967)
	<u>49,901</u>	<u>12,810</u>
Decrease/(increase) in inventories	45,338	(16,489)
Decrease/(increase) in trade and other receivables	50,785	(1,127)
(Decrease)/increase in trade and other payables	<u>(15,154)</u>	<u>8,542</u>
Cash generated from operations	<u>130,870</u>	<u>3,736</u>

Company

	2019 £'000	2018 £'000
Profit before income tax	18,551	165,541
Depreciation	12,133	1,122
Impairment of investments	234	-
Impairment of right of use assets	5,400	-
Employee ownership scheme	1,922	851
Pension service cost	-	7,667
Pension company contribution	(11,239)	(17,764)
Pension curtailment	-	(26,407)
Finance costs	2,262	1,870
Finance income	(4,475)	(4,654)
	<u>24,788</u>	<u>128,226</u>
(Increase) in trade and other receivables	(11,405)	(75,643)
Increase/(decrease) in trade and other payables	<u>12,060</u>	<u>(94,385)</u>
Cash generated from operations	<u>25,443</u>	<u>(41,802)</u>

Skanska UK Plc (Registered number: 00784752)**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2019****32. Joint arrangements**

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

Name of Joint arrangements	Address	Joint arrangement partners	Control
Skanska Construction UK Limited			
Skanska Aker Solutions Joint Venture	1,8	Jacobs E&C Limited	50%
Balfour Beatty Skanska Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
Skanska BAM Northern Hub Joint Venture	1,9	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	1,5,6	Balfour Beatty / MWH UK Ltd	33%
Balfour Beatty Skanska M25 Junction 30 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
SEESA AMS Joint Venture	1,11,12	Alstom Grid UK Limited / Mott Macdonald Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
trIO	1,10	Morrison Utility Services Limited	50%
HS2 Enabling	1,2	Costain Limited	50%
HS2 Main Works SCS S1	1,2,7	Strabag AG-UK Branch / Costain Limited	34%
HS2 Main Works SCS S2	1,2,7	Strabag AG-UK Branch / Costain Limited	34%
Skanska Porr A-Hak Joint Venture	1,13,14	Porr Bau GmbH / A-Hak International B.V.	40%
Bakerloo Line Link Joint Venture	1,2	Costain Limited	50%
A14 Huntingdon to Cambridge	1,2,5	Balfour Beatty / Costain Limited	33%
Cementation Skanska Limited			
Cementation Skanska Balfour Beatty GE Joint Venture	1,3	Balfour Beatty Ground Engineering Limited	50%
Ground Engineering Joint Venture: Cementation Skanska Zublin JV	1,4	ED Zublin AG (UK Branch)	50%
Skanska J.V. Projects Limited			
Skanska Balfour Beatty M25 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%

The addresses of these Joint arrangements 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 The Curve Building Axis Business Park Hurricane Way Langley Berkshire SL3 8AG
- 4 Albstadtweg 1,70567 Stuttgart, Germany
- 5 5 Churchill Place, Canary Wharf, London, E14 5HU
- 6 Soapworks, Colgate Lane, Salford, England, M5 3LZ
- 7 Hogarth House 2nd Floor, London, 136 High Holborn, WC1V 6PX
- 8 1180 Eskdale Road, Winnersh, Wokingham, Berkshire, RG41 5TU
- 9 Breakspear Park, Breakspear Way, Hemel Hempstead, HP2 4FL
- 10 Abel Smith House, Gunnels Wood Road, Stevenage, Herts SG1 2ST
- 11 St Leonards Building, Harry Kerr Drive, Stafford, ST16 1WT
- 12 Mott Macdonald House, 8-10 Sydenham Road, Croydon, Surrey, CR0 2EE
- 13 Absberggasse 47, 1100 Vienna, Austria
- 14 Steenoven 2-6, NL-4196 HG Tricht, the Netherlands

33. Post balance sheet events

On 24 February 2020, as part of a strategic review, the Group announced its intention to divest its Infrastructure Services operating unit and exit highways, rail, and street lighting maintenance. In addition, the Group plans to close its Utilities operating unit and transfer the remaining contracts into its Infrastructure operating unit.

On the 23 March 2020 the Government in the UK announced a national lockdown in response to the COVID-19 pandemic. The potential impact of this pandemic on the Group's performance for the year to 31 December 2020 is still unclear and we are unable to quantify the likely impact on the full year results at this stage. The Group has however entered this period in a strong balance sheet position and the Board is confident of the Group's ability to survive the challenges of the pandemic and to emerge as in a strong position within the market.

On 22 May 2020 Skanska Infrastructure Investments Limited sold their investment in Skanska RM PSP Limited to Building Schools for the Future Investments LLP for £1,022k.