

**Group Strategic Report, Directors' Report and  
Audited Consolidated Financial Statements For The Year Ended 31st December 2017**  
for  
**Skanska UK Plc**



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For The Year Ended 31st December 2017**

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**Skanska UK Plc**

**Company Information  
For The Year Ended 31st December 2017**

**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

**Registered office:**

Maple Cross House  
Denham Way, Maple Cross  
Rickmansworth  
Hertfordshire  
WD3 9SW

**Registered number:**

00784752 (England and Wales)

**Auditors:**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

**Group Strategic Report  
For The Year Ended 31st December 2017**

The directors have pleasure in presenting their strategic report of Skanska UK Plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31st December 2017.

The Group recorded an operating income (profit) of £14.6 million in 2017 (2016: £22.6 million) on revenues of £1,802.7 million (2016: £1,650.6 million). This included an impairment charge on goodwill amounting to £(9.1) million. Operating margins were 0.8% or 1.3% adjusted for the impairment charge (2016: 1.4%).

In Q2 2017, the Group announced a profit warning indicating project write-downs of £33m. The main reason for the project write-downs were lower than anticipated production rates, projects being delayed with estimated penalties and multiple customer-driven changes, which have caused cost overruns. Many of the problem projects were close to completion with others running into 2018.

During this period, £1,859 million of orders were booked achieving a book-to-build ratio of 103%. The Group order backlog was £2,411 million (2016: £2,300 million). In 2018, we will continue to deliver on the Profit with Purpose Business Plan, supported by favourable outlooks in our chosen markets.

**Financial position**

The Group's total equity increased by £2.1 million in the year. This was predominantly made up of £13.6 million post-tax profits offset by actuarial losses before tax of £(15.2) million arising from the Group's pension schemes. Total equity attributable to our shareholders at the year-end was £261.8 million (2016: £259.7 million).

Our consolidated year-end cash and cash equivalents totalled £293.7 million, a decrease of £(5.9) million in the year which excluded the proceeds from the SPDL (Monument) Limited divestment. At 31st December an exceptional net client receivable was due of £81.7 million from Credit Suisse who acquired SPDL (Monument) Limited, this was paid in full in February 2018 in accordance with the agreed terms. Cash outflow from operating activities was £8.9 million, 2016: outflow £26.7 million. The Group had no debt.

**Principle risks and uncertainties**

Refer to note 22 for details of the Group's principle risks and uncertainties.

**Major Divestment**

The Group sold SPDL (Monument) Limited (a subsidiary undertaking), which held The Monument Building in the City of London, UK, for £118 million to Credit Suisse's Real Estate Fund International before transaction costs. The transaction was recorded at the point of an unconditional exchange in quarter 4 2017 with completion occurring in February 2018. Monument is a 10-storey office building and has a total leasable area of about 8,700 square meters. The building was completed in 2016 and is multi let, with its office and retail floors occupied by a diverse group of tenants.

**Major contract wins**

*St Giles* - A development in the West End of London for developer Consolidated Developments. The contract is worth £142 million.

*Fenchurch Street* - The Group was awarded the contract for constructing a mixed-use commercial and retail development in the City of London, total value is £127 million.

*Hampshire highways* - The Group was awarded a seven-year highways maintenance contract by Hampshire County Council. The value to the Group is £280 million, £40 million a year, over seven years. This contract runs from 1st August 2017 to 31st March 2024, with extension options for up to a further five years.

*Cambridgeshire highways* - In 2017, the Group successfully renewed a 10 year highways maintenance contract with Cambridgeshire County Council and is responsible for maintaining 4,405km of carriageway, 2,280km of footways and cycleways, and 1,276 structures.

*Old Street* - Helical Plc awarded the Group a £73 million contract to refurbish a mixed-use development in London also known as The Tower.

*Barts & The London Hospitals* - The Group has been awarded a 10-year extension to continue to provide estate services. Barts and The London PFI Hospitals project is a Skanska-led consortium that was responsible for the design, construction and refurbishment of The Royal London Hospital, Whitechapel and St Bartholomew's Hospital in the City of London.

*Bath & North East Somerset Highways extension* - Bath and North East Somerset Council has extended its highways services contract with the Group. There is already a three year extension in place and the team has been working on the contract since 2008. Under the £8 million-a-year contract, Bath and North East Somerset Council and the Group will work together until March 2019 to maintain 700 miles of highways.

*Tønsberg Hospital* - The Group is working with Skanska Norway and CURA Group to expand Vestfold Hospital in Norway. The project includes new psychiatry and somatic care buildings, at a total cost of £162 million (NOK 1.7 billion, SEK 1.76 billion).

*Highspeed 2 S1 & S2 main works ECI* - The Group has been awarded the design, construction and preparation works for two southern sections of the new high speed railway. The Group, together with joint venture partners Costain and STRABAG, will be responsible for developing the scheme design and target cost for Lots S1 and S2 of the railway, lasting 16 months under an early contractor involvement (ECI) agreement. The work is estimated to be worth £80 million across the joint venture, with a value of £26 million to the Group.

**Major Project Completion**

In addition to new contract wins, the Group successfully completed a number of key projects in 2017 including 55-91 Knightsbridge, Battersea Phase 1 (MEP works), Copyright Building, M1 J19, M25 J30 & London Power Tunnels.

**Group Strategic Report (continued)**  
**For The Year Ended 31st December 2017**

**Laser Focus Plan**

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. The Group's two building operations units which were formerly separated on a geographical basis were brought together into one organisation, and the Facilities Services operation combined with the Mechanical and Electrical engineering business into one Building Services operating unit.

**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 2017 we have made significant improvements in all areas of safety, health and wellbeing. Our lost time accident rate has reduced to the lowest ever rate at 2.1. This has been achieved by focusing on the right balance between 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. In regard to health and wellbeing we are the first UK construction company to achieve SEQOHS accreditation for our occupational health clinical work. Wellbeing is a growing concern in society and in the construction sector and we are a leader in the industry. During 2017 we remodelled and relaunched our wellbeing offering and participated in the Britain's Healthiest Company survey. We developed our mental health programme and now have over 200 mental health ambassadors in the business.

**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 2017 we maintained our focus on ethics leadership by ensuring all our employees are trained on our Code of Conduct within one month of starting and re-trained every two years, and that our employees take part in regular 'dilemma' discussions where they debate how they would approach a variety of situations. A key discussion topic through 2017 was the interaction between profit and ethics, and how to run a highly ethical and profitable company such that the two aspirations are mutually supportive. We also used 2017 to continue the roll-out of our new Code of Conduct launched in 2016. As well as an internal communications campaign, we placed additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We developed new processes for scrutinising the ethical culture of potential partners, to further engage our supply chain we worked to ensure our Supplier Code is discussed in start-up meetings with suppliers, and we ensured ethics was an agenda item at our various supplier engagement events. Finally, as part of a Group-wide initiative, we engaged top leadership and clusters of employees in an ethics risk assessment exercise, the results of which will feed into our ongoing ethics improvement plans.

**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 Group, is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services, 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, better waste management, and better sharing of best practice;
- Winning profitable green business, where we maintain our green brand through demonstrating visible leadership: one of our Executive Vice Presidents is a member of a sustainability leadership sub-group of the Construction Leadership Council; our Director of Environment hosted a rail industry sustainability summit and presented on low carbon construction at the Institute of Civil Engineers, our facilities management business was listed at the top of the Sustainable Facilities Management Index (SFMI), and the Group's environmental professionals continue to engage with a wide range of external green groups, such as the UK Green Building Council;

**Group Strategic Report (continued)**  
**For The Year Ended 31st December 2017**

- 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 skills at operational levels; during 2017 we provided environmental training to 2,202 people in the Group. We also increased our skills and competence in the technical management of carbon, and developed three staff as assessors for the new healthy buildings WELL standard;
- Making our design and procurement more sustainable, where we continue to influence green design, such as beginning the process towards achieving accreditation against the PAS2080 carbon management specification, and set leading standards for sustainability in procurement, such as procuring and trialling a number of electric and hydrogen vehicles to join our working fleet;
- Collaborating with our finance team to provide better measurement of our environmental impact and to commercialise green. In 2017 74% of our revenue was classified green against our Color Palette, which measures projects on four areas: carbon, energy, materials and water. We have also been working to improve our carbon emissions reporting processes, which continue to form part of our CEMARS and Climate Disclosure Project reporting. We continue to invest in green solutions through a specific green fund, we invest in our own leased and owned offices, and we have also established industry leading green standards at our Bentley Works location in Doncaster.

**Awards won:**

- Sustainable Facilities Management Index Awards 2017 - Most sustainable facilities management company
- Sustainable FM Index Awards - Building Services
- Green Apple Award for Environmental Best Practice - Skanska and Cambridgeshire County Council

**Great People**

Success in the Group's project-based business depends on having a diverse mix of people with the right skills and commitment, and who share its values. Recruiting great people, developing them and helping them realise their potential within an inclusive culture are key parts of this focus area.

The Group aims to be the most attractive employer in its industry. The Group sets a culture based on transparency, values and high performance, with employees working together in teams to build for a better society. The Group provides its people with many opportunities to learn and grow: when an employee grows, the Group as a company develops. The Group wants employees to continuously develop and contribute to the Group. SEOP, the Skanska employee ownership program, helps build pride of ownership among employees and an understanding of how to create value for shareholders. SEOP participation continues to increase year on year, and is now at an all-time high of 31% of all employees.

**Recruitment**

The job market in construction continues to experience strong competition for talent and skills, in turn placing 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 and motivated to deliver high-performing projects and contracts. We welcomed circa 800 new people to the company during 2017, with a headcount at the year-end of 5,800 employees.

**Careers and development**

We have continued to focus on encouraging movement across the Group, as we know that this provides challenging and rewarding development, builds networks and improves collaboration.

We continue to ensure that 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. The Group remains committed to technical training and management development, to ensure the highest levels of employee competence and to equip line managers with the capability to lead and develop others. Our philosophy of development and promoting from within means we are able to grow much of the leadership talent needed for the future. The Skanska Academy sets out our employee development offering and has self-service functionality, placing employees at the centre of their own development. Driving operational excellence through tailored programmes includes training in financial analysis, quality of scrutiny, forecasting and reporting, project management, health and safety, environment and Business Information Modelling. All programmes are designed to improve organisational capabilities in these critical areas.

**Improving through diversity and inclusion**

It is well understood that the construction industry continues to struggle with low levels of diversity. Within the Group we have taken tangible and positive steps to ensure we are attracting, recruiting and retaining people from a larger pool, thereby mirroring the diversity in society. We believe that this helps the Group build relationships with an increasingly diverse customer base, and improves innovation by harnessing the unique experiences and perspectives of all of our employees. We also continue our work on developing a truly inclusive culture, in which every employee can reach their full potential. This is what we refer to as the 'I before the D'. Following the launch of our Global Diversity and Inclusion Vision in 2014, a clear implementation plan has been developed to address historically relatively low levels of diversity, with specific focus on our most under-represented groups: females, ethnic minorities, LGBT and those with disabilities.

**Group Strategic Report (continued)**  
**For The Year Ended 31st December 2017**

We continued to provide support and resources to our employee networks focused on under-represented groups, and our management development and recruitment training encompasses inclusive leadership and unconscious bias training. Many of our projects have a Diversity & Inclusion Action Plan to ensure we keep our people focused on this critical area. We have continued to receive awards and recognition for the work we have done in this area from customers and the industry.

**People engagement**

Maintaining high levels of people engagement has remained a priority during 2017. Once again we have seen a year on year improvement in the engagement and total satisfaction scores from the annual engagement survey, which we re-branded Your Voice, Our Success during 2017 to reflect a more global Skanska outlook. The results continue to benchmark in the upper quartile of all UK companies and on some items reached world-class levels. The 2020 business plan and rearticulated values continue to be embedded across the business in a number of ways, including recruitment and on boarding platforms, companywide conferences, roadshows, development programmes and local communication events. The four rearticulated values; Care for Life, Act Ethically and Transparently, Be Better - Together and Commit to Customers remain at the core of driving engagement across the business. The Executive & Senior Management Teams continued to undertake regular site safety tours, providing the opportunity for our senior leaders to engage with project teams at all levels on business issues, such as wellbeing, ethics, collaboration, and operational efficiencies.

**Awards Won**

- Highways Electrical Association Award - HEA Contracting Supervisor 2017 - Rob Percy
- Commercial Fleet Awards 2017 - Commercial Fleet Manager - Julie Madoui. The Group also highly commended for Commercial Fleet of the Year, Safety and Compliance Award
- CITA Awards 2017 - Best Graduate Scheme
- Federation of Piling Specialists Awards 2017 - Early Career Professional Award for Robert West
- Construction Manager of the Year Awards 2017 - Silver medal for Brian Nunn for his work on The Monument Building in London
- CIPD People Management Awards 2017 - Best Diversity and Inclusion Initiative
- UK Ministry of Defence 2017 Employer Recognition Scheme - Skanska UK - Gold winner
- Fleet News Awards 2017 - Safe Fleet of the Year - Skanska Fleet Services
- Highways England Supplier Recognition Scheme Awards 2017 - Inclusion Award - Skanska

**Market Making**

By understanding the needs of customers, the Group can together with them provide the best solutions. This requires the Group to become more structured and proactive in 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.

During 2017 we set the foundations for a three pronged initiative 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 income)
- Data-driven decisions on markets and customers - Introducing an analytical approach to our future pipeline using Salesforce.

These 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.

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 is increasing 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 helping customers be more successful in their core businesses. This is a procurement route that we increasingly demand during our opportunity selection phase.

**Group Strategic Report (continued)**  
**For The Year Ended 31st December 2017**

**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:

- Federation of Piling Specialists Awards 2017 - Technology Award - 'New rig analytics technology'

**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.

During 2017, we took measures to promote the awareness of modern slavery with a communications and training programme aimed at employees. With reference to the supply chain, measures were taken to extend pre-qualification and audit protocol requirements and to develop modern slavery education and awareness through our external Supply Chain Sustainability School, which now numbers over 27,000 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. It is reviewed and published on an annual basis.

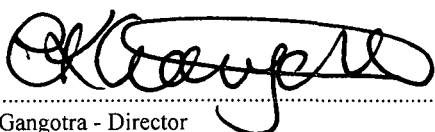
**Market & Outlook**

The market outlook for 2018 into 2019 remains cautious as uncertainty continues to prevail, not only in the construction sector, but also in the wider UK market. The construction market has faced a turbulent time recently but far less so than was expected after the UK voted to leave the EU. Uncertainty has prevailed in the commercial markets with investments stalling for periods of time. However we are beginning to see signs of investors starting construction, encouraged by future demand for commercial office space. Further, the Government has continued to invest in infrastructure and that investment is likely to help the market improve in 2019.

Local and national authorities continue to outsource the maintenance of premises and the roads network. This will continue to provide opportunities for our Building Services and Infrastructure Services businesses. These authorities have a growing demand to generate long term revenues from their property assets (to respond to falling funding from central government).

We have a conservative view for 2018, despite maintaining a good order book level, with one year until the UK leaves the EU the industry is still 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.

**On behalf of the board:**



C K K Gangotra - Director

Date: **28 JUN 2018**



**Directors' Report**  
**For The Year Ended 31st December 2017**

The directors present their report with the financial statements of the Company and the Group for the year ended 31st December 2017.

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**

An interim dividend of £32.7m million (19.82p per share) in respect of the year ended 31st December 2017 was paid to ordinary shareholders on 23rd February 2018.

No dividend was distributed for the year ended 31st December 2016.

**Future developments**

The Group will focus on the Laser Focus Plan set out on page 3 of the Strategic Report.

**Directors**

The directors who have held office during the whole of the period from 1st January 2017 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

Other changes in directors holding office are as follows:

M C Putnam - resigned 8th May 2017  
K M Dowding - appointed 23rd May 2017

**Directors' interests and transactions with directors**

None of the directors at 31st December 2017 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the directors' interests between 31st December 2017 and the date of approving this report. No director during the year had a material interest in any contract significant to the Group's business.

**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 2017 represented 17 days' purchases (2016: 17 days).

**Directors' Report (continued)**  
**For The Year Ended 31st December 2017**

**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.

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 Group is committed to a policy of providing equal opportunities for all, regardless of race, religion, sex or disability. The Group 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 we work, and our customer profile the Group needs to increase the diversity of its workforce in terms of educational and occupational background, gender and ethnicity. Therefore the Group is broadening its recruitment base by attaching greater importance to these issues. In addition, to provide encouragement, support and professional development for women a new Skanska Female Mentoring Programme has started. Furthermore, the Group is in the process of setting up a Diversity Forum, to ensure a wide range of views on these topics are represented, encouraged, aired and responded to appropriately.

The Group 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 Group. This is achieved through formal and informal meetings and in-house publications. Employee 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 scheme showed a deficit of £107.1 million at 31st December 2017, compared with a £97.4 million deficit at the previous year end. The increase in the deficit has been driven by changes in actuarial assumptions. Total contributions paid into the Skanska Pension Fund by the Group was £36.7 million.

**Directors' indemnity provisions**

In accordance with the Companies (Audit, Investigations and Community Enterprise) Act 2004, as at the date of this report, the articles of association contained provisions for third-party qualifying indemnities where the Group has agreed to indemnify the directors in respect of losses arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Group, and this was in force throughout the financial year ended 31st December 2017.

**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.

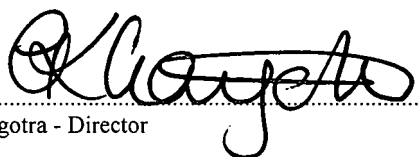
Skanska UK Plc (Registered number: 00784752)

**Directors' Report (continued)**  
**For The Year Ended 31st December 2017**

**Auditors**

In accordance with Section 489 of the Companies Act 2006, the auditors, Ernst and 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: **28 JUN 2018**  
.....

**Statement of Directors' Responsibilities  
For The Year Ended 31st December 2017**

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 2017 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 Cashflows, and the related notes 1 to 34, 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 2017 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.

### **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.

### **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.

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

### **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 10, 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.

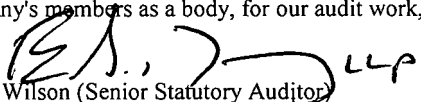
### **Auditor's responsibilities for the audit of the financial statements**

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  
London

**28 JUN 2018**

Date: .....

**Consolidated Statement of Profit or Loss  
For The Year Ended 31st December 2017**

	Notes	2017 £'000	2016 £'000
<b>Continuing operations</b>			
Revenue	3	1,802,714	1,650,581
Cost of sales		<u>(1,724,809)</u>	<u>(1,537,672)</u>
<b>Gross profit</b>		77,905	112,909
Administrative expenses		(90,676)	(90,316)
Profit on disposal of subsidiary		<u>27,374</u>	<u>-</u>
<b>Operating profit</b>		14,603	22,593
Finance costs	5	(3,043)	(26,589)
Finance income	5	<u>1,932</u>	<u>27,643</u>
<b>Profit before income tax</b>	6	13,492	23,647
Income tax credit/(charge)	7	<u>65</u>	<u>(6,579)</u>
<b>Profit for the year</b>		<u><u>13,557</u></u>	<u><u>17,068</u></u>
Profit attributable to: Owners of the parent		<u><u>13,557</u></u>	<u><u>17,068</u></u>

The notes on pages 21 to 55 form part of these financial statements

**Consolidated Statement of Comprehensive Income  
For The Year Ended 31st December 2017**

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Profit for the year</b>	13,557	17,068
<b>Other comprehensive loss</b>		
<b>Items that may not be reclassified subsequently to profit or loss:</b>		
Net actuarial loss on pension scheme	(15,178)	(43,147)
Employees share scheme	942	916
Income tax relating to items of other comprehensive loss	<u>2,581</u>	<u>7,335</u>
	(11,655)	(34,896)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange difference	151	518
Income tax relating to items of other comprehensive profit	<u>-</u>	<u>-</u>
	151	518
<b>Other comprehensive loss for the year, net of income tax</b>	<u>(11,504)</u>	<u>(34,378)</u>
<b>Total comprehensive income/(loss) for the year</b>	<u><u>2,053</u></u>	<u><u>(17,310)</u></u>
<b>Total comprehensive income/(loss) attributable to:</b>		
Owners of the parent	<u><u>2,053</u></u>	<u><u>(17,310)</u></u>



**Consolidated Statement of Financial Position  
As at 31st December 2017**

	Notes	2017 £'000	2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	10	29,821	38,921
Intangible assets	11	3,260	620
Property, plant and equipment	12	20,185	18,128
Deferred tax	24	21,726	18,743
		<u>74,992</u>	<u>76,412</u>
<b>Current assets</b>			
Inventories	14	37,748	123,376
Trade and other receivables	15	481,633	388,717
Tax receivable		3,828	-
Cash and cash equivalents	16	293,671	299,574
		<u>816,880</u>	<u>811,667</u>
<b>Total assets</b>		<u>891,872</u>	<u>888,079</u>
<b>Equity</b>			
<b>Shareholder's equity</b>			
Called up share capital	17	165,000	165,000
Retained earnings	18	96,776	94,723
<b>Total equity</b>		<u>261,776</u>	<u>259,723</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	20	8,722	24,516
Pension liability	25	107,109	97,369
Provisions	23	86,405	57,931
		<u>202,236</u>	<u>179,816</u>
<b>Current liabilities</b>			
Trade and other payables	19	427,785	445,172
Financial liabilities - borrowings			
Interest bearing loans and borrowings	20	75	327
Tax payable		-	3,041
		<u>427,860</u>	<u>448,540</u>
<b>Total liabilities</b>		<u>630,096</u>	<u>628,356</u>
<b>Total equity and liabilities</b>		<u>891,872</u>	<u>888,079</u>

**28 JUN 2018**

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

  
C K K Gangotra - Director

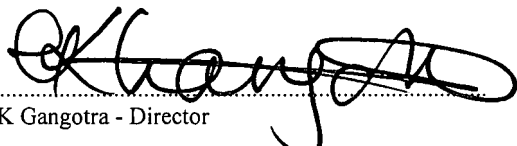
Company Statement of Financial Position  
As at 31st December 2017

	Notes	2017 £'000	2016 £'000 Restated	2015 £'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12	2,933	2,978	3,277
Investments	13	48,046	48,889	50,979
Deferred tax	24	18,799	16,501	13,210
		<u>69,778</u>	<u>68,368</u>	<u>67,466</u>
<b>Current assets</b>				
Trade and other receivables	15	180,007	181,710	175,680
Tax receivable		3,297	4,416	-
Cash and cash equivalents	16	97,096	112,856	94,280
		<u>280,400</u>	<u>298,982</u>	<u>269,960</u>
<b>Total assets</b>		<u>350,178</u>	<u>367,350</u>	<u>337,426</u>
<b>Equity</b>				
<b>Shareholder's equity</b>				
Called up share capital	17	165,000	165,000	165,000
Retained earnings		(138,516)	(124,050)	(87,690)
<b>Total equity</b>		<u>26,484</u>	<u>40,950</u>	<u>77,310</u>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Pension liability	25	102,334	93,950	56,392
<b>Current liabilities</b>				
Trade and other payables	19	221,360	232,450	202,286
Tax payable		-	-	1,438
		<u>221,360</u>	<u>232,450</u>	<u>203,724</u>
<b>Total liabilities</b>		<u>323,694</u>	<u>326,400</u>	<u>260,116</u>
<b>Total equity and liabilities</b>		<u>350,178</u>	<u>367,350</u>	<u>337,426</u>

\* Refer to note 33 for further details

28 JUN 2018

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

  
C K K Gangotra - Director

**Consolidated Statement of Changes in Equity  
For The Year Ended 31st December 2017**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1st January 2016</b>	165,000	112,033	277,033
Profit for the year	-	17,068	17,068
Other comprehensive loss	-	(34,378)	(34,378)
Total comprehensive loss	-	(17,310)	(17,310)
<b>Balance at 31st December 2016</b>	<u>165,000</u>	<u>94,723</u>	<u>259,723</u>
Profit for the year	-	13,557	13,557
Other comprehensive loss	-	(11,504)	(11,504)
Total comprehensive income	-	2,053	2,053
<b>Balance at 31st December 2017</b>	<u>165,000</u>	<u>96,776</u>	<u>261,776</u>

**Company Statement of Changes in Equity  
For The Year Ended 31st December 2017**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1st January 2016</b>	165,000	(87,690)	77,310
Loss for the year	-	(5,200)	(5,200)
Other comprehensive loss	-	(31,160)	(31,160)
<b>Total comprehensive loss</b>	-	(36,360)	(36,360)
<b>Balance at 31st December 2016</b>	165,000	(124,050)	40,950
Loss for the year	-	(4,603)	(4,603)
Other comprehensive loss	-	(9,863)	(9,863)
<b>Total comprehensive loss</b>	-	(14,466)	(14,466)
<b>Balance at 31st December 2017</b>	165,000	(138,516)	26,484

**Consolidated Statement of Cash Flows**  
**For The Year Ended 31st December 2017**

		<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	(7,214)	(23,627)
Interest paid		-	-
Interest element of hire purchase and finance lease			
rental payments paid		(656)	(453)
Finance costs paid		-	-
Tax paid		<u>(1,020)</u>	<u>(2,661)</u>
Net cash from operating activities		<u>(8,890)</u>	<u>(26,741)</u>
<b>Cash flows from investing activities</b>			
Purchase of intangible fixed assets		(3,263)	-
Purchase of tangible fixed assets		(6,778)	(6,051)
Sale of tangible fixed assets		394	369
Proceeds from the disposal of subsidiary undertaking		11,000	-
Interest received		<u>1,932</u>	<u>2,919</u>
Net cash from investing activities		<u>3,285</u>	<u>(2,763)</u>
<b>Cash flows from financing activities</b>			
Capital repayments in year		<u>(298)</u>	<u>(553)</u>
Net cash from financing activities		<u>(298)</u>	<u>(553)</u>
<b>Decrease in cash and cash equivalents</b>		<u>(5,903)</u>	<u>(30,057)</u>
<b>Cash and cash equivalents at beginning of year</b>	30	299,574	329,631
<b>Cash and cash equivalents at end of year</b>	30	<u>293,671</u>	<u>299,574</u>

**Company Statement of Cash Flows**  
**For The Year Ended 31st December 2017**

		<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b> <b>Restated*</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	(19,717)	20,135
Tax received / (paid)		<u>659</u>	<u>(4,627)</u>
Net cash from operating activities		<u>(19,058)</u>	<u>15,508</u>
 <b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		(1,028)	(1,117)
Sale of tangible fixed assets		-	56
Interest received		<u>4,326</u>	<u>4,129</u>
Net cash from investing activities		<u>3,298</u>	<u>3,068</u>
 <b>Decrease in cash and cash equivalents</b>		 (15,760)	 18,576
<b>Cash and cash equivalents at beginning of year</b>	30	<u>112,856</u>	<u>94,280</u>
 <b>Cash and cash equivalents at end of year</b>	30	 <u><u>97,096</u></u>	 <u><u>112,856</u></u>

\* Refer to note 33 for further details.

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2017**

**1. Statutory information**

Skanska UK Plc (the 'Company') is a public limited 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 accounts have been prepared on a going concern basis.

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 13.

**Accounting judgements and estimation uncertainty**

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

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

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

Note 25 contains the principal assumptions underlying the valuation of defined benefit pension liabilities. These assumptions were set on the advice of the schemes' actuaries having regard to current market conditions, past history and factors specific to the scheme.

Goodwill and investments in subsidiary undertakings have been assessed for impairment by comparing their carrying amounts with the present value of the discounted cash flows expected to be generated by the relevant cash-generating units (CGUs) identified in note 10. After recognising the goodwill impairment charge in 2009 and 2017 and reviewing the position at this year end, management does not consider that a reasonably possible change in one or more key assumptions as described in note 10, during the next year could cause the recoverable amount of either CGU to fall significantly below its carrying amount.

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**2. Accounting policies - continued**

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the 'Group') as at 31st December 2017. 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.

**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.



**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**2. Accounting policies - continued**

**New standards and interpretations**

The disclosure requirements in IAS 7 Statement of Cash Flows have changed and now include information on changes in liabilities relating to financing activities. This has no impact for the Group and Company for the year ended 31st December 2017.

IAS 12 Income Taxes has been changed and clarifies that when an entity recognises deferred tax assets it must take into account any limitation on the ability to utilise deductible temporary differences, and provides guidance on how to estimate future taxable profit. This is not expected to have any material effect on the Group's financial statements.

**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 amendments of standards that have not yet begun to be applied**

The future standard IFRS 15 Revenue from Contracts with Customers mainly concerns how revenue from contracts with customers, excluding leases, is to be reported and how payment from customers is to be measured. If a customer contract contains more than one performance obligation, the price for each performance obligation is to be determined and the revenue recognised when the obligation has been satisfied, either over time or at a point in time. The standard will be applied with effect from January 1st, 2018 and was adopted by the EU in October 2016. The Group's customer contracts rarely include multiple performance obligations. Revenue from construction operations will continue to be recognised according to the percentage-of-completion method. The effect of the new standard on the Group's revenue recognition is expected to be marginal.

IFRS 15 requires more detailed disclosures however, the Group intends to implement the standard with full retrospective effect.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement, and will be applied with effect from January 1st, 2018. The standard was adopted by the EU in November 2016. The standard is based more on principles than rules, and contains a new model for classification and measurement of financial instruments, a forward-looking impairment model and a revised approach to hedge accounting. In practice, the model for classification and measurement does not result in any significant changes compared with the current standard. The new impairment model means the standard will bring forward reserves for bad debts. The Group's credit risk arising from trade accounts receivable is limited, since business relating to construction projects is invoiced on an ongoing basis during the course of the project. The effect on the Group's financial reporting is expected to be marginal.

In January 2016, the IASB published the new standard IFRS 16 Leases, which, assuming it is adopted by the EU, will be applied with effect from January 1, 2019. In contrast to the present IAS 17 Leases, the standard means that, as lessee, the Group must report operating leases as well as finance leases in the statement of financial position, unless the lease is short-term or of low value. A preliminary estimate of the effect expects the new standard to be marginal.

**Revenue recognition**

**Construction stream**

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

The principal estimation technique used within the Group in establishing attributable profit on construction and services contracts is on a contract-by-contract basis, focusing on costs to complete and evaluating the final outcome anticipated on that contract. As soon as the outcome of a construction or services contract can be estimated reliably, revenue and expenses are recognised in proportion to the stage of completion of the contract. Stage of completion is measured by the reference to the costs incurred to date as a percentage of the total costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Provision is made for losses incurred on contracts (or foreseen to be incurred) as soon as they become apparent.

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

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

The specific recognition criteria below must also be met before revenue is recognised:

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**2. Accounting policies - continued**

**Rental income**

The Group is the lessor in operating leases. Rental income arising from operating leases on property held by the group is accounted for on a straight line basis over the respective lease term.

Tenant lease incentives, including rent free periods, are recognised as a reduction of rental revenue on a straight line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

**Service charges and other expenses recoverable from tenants**

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are shown gross of the related costs as the directors consider that the Group acts as principal in this respect.

**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.

Intangible assets, other than goodwill, is an 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.

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**2. Accounting policies - continued**

**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:

Long Leasehold	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**

Financial assets and financial liabilities are recognised in the Group and Company statement of financial position when the Group or Company becomes a party to the contractual provisions of the instrument. Trade receivables and other receivables do not carry any interest and are stated at their invoiced value, reduced by appropriate allowances for estimated irrecoverable amounts. Overdrafts are stated at their amortised cost using the effective interest method. Interest is recognised as it accrues using the effective interest method. Trade payables on normal terms are not interest bearing and are stated at their invoiced value.

**Inventories**

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

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

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

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

**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.

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**2. Accounting policies - continued**

**Foreign currencies**

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

**Group companies**

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.

**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.

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

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**2. Accounting policies - continued**

**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**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

**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, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

**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.

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

3. Revenue

	2017 £'000	2016 £'000
Rendering of services	1,797,914	1,649,708
Rental Income	4,800	873
Turnover from continued operations	<u>1,802,714</u>	<u>1,650,581</u>

No revenue was derived from exchange of goods or services (2016 :£nil). Included within rental income is £41k in relation to service charge income.

4. Employees and directors

	2017 £'000	2016 £'000
Wages and salaries	281,722	276,691
Social security costs	32,094	30,404
Other pension costs	38,263	32,048
	<u>352,079</u>	<u>339,143</u>

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

	2017 £'000	2016 £'000
Construction	1,550	1,465
Administration	4,191	4,094
	<u>5,741</u>	<u>5,559</u>

	2017 £	2016 £
Directors' remuneration	<u>3,122,700</u>	<u>2,820,682</u>

Information regarding the highest paid directors is as follows:

	2017 £	2016 £
Emoluments	577,503	724,560
Accrued pension at 31st December	<u>107,245</u>	<u>106,313</u>

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

	2017	2016
Defined contribution schemes	4	5
Defined benefit schemes	<u>6</u>	<u>5</u>

Directors received £20,309 of defined contribution payments during the year ended 31st December 2017.

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

	2017 £'000	2016 £'000
Defined benefit costs	29,139	21,934
Defined contribution costs	<u>10,215</u>	<u>10,114</u>
	<u>39,354</u>	<u>32,048</u>

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 5. Net finance costs

	2017 £'000	2016 £'000
Finance income:		
Bank Interest	1,932	2,919
Interest income on pension scheme assets	<u>-</u>	<u>24,724</u>
	<u>1,932</u>	<u>27,643</u>
Finance costs:		
Finance lease interest	656	453
Interest on pension scheme liabilities	<u>2,387</u>	<u>26,136</u>
	<u>3,043</u>	<u>26,589</u>
Net finance (cost)/income	<u>(1,111)</u>	<u>1,054</u>

## 6. Profit before income tax

	2017 £'000	2016 £'000
<b>Included in cost of sales:</b>		
Depreciation - owned assets	4,328	5,116
Loss on disposal of fixed assets	(371)	-
Other Intangible assets amortisation	623	1,399
Research costs	652	566
Operating lease expense for property and vehicles	24,489	28,628
<b>Included in administrative expenses:</b>		
Impairment of goodwill	9,100	-
Foreign exchange loss	27	-
Audit of Group's consolidated financial statement	5	5
Audit of parent company's financial statement	2	2
Audit of Parent company's subsidiaries and related entities	<u>466</u>	<u>457</u>
Total audit fees	473	464
Audit related services	15	-
Other non-audit service fees	<u>177</u>	<u>5</u>
Total fees paid by group	<u>665</u>	<u>469</u>

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**7. Income tax**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Current Tax		
Current year	(265)	3,513
Adjustments in respect of the prior year	325	(1,189)
Overseas tax current year	278	-
	<u>338</u>	<u>2,324</u>
Total current tax charge		
Deferred Tax		
Current year	(1,528)	1,223
Adjustments in respect of the prior year	1,125	2,152
Impact of change in corporate tax rate	-	880
	<u>(403)</u>	<u>4,255</u>
Total tax (credit)/charge	<u>(65)</u>	<u>6,579</u>
Reconciliation of profits to total tax charge:		
Profit before tax	<u>13,492</u>	<u>23,647</u>
	<u>13,492</u>	<u>23,647</u>
Profit before tax multiplied by standard rate of corporation tax in the UK 19.25% (2016: 20%)	2,597	4,729
Expenses not deductible for tax purposes	534	173
Gain on disposal not subject to tax	(4,884)	963
Adjustment in respect of prior years	1,450	714
Change in rate	238	-
Total tax (credit)/charge	<u>(65)</u>	<u>6,579</u>

**Changes in corporation tax rate**

The UK corporation tax rate reduced from 20% to 19% from April 2017. The rate will reduce to 17% from April 2020. As at the balance sheet date the future tax rate reduction to 17% from April 2020 had been enacted and in accordance with Accounting Statements the impact of this reduction has been reflected in the financial statements as at 31 December 2017.

**8. 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 loss for the financial year was £(4,602,699) (2016: £(5,200,200)).

**9. Construction contracts**

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

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	5,789,944	8,972,143
Advances received	21,131	27,003
Retentions	14,196	18,916



**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**10. Goodwill**

<b>Group</b>	<b>£'000</b>
<b>Cost</b>	
At 1st January 2017	38,921
Impairments	<u>(9,100)</u>
At 31st December 2017	<u>29,821</u>
<b>Net book value</b>	
At 31st December 2017	<u>29,821</u>
At 31st December 2016	<u>38,921</u>

Goodwill is attributable to two cash generating units (CGUs). As part of its laser focus plan and following a review of its sectors and clients, Skanska has reclassified goodwill into two CGUs (2016: 1 CGU) and made an impairment adjustment of £9.1 million in the year ended 31 December 2017 relating to one of those.

**Key assumptions used in value in use calculations and sensitivity to changes in assumptions.**

The calculation of value in use is most sensitive to the following assumptions:

- Discount rates
- Growth rates used to extrapolate cash flows beyond the forecast period

Discount rates - Discount rates represent the current market assessment of the risks specific to the CGUs, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is equivalent to its weighted average cost of capital (WACC).

Growth rate estimates - Rates are based on published industry research.

The recoverable amount of the CGUs as at 31st December 2017, has been determined based on a value in use calculation using cash flows from senior management approved financial budgets covering a 3 year period and then projected into perpetuity. This forecast period reflects the durable nature of the brands acquired, both of which have been trading for over 70 years. The discount rate applied to cash flow projections is 7% (2016: 9%) and cash flows beyond the three-year period are extrapolated using a 1.5% growth rate (2016: 2.5%). It was concluded that the fair value less costs of disposal exceeded the value in use.

**11. Intangible assets**

	<b>Group Other Intangible assets £'000</b>
<b>Cost</b>	
At 1st January 2017	7,354
Additions	<u>3,263</u>
At 31st December 2017	<u>10,617</u>
<b>Amortisation</b>	
At 1st January 2017	6,734
Amortisation for year	<u>623</u>
At 31st December 2017	<u>7,357</u>
<b>Net book value</b>	
At 31st December 2017	<u>3,260</u>
At 31st December 2016	<u>620</u>

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 11. Intangible assets - continued

## Group

Intangible assets include assets purchased externally.

## 12. Property, plant and equipment

## Group

	Freehold property £'000	Long leasehold £'000	Plant and machinery £'000	Totals £'000
<b>Cost</b>				
At 1st January 2017	97	6,614	61,632	68,343
Additions	-	-	6,778	6,778
Disposals	-	(657)	(4,792)	(5,449)
At 31st December 2017	<u>97</u>	<u>5,957</u>	<u>63,618</u>	<u>69,672</u>
<b>Depreciation</b>				
At 1st January 2017	-	4,983	45,232	50,215
Charge for year	-	75	4,253	4,328
Eliminated on disposal	-	(656)	(4,400)	(5,056)
At 31st December 2017	<u>-</u>	<u>4,402</u>	<u>45,085</u>	<u>49,487</u>
<b>Net book value</b>				
At 31st December 2017	<u>97</u>	<u>1,555</u>	<u>18,533</u>	<u>20,185</u>
At 31st December 2016	<u>97</u>	<u>1,631</u>	<u>16,400</u>	<u>18,128</u>

## Company

	Long leasehold £'000	Plant and machinery £'000	Totals £'000
<b>Cost</b>			
At 1st January 2017	5,841	15,647	21,488
Additions	-	1,028	1,028
At 31st December 2017	<u>5,841</u>	<u>16,675</u>	<u>22,516</u>
<b>Depreciation</b>			
At 1st January 2017	4,232	14,278	18,510
Charge for year	63	1,010	1,073
At 31st December 2017	<u>4,295</u>	<u>15,288</u>	<u>19,583</u>
<b>Net book value</b>			
At 31st December 2017	<u>1,546</u>	<u>1,387</u>	<u>2,933</u>
At 31st December 2016	<u>1,609</u>	<u>1,369</u>	<u>2,978</u>

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

12. **Property, plant and equipment - continued**

**Group & Company**

The carrying value of motor vehicles held under hire purchase contracts at 31st December 2017 was £836,000 (2016: £1,082,000).

13. **Investments**

**Company**

	<b>Shares in group undertakings £'000</b>
<b>Cost</b>	
At 1st January 2017	
and 31st December 2017	<u>88,935</u>
<b>Provisions</b>	
At 1st January 2017	40,046
Provision for the year	<u>843</u>
At 31st December 2017	<u>40,889</u>
<b>Net book value</b>	
At 31st December 2017	<u>48,046</u>
At 31st December 2016	<u>48,889</u>

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**13. Investments - continued**

**Company**

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. 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\*\*  
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 Technology Ltd  
Skanska Construction (Regions) Ltd  
Trollope & Colls Ltd  
Skanska Construction Services Ltd  
Skanska Trusteeships Ltd\*\*\*\*

The following subsidiaries are 100% indirectly owned with the exception of Skanska ESS Construction HB which is 25% owned.

Cementation Skanska Ltd  
Cementation Skanska Ireland Ltd  
Clark & Fenn Skanska Ltd  
Hector JWH Ltd  
Skanska J.V. Projects Ltd  
Skanska Major Projects Ltd  
Skanska MGT Ltd (In liquidation)\*\*\*\*  
MG Telecomunicatti SRL\*\*\*\*  
Skanska Rashleigh Weatherfoil Ltd  
Skanska Utilities Ltd  
UIS Plant Services Ltd  
66 Queen Square Ltd\*  
SPD Bentley Ltd\*  
SPDL (Monument) Ltd\*  
SPD Moorgate Ltd\*  
SPD Templegate Ltd\*\*  
SPD Engine Shed 2 Ltd\*\*  
SPD Temple Circus Ltd\*\*  
Skanska Construction Services Trustee Ltd\*\*\*\*  
Skanska TAM Ltd\*\*\*\*  
Skanska ESS Construction HB

On 21st December 2017, the company SPDL (Monument) Ltd's owner Skanska Project Development Ltd, entered into a sale and purchase agreement with a third party Monument Building Holdings S.A.R.L., for the sale of the entire issued share capital. At 31<sup>st</sup> December 2017, all conditions of the sale had been met and the sale had been recognised. The final transaction completed on 26th February 2018.

The following Companies are exempt from publishing audited accounts under Section 479A of the Companies Act 2006;  
Trollope & Colls Ltd - registration: 00079287, UIS Plant Services Ltd - registration: 00752550, Skanska Construction Regions Ltd - registration: 00225316 and Hector JWH Ltd - registration: 06009058.

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 14. Inventories

	Group	
	2017	2016
	£'000	£'000
Stocks	4,834	7,409
Properties	32,914	115,967
	<u>37,748</u>	<u>123,376</u>

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31st December 2017 was £nil (2016: £298,689). The rate used to determine the amount of borrowing costs eligible for capitalisation was based on the interest charged on the bank overdraft being the interbank rate plus 1.3%.

Finance leases

The carrying value of properties held under a finance lease at 31st December 2017 was £29,545,000 (2016: £108,121,000).

## 15. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Current:				
Trade receivables	79,962	105,488	-	-
Amounts owed by fellow undertakings	88,878	91,538	159,962	156,527
Amounts recoverable on contract	171,878	136,042	5,601	6,931
Other receivables	127,235	25,271	12,872	14,519
Prepayments and accrued income	13,680	30,378	1,572	3,733
	<u>481,633</u>	<u>388,717</u>	<u>180,007</u>	<u>181,710</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. As at 31 December 2017, trade receivables with an initial carrying value of £313,700 (2016: £112,000) were impaired and fully provided for.

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

Total	Unclassified	Current	0-30 days	31-60 days	61-90 days	91-120 days	121-150 days	151+ days
79,962	8,713	40,265	7,251	1,958	3,973	419	241	17,142

The amounts due after 151 days relate to retentions receivable.

## 16. Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank accounts	<u>293,671</u>	<u>299,574</u>	<u>97,096</u>	<u>112,856</u>

\*Refer to note 33 for further details.

Included in this total is £58,170,000 restricted cash held in joint arrangements (2016: £49,611,000).

17. **Called up share capital**

**Authorised and issued share capital:**

<b>Number:</b>	<b>Class:</b>	<b>Nominal value:</b>	<b>2017 £</b>	<b>2016 £</b>
3,300,000,000	Ordinary	£0.05	165,000,000	165,000,000

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 18. Reserves

## Group

Retained  
earnings  
£'000

At 1st January 2017	94,723
Profit for the year	13,557
Net actuarial loss on defined pension schemes	(15,178)
Foreign exchange gain	151
Employee share award scheme	942
Income tax relating to items of other comprehensive income	<u>2,581</u>
At 31st December 2017	<u>96,776</u>

## 19. Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000 Restated*
Current:				
Payments on account	105,953	112,008	832	729
Trade payables	59,562	55,859	1,374	1,249
Amounts owed to fellow undertakings	-	24	192,962	199,572
Other payables	29,874	37,627	12,769	16,389
Accruals and deferred income	<u>232,396</u>	<u>239,654</u>	<u>13,423</u>	<u>14,511</u>
	<u>427,785</u>	<u>445,172</u>	<u>221,360</u>	<u>232,450</u>

\*Refer to note 33 for further details.

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables are non-interest bearing and have an average term of six months.
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions with related parties, refer to Note 28.
- For explanations on the group's liquidity risk management process, refer to note 22.

## 20. Financial liabilities - borrowings

	Group	
	2017 £'000	2016 £'000
Current:		
Hire purchase contracts (see note 21)	55	298
Finance leases (see note 21)	<u>20</u>	<u>29</u>
	<u>75</u>	<u>327</u>
Non-current:		
Hire purchase contracts (see note 21)	522	577
Finance leases (see note 21)	<u>8,200</u>	<u>23,939</u>
	<u>8,722</u>	<u>24,516</u>

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 20. Financial liabilities - borrowings - continued

Group terms and debt repayment schedule

## 2017

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Totals £'000
Hire purchase contracts	55	493	29	-	577
Finance leases	<u>20</u>	<u>21</u>	<u>63</u>	<u>8,116</u>	<u>8,220</u>
	<u>75</u>	<u>514</u>	<u>92</u>	<u>8,116</u>	<u>8,797</u>

## 2016

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Totals £'000
Hire purchase contracts	298	302	275	-	875
Finance leases	<u>29</u>	<u>30</u>	<u>93</u>	<u>23,816</u>	<u>23,968</u>
	<u>327</u>	<u>332</u>	<u>368</u>	<u>23,816</u>	<u>24,843</u>

## 21. Leasing agreements

Minimum lease payments fall due as follows:

## Group

	Hire purchase contracts		Finance leases	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Gross obligations repayable:				
Within one year	68	366	250	700
Between one and five years	641	709	1,000	2,800
In more than five years	<u>-</u>	<u>-</u>	<u>21,990</u>	<u>87,160</u>
	<u>709</u>	<u>1,075</u>	<u>23,240</u>	<u>90,660</u>
Finance charges repayable:				
Within one year	13	68	230	671
Between one and five years	119	132	916	2,677
In more than five years	<u>-</u>	<u>-</u>	<u>13,874</u>	<u>63,344</u>
	<u>132</u>	<u>200</u>	<u>15,020</u>	<u>66,692</u>
Net obligations repayable:				
Within one year	55	298	20	29
Between one and five years	522	577	84	123
In more than five years	<u>-</u>	<u>-</u>	<u>8,116</u>	<u>23,816</u>
	<u>577</u>	<u>875</u>	<u>8,220</u>	<u>23,968</u>

## Finance leases

Moorgate

The finance lease has a remaining life of 93 years and a payment of £250,000 per annum.



**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**21. Leasing agreements - continued**

**Monument**

As at 31 December 2016, the Group held a lease arrangement for a long term lease of 150 years. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 December 2017 is £nil (2016: £26,994,000).

	2017 £'000	2016 £'000
Not later than one year	-	1,339
After one year but no more than five years	-	10,399
After five years	-	15,256
	<u>-</u>	<u>26,994</u>

**Operating Leases**

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Within one year	19,422	15,445	12,278	12,884
Between one and five years	43,728	27,046	25,012	26,000
In more than five years	21,970	18,531	16,947	18,531
	<u>85,120</u>	<u>61,022</u>	<u>54,237</u>	<u>57,415</u>

The Group and Company has entered into operating leases on certain motor vehicles with lease terms between three and five years. The Group and Company has entered into operating leases on certain properties with lease terms up to 18 years.

**22. Financial instruments**

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

**Credit risk**

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

**Interest rate risk**

The Group and Company do not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. As part of arrangements with 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 2017, the Group had cash and cash equivalents totalling £293,671,000 (2016: £299,574,000) and no debt. Included in this total is £58,170,000 restricted cash held in Joint arrangements (2016: £49,611,000).

**Effective interest rates and maturity analysis**

As at 31st December 2017, income-earning financial assets of the Group comprised cash and cash equivalents totalling £293,671,000 (2016: £299,574,000) and of the Company £97,096,000 (2016: £112,856,000). Interest is earned on net cash balances at floating rates linked to the Swedish base rate. The Group has no overdraft or bank debt.

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

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.

22. Financial instruments - continued

Sensitivity analysis

At 31st December 2017 and 31st December 2016, 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.

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 22. Financial instruments - continued

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000 Restated*
<b>Loans and receivables</b>				
Amounts recoverable on contracts	171,878	136,042	5,601	6,931
Trade receivables	79,962	105,488	-	-
Amounts owed by fellow group undertakings	88,878	91,538	159,962	156,527
Other receivables	127,235	25,271	12,872	14,519
<b>Financial assets</b>				
Cash and cash equivalents	293,671	299,574	97,096	112,856
<b>Total financial assets</b>	<u>761,624</u>	<u>657,913</u>	<u>275,531</u>	<u>290,833</u>
<b>Financial liabilities</b>				
Payments received on account	(105,953)	(112,008)	(832)	(729)
Trade payables	(59,562)	(55,859)	(1,374)	(1,249)
Amounts owed to fellow group undertakings	-	(24)	(192,962)	(199,572)
Other payables	(29,874)	(37,627)	(12,769)	(16,389)
<b>Total financial liabilities</b>	<u>(195,389)</u>	<u>(205,518)</u>	<u>(207,937)</u>	<u>(217,939)</u>

\*Refer to note 33 for further details.

**Maturity analysis for non-derivative financial liabilities**

	On demand £'000	Less than 3 months £'000	More Than 3 months £'000
<b>Year ended 31 December 2017</b>			
Trade and other payables (Group)	-	56,671	32,765
Trade and other payables (Company)	-	14,143	-
<b>Year ended 31 December 2016</b>			
Trade and other payables (Group)	-	67,287	26,199
Trade and other payables (Company)	-	17,638	-

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

**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 2017 and 2016.

	2017 £'000	2016 £'000
Trade and other payables	427,785	445,172
Less: cash and short-term deposits	(293,671)	(299,574)
Net deficit/ (surplus)	<u>134,114</u>	<u>145,598</u>
Shareholders' equity	261,776	259,723
Capital and net debt	395,890	405,321
Gearing ratio %	33.9	35.9

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 23. Provisions

	Forward loss on contracts £'000	Warranty £'000	Other £'000	Total £'000
<b>2017</b>				
At 1 January 2017	10,437	44,936	2,558	57,931
Released in year	(8,889)	-	(4)	(8,893)
Created in year	43,273	47,406	3,485	94,164
Utilised	(8,481)	(47,666)	(650)	(56,797)
At 31 December 2017	<u>36,340</u>	<u>44,676</u>	<u>5,389</u>	<u>86,405</u>
<b>2016</b>				
At 1 January 2016	18,958	34,224	3,989	57,171
Released in year	(29,930)	(3,134)	(284)	(33,348)
Created in year	29,681	41,259	1,454	72,394
Reclassification	(482)	482	-	-
Utilised	(7,790)	(27,895)	(2,601)	(38,286)
At 31 December 2016	<u>10,437</u>	<u>44,936</u>	<u>2,558</u>	<u>57,931</u>

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 were made in the normal course of our business together with provisions for our legacy PFI portfolio were created during the year.

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.

## 24. Deferred tax

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Accelerated Capital Allowances	1,510	627	588	403
Deferred tax on pension liability	18,209	16,824	17,397	15,971
Unrelieved trading losses	2,368	601	707	-
Other	(361)	691	107	127
Total	<u>21,726</u>	<u>18,743</u>	<u>18,799</u>	<u>16,501</u>
Asset at start of period	18,743	15,663	16,501	13,210
Deferred tax movement in P&L	403	(4,255)	224	(3,279)
Deferred tax direct to equity	<u>2,580</u>	<u>7,335</u>	<u>2,074</u>	<u>6,570</u>
Total	<u>21,726</u>	<u>18,743</u>	<u>18,799</u>	<u>16,501</u>

**Changes in corporation tax rate**

The UK corporation tax rate reduced from 20% to 19% from April 2017. The rate will reduce to 17% from April 2020. As at the balance sheet date the future tax rate reduction to 17% from April 2020 had been enacted and in accordance with Accounting Statements the impact of this reduction has been reflected in the financial statements as at 31st December 2017.

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.

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

25. 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 feel 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 feel that there is an unconditional right of refund and therefore if there is a pension surplus this will be recognised in the accounts.

(a) The Skanska Pension Fund

The Group, in its capacity as employer, participates in The Skanska Pension Fund, which includes a defined benefit section and a defined contribution section. The assets of the Fund are held separately under management from those of the Group and are invested by the trustee, having taken appropriate investment advice. As at 31st December 2017, in accordance with the fund rules, there were no outstanding contributions. The pension contributions are set by the Trustees of The Skanska Pension Fund based on the advice of the fund actuary and after consultation with Skanska UK Plc management. Total contributions paid during the year by the Group (excluding employee contributions) were £36,697,000 (2016: £24,609,000). Ultimately the contributions are met by the particular group company for which the employees are working. The Group expects to contribute approximately £17.6 million to the Fund in the next financial year.

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

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

The 31 December 2017 valuation is an update of the actuarial valuation at 31st March 2013 but uses a lower rate of return on assets to discount the scheme liabilities.

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

	2017	2016	2015	2014
	(%)	(%)	(%)	(%)
Inflation	3.25	3.25	3.00	3.00
Rate of increase of salaries	3.50	3.50	3.50	3.50
Rate of increase of pension	3.05	3.15	3.15	3.15
Rate of increase for deferred pension	2.25	2.25	2.25	2.25
Pre and post retirement rates to discount scheme liabilities	2.50	2.75	3.75	3.75

Life expectancy after age 65 is 24 years for men and 25 years for women (2016: 24 years for men and 25 for women).

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 25. Employee benefit obligation - continued...

The financial position of the fund based on the above assumptions

	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Scheme Liabilities	(856,844)	(786,400)	(637,072)	(611,889)
Scheme assets	<u>754,510</u>	<u>692,450</u>	<u>580,680</u>	<u>565,470</u>
Total (deficit)	(102,334)	(93,950)	(56,392)	(46,419)
Related deferred tax asset	<u>17,397</u>	<u>15,972</u>	<u>9,326</u>	<u>8,122</u>
Net pension(liability)	<u>(84,937)</u>	<u>(77,978)</u>	<u>(47,066)</u>	<u>(38,297)</u>

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

	Valuation of assets		Expected return	
	2017 £'000	2016 £'000	2017 %	2016 %
Quoted UK equity	75,785	67,419	2.50	2.75
Quoted overseas equity	194,875	165,061	2.50	2.75
Quoted gilts fixed	19,080	22,793	2.50	2.75
Quoted gilts index linked	16,920	19,417	2.50	2.75
Quoted UK corporate bonds fixed	101,937	94,313	2.50	2.75
Quoted UK corporate bonds index linked	90,397	80,341	2.50	2.75
Quoted overseas corporate bonds fixed	38,216	29,277	2.50	2.75
Quoted overseas corporate bonds index linked	33,890	24,939	2.50	2.75
Quoted hedge funds	13	42,400	2.50	2.75
Cash	13,690	9,370	2.50	2.75
Infrastructure assets	92,677	90,600	2.50	2.75
Freehold property*	16,170	16,170	2.50	2.75
Other	<u>60,860</u>	<u>30,350</u>	<u>2.50</u>	<u>2.75</u>
Total	<u>754,510</u>	<u>692,450</u>	<u>2.50</u>	<u>2.75</u>

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

	2017 £'000	2016 £'000
Actual return on fund assets	<u>47,639</u>	<u>107,899</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 the profit or loss

	2017 £'000	2016 £'000
Current service cost	29,482	20,685
Employee contribution	(343)	(328)
Total operating charge	<u>29,139</u>	<u>20,357</u>

Analysis of the amount charged to Other Finance Cost

	2017 £'000	2016 £'000
Expected return on pension scheme assets	19,059	22,077
Interest on pension liabilities	(21,352)	(23,556)
Net finance return	<u>(2,293)</u>	<u>(1,479)</u>

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

## 25. Employee benefit obligation - continued...

Analysis of amount recognised in Statement of Comprehensive Income

	2017 £'000	2016 £'000
Actual return less expected return on assets	28,580	85,822
Experience gains and losses on liabilities	1,482	26,274
Changes in demographic assumptions	224	10,842
Changes in financial assumptions	(42,486)	(161,584)
Actuarial loss recognised in statement of comprehensive income	<u>(12,200)</u>	<u>(38,646)</u>

Cumulative loss recognised in statement of comprehensive income	<u>(223,948)</u>	<u>(211,748)</u>
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Movement in the present value of defined benefit obligation

Present value of obligation 1st January	786,400	637,072
Service cost	29,482	20,685
Interest cost	21,352	23,556
Benefits paid	(21,170)	(19,381)
Actuarial losses	40,780	124,468
Obligation at 31st December	<u>856,844</u>	<u>786,400</u>

Changes in fair value of fund assets

Fair value of plan assets, 1st January	692,450	580,680
Expected return on fund assets	19,059	22,077
Employer contribution	36,697	24,609
Member contribution	343	328
Benefits paid	(21,170)	(19,381)
Administrative expenses	(1,449)	(1,685)
Actuarial gains	28,580	85,822
Fair value at 31st December	<u>754,510</u>	<u>692,450</u>

Scheme deficit	<u>(102,334)</u>	<u>(93,950)</u>
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History of experience gains and losses:

	2017	2016	2015	2014
Difference between expected and actual return on scheme assets £'000:	28,580	85,822	5,327	38,100
Percentage of scheme assets %	<u>3.8</u>	<u>12.4</u>	<u>0.9</u>	<u>6.7</u>
Experience gains and losses on scheme liabilities £'000:	1,482	26,274	(23,707)	(78,710)
Percentage of scheme liabilities %	<u>0.2</u>	<u>3.3</u>	<u>(3.7)</u>	<u>(12.9)</u>
Total amount recognised in statement of comprehensive income £'000:	(12,200)	(38,646)	(18,380)	(40,610)
Percentage of scheme liabilities %	<u>(1.4)</u>	<u>(4.9)</u>	<u>(2.9)</u>	<u>(6.6)</u>

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**25. Employee benefit obligation - continued...****Sensitivity Analysis**

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

	2017 £'000	2016 £'000
Total pension liability at 31st December	856,844	786,400
Estimated decrease in pension liability if discount rate increases by 0.25%	(42,199)	(38,196)
Estimated increase in pension liability if discount rate decreases by 0.25%	45,482	41,137
Estimated increase in pension liability if inflation rate increases by 0.25%	29,057	28,897
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(28,603)	(27,479)

**(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 2017, 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 £3.6 million to the plan in the next financial year.

The following valuation is an update of the actuary's valuation at 5th April 2010. The actuarial valuation in accordance with IAS 19 used the projected unit actuarial valuation based on the following assumptions:

	2017	2016	2015	2014
Inflation	3.25	3.25	3.00	3.00
Rate of increase of salaries	3.50	3.50	3.50	3.50
Rate of increase of pension	3.25	3.00	3.15	3.15
Pre-and post-retirement rate to discount scheme liabilities	2.50	2.75	3.75	3.75

Life expectancy after age 65 is 22 years (2016: 22 years) for men and 24 years (2016: 24 years) for women.

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

	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Scheme liabilities	(73,963)	(65,600)	(52,423)	(49,502)
Scheme assets	69,432	62,931	51,954	48,182
Scheme deficit	(4,531)	(2,669)	(469)	(1,320)

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

	Valuation of assets 2017 £'000	Valuation of assets 2016 £'000	Expected return 2017 %	Expected return 2016 %
Quoted government bonds	69,432	62,931	2.50	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 - continued  
For The Year Ended 31st December 2017

25. Employee benefit obligation - continued...

Analysis of the amount charged to profit or loss

	2017	2016
	£'000	£'000
Current service cost	2,502	2,028
Employee contribution	(467)	(451)
Total operating charge	<u>2,035</u>	<u>1,577</u>

Analysis of amount charged to Other Finance Cost

	2017	2016
	£'000	£'000
Expected return on pension scheme assets	1,735	2,006
Interest on pension liabilities	(1,813)	(1,965)
Net finance return	<u>(78)</u>	<u>41</u>

Analysis of amount recognised in statement of comprehensive income

	2017	2016
	£'000	£'000
Actual return less expected return on assets	1,947	6,494
Experience gains and losses on liabilities	(1,417)	1,061
Changes in financial assumptions	(3,656)	(11,226)
Actuarial loss recognised in statement of comprehensive income	<u>(3,126)</u>	<u>(3,671)</u>

Cumulative loss recognised in statement of comprehensive income

	<u>(14,261)</u>	<u>(11,135)</u>
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Movement in the present value of defined benefit obligation:

	2017	2016
	£'000	£'000
Present value of obligation, 1st January	65,600	52,423
Service cost	2,502	2,028
Interest cost	1,813	1,965
Benefits paid	(1,025)	(981)
Actuarial losses	<u>5,073</u>	<u>10,165</u>
Closing balance, 31st December	<u>73,963</u>	<u>65,600</u>

Changes in the fair value of plan assets:

	2017	2016
	£'000	£'000
Fair value of plan assets, 1st January	62,931	51,954
Expected return on plan assets	1,735	2,006
Company contribution	3,577	3,207
Employee contributions	467	451
Benefits paid	(1,025)	(981)
Administrative expenses	(200)	(200)
Actuarial gains	<u>1,947</u>	<u>6,494</u>
Closing balance, 31st December	<u>69,432</u>	<u>62,931</u>

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

25. Employee benefit obligation - continued...

History of experience gains and losses

	2017	2016	2015	2014
Amount (£'000)	1,947	6,494	(1,613)	1,228
Percentage of scheme assets (%)	3%	10%	(3%)	3%
Experience gains and losses on scheme liabilities:				
Amount (£'000)	(1,417)	(1,061)	1,052	395
Percentage of scheme liabilities (%)	(2%)	(2%)	2%	1%
Total amount recognised in statement of comprehensive income:				
Amount (£'000)	(3,126)	(3,671)	(561)	(5,393)
Percentage of scheme liabilities (%)	(4%)	(6%)	(1%)	(11%)

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

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

	2017 £'000	2016 £'000
Total pension liability at 31st December	73,963	65,600
Estimated decrease in pension liability if discount rate increases by 0.25%	(3,655)	(3,020)
Estimated increase in pension liability if discount rate decreases by 0.25%	3,919	3,226
Estimated increase in pension liability if inflation rate increases by 0.25%	3,843	3,168
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(3,604)	(2,982)

(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 2017, 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 expects to contribute approximately £0.4 million to the plan in the next financial year.

For The McNicholas Plc Retirement Benefit Scheme the group believes there is not a 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).

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

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

	2017 (%)	2016 (%)	2015 (%)	2014 (%)
Inflation	3.25	3.25	3.00	3.00
Rate of increase of salaries	3.50	2.25	3.50	3.50
Rate of increase of pension	3.25	3.00	3.15	3.15
Rate of increase for deferred pensions	3.25	2.25	2.25	2.25
Pre-and post-retirement rate to discount scheme liabilities	2.50	2.75	3.75	3.75

Life expectancy after age 65 is 23 years (2016: 23 years) for men and 25 years (2016: 25 years) for women.

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

	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Scheme liabilities	(21,210)	(20,917)	(16,472)	(15,206)
Scheme assets	20,966	20,167	17,133	16,497
Less asset ceiling provision	-	-	(661)	(1,291)
Pension (deficit)	(244)	(750)	-	-

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017**25. Employee benefit obligation - continued...**

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

	Valuation of assets 2017 £'000	Valuation of assets 2016 £'000	Expected return 2017 %	Expected return 2016 %
Quoted bonds	20,966	20,167	2.50	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.

Analysis of the amount charged to profit or loss.

	2017 £'000	2016 £'000
Current service cost	-	-
Analysis of amount charged to Other Finance Cost		
Expected return on pension scheme assets	550	641
Interest on pension liabilities	(566)	(615)
Net finance return	(16)	26

Analysis of amount recognised in statement of comprehensive income

	2017 £'000	2016 £'000
Actual return less expected return on assets	575	3,068
Experience gains and losses on liabilities	605	80
Changes in demographic assumptions	(1,138)	-
Changes in financial assumptions	106	(4,298)
Actuarial (loss)/gain recognised in statement of comprehensive income	148	(1,150)
Cumulative post acquisition gain recognised in statement of comprehensive income	2,895	2,747

Movement in the present value of defined benefit obligation:

	2017 £'000	2016 £'000
Present value of obligation, 1st January	20,917	16,472
Interest cost	566	615
Benefits paid	(700)	(388)
Actuarial loss	427	4,218
Closing balance, 31st December	21,210	20,917

Changes in the fair value of plan assets:

	2017 £'000	2016 £'000
Fair value of plan assets, 1st January	20,167	16,472
Expected return on plan assets	550	641
Employer contributions	374	374
Benefits paid	(700)	(388)
Actuarial gains	575	2,407
Provision for asset ceiling	-	661
Closing balance, 31st December	20,966	20,167

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

25. Employee benefit obligation - continued...

History of experience gains and losses

	2017	2016	2015	2014
Difference between expected and actual return on scheme assets:				
Amount (£'000)	575	2,407	1,322	2,920
Percentage of scheme assets	3%	12%	8%	18%
Experience gains and losses on scheme liabilities:				
Amount (£'000)	605	80	(1,011)	(2,095)
Percentage of scheme liabilities	3%	4%	(6%)	(14%)
Total amount recognised in statement of comprehensive income:				
Amount (£'000)	148	(1,150)	265	825
Percentage of scheme liabilities	1%	(5%)	2%	5%

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

	2017 £'000	2016 £'000
Total pension liability at 31st December	21,210	20,917
Estimated decrease in pension liability if discount rate increases by 0.25%	(1,139)	(1,134)
Estimated increase in pension liability if discount rate decreases by 0.25%	1,220	1,213
Estimated increase in pension liability if inflation rate increases by 0.25%	940	952
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(884)	(895)

26. 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.

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

27. 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 £2,112,630,000 (2016: £1,254,147,000).

28. Related party disclosures

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

**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.

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

28. Related party disclosures

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 £'000		Amount owed to or by Skanska UK Plc at year end £'000	
			2017	2016	2017	2016
Skanska AB	Ultimate parent company of Skanska UK Plc	Skanska AB provides management services to Skanska UK Plc	3,824	3,328	1,927	1,596
Skanska AB	Ultimate parent company of Skanska UK Plc	Skanska AB receives management services from Skanska UK Plc	2,188	1,890	178	930
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	22	22	14	-
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	1,451	1,452	370	-
Skanska Infrastructure Development UK Limited	Fellow group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc provides HR and finance services to Skanska Infrastructure Development UK Limited	484	358	22	25

Notes to the Consolidated Financial Statements - continued  
For The Year Ended 31st December 2017

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

	2017 £'000	2016 £'000
Profit before income tax	13,492	23,647
Depreciation	4,328	5,116
Amortisation of intangibles	623	1,399
Goodwill impairment	9,100	-
Increase in provisions	28,474	760
Employee ownership scheme	942	916
Pension service cost	31,174	21,934
Pension company contribution	(38,999)	(26,305)
Finance costs	3,043	26,589
Finance income	(1,932)	(27,643)
	50,245	26,413
Increase in inventories	2,283	(16,268)
(Increase)/decrease in trade and other receivables	(42,324)	29,599
Decrease in trade and other payables	(17,418)	(63,371)
<b>Cash generated from operations</b>	<b>(7,214)</b>	<b>(23,627)</b>

Company

	2017 £'000	2016 £'000 Restated*
Loss before income tax	(5,046)	(3,148)
Depreciation charges	1,073	1,360
Increase in investment provision	843	2,090
Employee share ownership	942	916
Pension Service Cost	29,139	20,357
Pension company contribution	(35,248)	(22,924)
Finance costs	2,293	23,556
Finance income	(4,326)	(26,206)
	(10,330)	(3,999)
Increase/(decrease) in trade and other receivables	1,703	(6,030)
(Decrease)/increase in trade and other payables	(11,090)	30,164
<b>Cash generated from operations</b>	<b>(19,717)</b>	<b>20,135</b>

\*Refer to note 33 for further details

30. Cash and cash equivalents

The amounts disclosed on the Statements of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

	Group		Company	
<b>Year ended 31st December 2017</b>	31/12/17 £'000	1/1/17 £'000	31/12/17 £'000	1/1/17 £'000
Cash and cash equivalents	<u>293,671</u>	<u>299,574</u>	<u>97,096</u>	<u>112,856</u>
<b>Year ended 31st December 2016</b>	31/12/16 £'000	1/1/16 £'000	31/12/16 £'000 Restated*	1/1/16 £'000
Cash and cash equivalents	<u>299,574</u>	<u>329,631</u>	<u>112,856</u>	<u>94,280</u>

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**30. Cash and cash equivalents - continued...**

\* Refer to note 33 for further details.

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash at bank and in hand.

**31. 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
<b>Skanska Construction UK Limited</b>			
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	1,6	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%
tRiIO	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%
<b>Cementation Skanska Limited</b>			
Cementation Skanska Balfour Betty	1,3	Balfour Beatty Ground Engineering	50%
Ground Engineering Joint Venture			
Cementation Skanska Zublin JV	1,4	ED Zublin AG (UK Branch)	50%
<b>Skanska J.V. Projects Limited</b>			
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 Pavilion 2, Ashwood Park, Ashwood Way, Basingstoke, Hampshire, RG23 8BG
- 4 Albstadtweg 3, D-70567 Stuttgart, Germany
- 5 5 Churchill Place, Canary Wharf, London, E14 5HU
- 6 Buckingham Court, Kingsmead Business Park, High Wycombe, Buckinghamshire, HP11 1JU
- 7 Meldon, Chenies Road, Chorleywood, Hertfordshire, WD3 5LY
- 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

**Notes to the Consolidated Financial Statements - continued**  
**For The Year Ended 31st December 2017**

**32. Skanska employee ownership program (SEOP)**

The purpose of the SEOP is to strengthen the Group's (Skanska AB) ability to retain and recruit qualified personnel and to align employees more closely to the company and its shareholders. The program provides employees with the opportunity to invest in Skanska shares while receiving incentives in the form of possible allotment of additional shares.

This allotment is predominately performance-based. Shares are only allotted after a three-year vesting period. To be able to earn matching shares and performance shares, a person must be employed during the entire lock-up period and have retained the shares purchased within the framework of the program. Under SEOP 3, which ran during the period 2014-2016, matching shares and performance shares were allotted in 2017 for the shares in which employees had invested in 2014 and which they had retained for the three-year lock-up period.

In 2017, SEOP 4 continued, running for the period 2017 – 2019, SEOP 4 is essentially identical to SEOP 3.

The accounting principles applied for the Skanska employee ownership programs are in accordance with the IFRS 2 Shares-based payments. The total expense recognised in the consolidated statement of comprehensive income is £942,000 (2017) and £916,000 (2016).

**Employee-related expenses for SEOP (BU UK)<sup>1</sup>**

	SEOP 3 124 2014-2016 £'000	SEOP 3 56 2014-2016 £'000	SEOP 4 124 2017-2019 £'000	SEOP 4 567 2017-2019 £'000	Total £'000
Investment years					
Total estimated cost for the programs <sup>2</sup>	2,107	367	91	841	3,406
Expensed at the beginning of the period	(1,004)	(129)	-	-	(1,133)
Cost for the period	(561)	(173)	(33)	(175)	(942)
Total expensed at the end of the period	(1,565)	(302)	(33)	(175)	(2,075)
Remaining to be expensed	542	65	58	666	1,331
Of which in 2018	409	46	24	276	755
In 2019	133	19	24	275	451
2020 or later			10	115	125
	542	65	58	666	1,331

Share awards earned to December 2017	SEOP 3	SEOP 4	Total
Number of shares	222,837	8,892	231,729
Dilution to December 2017	0.005%	0.002%	0.007%
Maximum dilution at the end of programmes	0.014%	0.011%	0.025%
Share awards earned at end of programmes	158,161	43,267	201,428
Allotted	(100,534)	-	(100,534)
Total unallocated shares	57,627	43,267	100,894

<sup>1</sup> Excluding social insurance contributions

<sup>2</sup> For investments made to 31 December 2017



33. **Correction to prior period**

Following a review of the Company's bank accounts, the directors have concluded that a correction is required to the Company's cash balance. In the prior year, the Company bank accounts with a cash balance of £18,647,000 were incorrectly recorded in a subsidiary undertaking.

<b>Impact on equity</b>	<b>2016</b>
	<b>£'000</b>
Current assets	
Cash and cash equivalents	18,647
Current liabilities	
Amounts owed to fellow undertakings	(18,647)
Net impact on equity	<u>-</u>

There is no impact on profit or loss and there is no impact on the Statement of Comprehensive Income.

34. **Post balance sheet events**

On 31 March 2018, the Group closed the Skanska Pension Fund to new members and future accrual. The closure generated a curtailment gain of £26.4m.

On 10 May 2018, Skanska UK announced its decision to divest its piling and foundations business, Cementation Skanska Limited.