REGISTERED NUMBER: 00784752 (England and Wales)

Group Strategic Report, Directors' Report and Audited Consolidated Financial Statements For The Year Ended 31st December 2018

for

Skanska UK Plc

Skanska UK Plc (Registered number: 00784752)

Contents of the Consolidated Financial Statements
For The Year Ended 31st December 2018

Skanska UK Plc (Registered number: 00784752)

Company Information
For The Year Ended 31st December 2018

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

Skanska UK Plc (Registered number: 00784752)

Group Strategic Report
For The Year Ended 31st December 2018

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 2018.

Business model

Skanska UK Plc generates value through the hundreds of projects the Group executes each year. Every project should both be profitable and delivered in line with Skanska's values and ambition to be a leader within sustainability. Skanska UK operations consist of construction, commercial property development, and recently in 2019, infrastructure development. Operating units within these streams collaborate in various ways, creating operational and financial synergies that generate increased value.

Financial position

The Group recorded an operating income (profit) of £42.1 million in 2018 (2017: £14.6 million) on revenues of £1,935.4 million (2017: £1,802.7 million). Operating margin was 2.2% (2017: 0.8%). Not included in the results of this Group are the results related to the New Karolinska project, which is a collaboration between Skanska Sverige AB and the Group. The project delivered additional income of £8.4m which was allocated to the Group for management reporting purposes, but for statutory purposes the income was entirely recorded by the Skanska Sverige AB.

The Group's total equity increased by £22.0 million in the year. This was predominantly made up of £40.4 million of post-tax profits, post-tax actuarial gains of £28.3 million arising from the Group's pension schemes, less £47.7m of dividends in-specie. Total equity attributable to shareholders at the year-end was £283.7 million (2017: £261.8 million). Our consolidated year-end cash and cash equivalents totalled £373.8 million, an increase of £80.1 million in the year. The year on year movement was predominantly due to the proceeds from the SPDL (Monument) Limited divestment which was included in the trading result for 2017. Credit Suisse, who acquired SPDL (Monument) Limited, paid £79.8m in full in February 2018 in accordance with the agreed terms. Cash inflow from operating activities was £5.2 million (2017: outflow £8.9 million). The Group has no debt.

Principle risks and uncertainties

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

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

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

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

Major contract wins

Northwood – A contract to provide facilities management services to the Ministry of Defence at Northwood HQ in Hertfordshire. The contract is worth £196 million over 13 years.
Knightsbridge K1 – Skanska has been awarded the contract to build K1 Knightsbridge, a mixed-use scheme worth £141 million. The 340,000sqft (31,600sqm) project combines commercial, residential and retail space in the Royal Borough of Kensington and Chelsea
London Wall – The Group was awarded a contract to complete a partial demolition and structural refurbishment of an existing seven-storey steel-framed building in the City. Total contract is £121 million.
North Somerset highways – A five year partnership between North Somerset Council and Skanska to deliver highway maintenance and improvement works. The value to the Group is £44 million over 5 years.
51 Moorgate – A joint project between Skanska Development and Construction to refurbish a 45,000sqft (4,180sqm) commercial building in the heart of the City of London to provide eight floors of office space and ground-floor retail opportunities, upon completion in 2019. Construction value of £19.8m.

Laser Focus Plan & Restructure
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.

Pension Curtailment

Due to the unsustainable rise in defined benefit Pension costs, a review of pension arrangements was undertaken in 2017 and after consulting with active members, Skanska UK Plc closed all sections of the Skanska Pension Fund with effect from 31 March 2018. From 1 April 2018, eligible employees were offered membership of a defined contribution arrangement via a Master Trust scheme.

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 2018 we continued with significant improvements in all areas of safety, health and wellbeing. Our lost time accident rate remained at our 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 were the first UK construction company to achieve Safe Effective Quality Occupational Health Service (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. The Group built on this in 2018 and continue to offer advanced tools and support to our employees and supply chain. We developed our mental health programme and now have over 350 mental health ambassadors in the business, with over 1,461 employees attending the training programme since 2016.

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 2018 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 2018 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. As well as an internal communications, we place additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We have developed new processes for scrutinising the ethical culture of potential partners, to further engage our supply chain we work to ensure our Supplier Code is discussed in start-up meetings with suppliers, and we ensure ethics are an agenda item at our various supplier engagement events.

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, Skanska UK (Group), in line with Skanska Group, is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services, 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 spoke at an Institute of Environment Management and Assessment (IEMA) event at UK Construction Week. Our facilities management business was runner-up of the Sustainable Facilities Management Index (SFMI), after having previously been top. The Group's environmental professionals continue to engage with a wide range of external green groups, such as the UK Green Building Council and the All-Party Parliamentary Environment Group;
- Developing green skills, where we continue to focus on our environmental training requirements schedule, which aims to embed green strategic awareness at leadership levels, and environmental management skills at operational levels. During 2018 we also focussed on developing better digital skills for environmental management, such as around BIM tools and GIS solutions. We also increased our skills and competence in the technical management of carbon, and for the new healthy buildings WELL standard;
- Making our design and procurement more sustainable, where we continue to influence green design and increase our sustainable procurement ambitions. We successfully became the first contractor to achieve external certification against the PAS2080 Carbon Management in Infrastructure specification. We launched a Low Carbon Roadmap to guide low carbon decision making, particularly in design and procurement. We set leading standards for sustainability in procurement, such as procuring and trialling a number of electric

- and hydrogen vehicles to join our working fleet, and installing 67 electric vehicle charging points at our head office in Hertfordshire;
- Collaborating with our finance team to provide better measurement of our environmental impact and to commercialise green. In 2018 85% of our revenue was classified green or higher 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, and we have been making a significant investment in more accurate and transparent carbon emissions reporting in respect of our managed supply chain.

Awards Won:

- Green Apple Award for Environmental Best Practice- Cambridgeshire Highways
- National Grid Sustainability Best Practice Award- Humber Pipeline
- NHS Sustainability Award 'Re-use' Category- Barts NHS Trust and Skanska Waste Team

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 was measured at 27% 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 999 new people to the company during 2018, with a headcount at the year-end of 5,628 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.

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 have done in this area from customers and the industry.

People engagement

Maintaining high levels of people engagement has remained a priority during 2018. 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 England Inclusion Awards 2018 – Inclusion
- Construction Investing in Talent Awards 2018 - Best Graduate Programme
- Vitality Healthiest Workplace Awards - Most Improved Workplace, Highly commended
- Health, Safety and Wellbeing Excellence Award - Crossrail C412 Bond Street Station team - Highly commended
- Winner of Safe Fleet of the Year 2018
- Construction News Specialist Awards 2018 - Health, Safety and Wellbeing Excellence Award
- BIFM Awards 2018 - Impact of Organisational Performance - Highly commended

Market Making

By understanding the needs of customers the group, 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.

In the previous year, 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 profits)
- Data-driven decisions on markets and customers - Introducing an analytical approach to our future pipeline using Salesforce.

During 2018, we continued to develop the tools used for each of the initiatives. The programmes will allow us to understand our customers better and identify new ways in which we can work with them as well as ensuring our base delivery is meeting or exceeding their expectations.

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

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

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

Early contractor involvement

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

Operational Efficiency

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

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

Awards Won:

- Constructing Excellence SECBE Awards 2018 - Digital Construction Awards
- CIPS Supply Management Awards 2018 - Most improved procurement operation start up - A14 Integrated Delivery Team (IDT)
- Temporary Works Initiative of the Year 2018 - Finalist - Launch Ramp Groundwater Protection System - Humber Gas Pipeline - Skanska

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 2018, we took measures to promote the awareness of modern slavery with increased communications aimed at employees. New starters were appraised during their company induction courses and World Anti-Slavery Day in October was marked with a specific ethical dilemma for teams to discuss and the circulation of relevant awareness video clips. With reference to the supply chain, further measures were taken to enhance modern slavery education and awareness through our external Supply Chain Sustainability School with procurement guidance notes and toolbox talks for project being made available to the School's 35,000+ members.

Skanska's Modern Slavery and Human Trafficking Policy, which provides greater detail on our approach to the eradication of these issues from our business and our supply chain, is published via a link on the homepage of our website. This policy was approved by the Board of directors of the Company on 9 May 2019. It is reviewed and published on an annual basis.

Dividends

During 2019, the directors became aware that dividends in specie were distributed in February 2018 and December 2018 totalling £47.7m in contravention of the Companies Act 2006 because interim accounts had not been filed at Companies House prior to distribution. Additionally, the Company did not accrue sufficient distributable reserves to support the dividend in specie distributed in February 2018 until March 2018. At a board meeting on 27 June 2019, a board resolution was passed which authorised the appropriation of distributable profits for the relevant dividends, and removed any right for the Company to pursue shareholders or directors for payments. The overall effect of the resolution being passed was to return all parties to the position they would have been in so far as possible had the relevant dividends been made in full compliance with the Companies Act 2006.

Market & Outlook

The demise of a material competitor has given rise to a high level of media attention and governance within the construction sector. We believe we are already in a very strong position when it comes to any future scrutiny around our governance processes and risk management, supported by our strong balance sheet position and cash reserves.

Whilst we do manage to maintain a healthy and more focussed order book, we apply a cautious approach to 2019 as the disruptive UK political landscape continues. This is heightened resulting from uncertainty of whether the UK will stay within the EU or leave. The industry remains in a state of uncertainty as the future impact remains unclear especially on issues such as access to labour, what non-tariff barriers will apply or the likelihood of tariffs being imposed. The executive management team have been putting in place appropriate plans for possible Brexit outcomes.

On behalf of the board:

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C K K Gangotra - Director

Date: 28 JUN 2019

Skanska UK Plc (Registered number: 00784752)

Directors' Report
For The Year Ended 31st December 2018

The directors present their report with the financial statements of the Company and the Group for the year ended 31st December 2018.

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 in-specie of £32.7m million (0.990909p per share) in respect of the year ended 31st December 2017 was distributed to the ordinary shareholder on 23rd February 2018. An interim dividend in-specie of £15m million (0.454545p per share) in respect of the year ended 31st December 2018 was distributed to the ordinary shareholder on 11th December 2018.

During 2019, the directors became aware that dividends in specie were distributed in February 2018 and December 2018 totalling £47.7m in contravention of the Companies Act 2006 because interim accounts had not been filed at Companies House prior to distribution. Additionally, the Company did not accrue sufficient distributable reserves to support the dividend in specie distributed in February 2018 until March 2018. At a board meeting on 27 June 2019, a board resolution was passed which authorised the appropriation of distributable profits for the relevant dividends, and removed any right for the Company to pursue shareholders or directors for payments. The overall effect of the resolution being passed was to return all parties to the position they would have been in so far as possible had the relevant dividends been made in full compliance with the Companies Act 2006.

Future developments

The Group will focus on its Laser Focus Plan 2020.

Directors

The directors who have held office during the whole of the period from 1st January 2018 to the date of this report are:

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

Directors' interests and transactions with directors

None of the directors at 31st December 2018 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the directors' interests between 31st December 2018 and the date of approving this report. No director during the year had an 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 2018 represented 4 days' purchases (2017: 17 days).

Research and Development

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

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

Going concern

The Group's directors have considered the preparation of these financial statements under the 'going concern' basis. They have considered:
- The quality, remaining duration and volume of construction contracts held;
- The liquidity levels maintained by the business;
-The principal risks and uncertainties outlined in the Group Strategic Report;
- The future forecasts for the Group.

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 Company is committed to a policy of providing equal opportunities for all, regardless of race, religion, sex or disability. The Company is committed to training and management development, so as to ensure a supply of trained and skilled employees.

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

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

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 had a deficit of £37.8 million at 31st December 2018, compared with a £107.1 million deficit at the previous year end. Liabilities were reduced by £26.4m following the closure of the Skanska Pension Fund to future accrual at 31 March 2018. This curtailment benefit has been recognised in the Consolidated Statement of Profit and Loss in the period.

Following the recent High Court judgement in the Lloyds case, pension benefits in the United Kingdom have been equalised to eliminate inequalities between male and female participants in Guaranteed Minimum Pensions ("GMPs"). This equalization affects all contracted-out pension schemes with benefits earned between 17 May 1990 and 5 April 1997 and will mean higher benefits for some members and therefore higher overall costs. The additional liability for the Group amounts to £6m million and has been recognised in other comprehensive income.

Total contributions paid into the Skanska Pension Fund by the Group was £19.8 million (2017: £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 duties and responsibilities as directors of the Group, and this was in force throughout the financial year ended 31st December 2018.

Disclosure of information to auditor

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

Auditors

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

On behalf of the board:

CKGangotra

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C K K Gangotra - Director

Date: 2 8 JUN 2019

Skanska UK Plc (Registered number: 00784752)

Statement of Directors' Responsibilities
For The Year Ended 31st December 2018

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 2018 which comprise Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Financial Position, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 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.

Ernst & Young LLP

David Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 28 JUN 2019

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Profit or Loss
For The Year Ended 31st December 2018

	Notes	2018 £'000	2017 £'000
Continuing operations			
Revenue	3	1,935,375	1,802,714
Cost of sales		(1,801,396)	(1,724,809)
Gross profit		133,979	77,905
Administrative expenses		(91,884)	(90,676)
Profit on disposal of subsidiary		-	27,374
Operating profit		42,095	14,603
Finance costs	5	(1,981)	(3,043)
Finance income	5	3,967	1,932
Profit before income tax	6	44,081	13,492
Income tax (charge)/credit	7	(3,638)	65
Profit for the year		40,443	13,557
Profit attributable to:			
Owners of the parent		40,443	13,557

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Comprehensive Income
For The Year Ended 31st December 2018

	2018 £'000	2017 £'000
Profit for the year	40,443	13,577
Other comprehensive income/(loss)		
Items that may not be reclassified subsequently to profit or loss:		
Net actuarial gain/(loss) on pension scheme	34,109	(15,178)
Employees share scheme	851	942
Income tax (charge)/credit relating to items of other comprehensive loss	(5,801)	2,581
	29,159	(11,655)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference	71	151
	71	151
Other comprehensive income/(loss) for the year, net of income tax	29,230	(11,504)
Total comprehensive income for the year	69,673	2,053
Total comprehensive income attributable to:		
Owners of the parent	69,673	2,053

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Financial Position
As at 31st December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Goodwill	9	29,821	29,821
Intangible assets	10	-	3,260
Property, plant and equipment	11	18,137	20,185
Deferred tax	25	11,873	21,726
		59,831	74,992
Current assets			
Inventories	13	54,237	37,748
Trade and other receivables	14	173,228	309,755
Contract assets	15	182,080	171,878
Tax receivable		2,774	3,828
Cash and cash equivalents	16	373,849	293,671
		786,168	816,880
Total assets		845,999	891,872
Equity			
Shareholder's equity			
Called up share capital	17	165,000	165,000
Retained earnings	18	118,749	96,776
Total equity		283,749	261,776
Liabilities			
Non-current liabilities			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	21	3,943	8,722
Pension liability	26	37,799	107,109
Provisions	24	79,625	86,405
		121,367	202,236
Current liabilities			
Trade and other payables	19	349,057	321,832
Contract liabilities	20	86,270	105,953
Financial liabilities - borrowings			
Interest bearing loans and borrowings	21	5,556	75
		440,883	427,860
Total liabilities		562,250	630,096
Total equity and liabilities		845,999	891,872

The financial statements were approved by the Board of Directors on 28 JUN 2019 and were signed on its behalf by:

C K K Gangotra - Director

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Company Statement of Financial Position
As at 31st December 2018

	Notes	2018 £'000	2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	11	3,109	2,933
Investments	12	48,046	48,046
Deferred tax	25	8,452	18,799
		59,607	69,778
Current assets			
Trade and other receivables	14	199,665	174,406
Contract assets	15	8,103	5,601
Tax receivable		754	3,297
Cash and cash equivalents	16	65,509	97,096
		274,031	280,400
Total assets		333,638	350,178
Equity			
Shareholder's equity			
Called up share capital	17	165,000	165,000
Retained earnings		9,617	(138,516)
Total equity		174,617	26,484
Liabilities			
Non-current liabilities			
Pension liability	26	32,046	102,334
Current liabilities			
Trade and other payables	19	126,975	220,528
Contract liabilities	20	-	832
		126,975	221,360
Total liabilities		159,021	323,694
Total equity and liabilities		333,638	350,178

The financial statements were approved by the Board of Directors on 28 JUN 2019 and were signed on its behalf by:

C K K Gangotra - Director

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Changes in Equity
For The Year Ended 31st December 2018

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2017	165,000	94,723	259,723
Profit for the year	-	13,557	13,557
Other comprehensive loss	-	(11,504)	(11,504)
Total comprehensive income	-	2,053	2,053
Balance at 31st December 2017	165,000	96,776	261,776
Profit for the year	-	40,443	40,443
Other comprehensive income	-	29,230	29,230
Total comprehensive income	-	69,673	69,673
Dividends paid	-	(47,700)	(47,700)
Balance at 31st December 2018	165,000	118,749	283,749

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Company Statement of Changes in Equity
For The Year Ended 31st December 2018

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2017	165,000	(124,050)	40,950
Loss for the year	-	(4,603)	(4,603)
Other comprehensive loss	-	(9,863)	(9,863)
Total comprehensive loss	-	(14,466)	(14,466)
Balance at 31st December 2017	165,000	(138,516)	26,484
Profit for the year	-	165,571	165,571
Other comprehensive income	-	30,262	30,262
Total comprehensive income	-	195,833	195,833
Dividends paid	-	(47,700)	(47,700)
Balance at 31st December 2018	165,000	9,617	174,617

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Consolidated Statement of Cash Flows
For The Year Ended 31st December 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Cash generated from operations	3,736	(7,214)
Interest paid	-	-
Interest element of hire purchase and finance lease rental payments paid	-	(656)
Finance costs paid	-	-
Tax received/(paid)	1,467	(1,020)
Net cash from operating activities	5,203	(8,890)
Cash flows from investing activities		
Purchase of intangible fixed assets	(3,831)	(3,263)
Purchase of tangible fixed assets	(5,423)	(6,778)
Sale of tangible fixed assets	737	394
Proceeds from the disposal of subsidiary undertaking	79,838	11,000
Interest received	3,967	1,932
Net cash from investing activities	75,288	3,285
Cash flows from financing activities		
Capital repayments in year	(313)	(298)
Net cash from financing activities	(313)	(298)
Increase/(Decrease) in cash and cash equivalents	80,178	(5,903)
Cash and cash equivalents at beginning of year	293,671	299,574
Cash and cash equivalents at end of year	373,849	293,671

The notes on pages 21 to 57 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

Company Statement of Cash Flows
For The Year Ended 31st December 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Cash generated from operations	(41,802)	(19,717)
Tax received / (paid)	6,859	659
Net cash from operating activities	(34,943)	(19,058)
Cash flows from investing activities		
Purchase of tangible fixed assets	(1,298)	(1,028)
Sale of tangible fixed assets	-	-
Interest received	4,654	4,326
Net cash from investing activities	3,356	3,298
Decrease in cash and cash equivalents	(31,587)	(15,760)
Cash and cash equivalents at beginning of year	97,096	112,856
Cash and cash equivalents at end of year	65,509	97,096

The notes on pages 21 to 57 form part of these financial statements

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

Goodwill and investments in subsidiary undertakings have been assessed for impairment by comparing their carrying amounts with the present value of the discounted cash flows expected to be generated by the relevant cash-generating units (CGUs) identified in note 9. After recognising the goodwill impairment charge in 2009 and 2018 and reviewing the position at this year end, management does not consider that a reasonably possible change in one or more key assumptions as described in note 9, during the next year could cause the recoverable amount of either CGU to fall significantly below its carrying amount.

continued...

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 2018. 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.

continued...

2. **Accounting policies- continued**

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

New standards and interpretations

IFRS 15 Revenue from Contracts with Customers

The Group adopted the IFRS 15 Revenue from Contracts with Customers standard with effect from January 1, 2018. The Group implemented the standard with full retrospective effect, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balances for 2018. On transition, the Group recognised no adjustments. The Group has availed of the following practical expedients under IFRS 15:

- Incremental costs of obtaining a contract with an amortisation period of less than one year have been expensed as incurred
- Consideration is not adjusted for the effects of any significant financing component where the contract is expected to complete in one year or less.

Under IFRS 15 revenue is recognized based on a five-step model. Step one involves identifying the contract with a customer. If two or more contracts are entered into with a customer at the same time and the price of one contract is dependent on the other contract, the contracts are combined. A contract modification involves a change to the scope or price (or both) of a contract that has been approved by the contracting parties. A contract modification exists when the parties approve a change that either creates new or changes existing rights and responsibilities for the contracting parties. A contract modification is treated as a separate contract when the scope of the contract increases due to the addition of promised goods or services which are distinct and where the price of the contract is raised by an amount reflecting the company's stand-alone selling price for the additional goods or services promised. If the parties have not approved a contract modification the entity is to continue applying the standard for the existing contract until such time as the contract modification is approved.

Step two involves identifying the separate performance obligations in the contract. A performance obligation is a promise to the customer to transfer goods or services that are distinct, or a series of distinct goods or services that are essentially the same and follow the same model for transfer to the customer. Goods or services are distinct if the customer can benefit from the goods or services either on their own or in combination with other resources that are readily available to the customer and if the entity's promise to transfer the goods or services to the customer is separately identifiable from the other promises in the contract. Skanska's client contracts are usually of the type that do not require categorization into two or more performance obligations.

In step three the transaction price is determined. This determination involves establishing a fixed agreed price, variable consideration, any contingent considerations, bonuses and penalties. If there is variable consideration, an estimate is made of the highest amount of revenue that will likely not require a reversal of accumulated revenue in later reporting periods. If the contract includes a significant financing component, the transaction price is to be adjusted for the effect of the time value of the money. Changes to and supplementary orders in contracts that have not yet been approved by the client do not require an increase in the transaction price in the project's estimated income upon completion.

Where there is a non-cash consideration, this is measured at fair value. If a customer defers goods or services, an assessment is made as to whether it has gained control of these; if this is the case, they are recognized as non-cash revenue received from the customer.

The revenue/transaction price is allocated in step four over the separate performance obligations in the contract if more than one obligation exists. The allocated transaction price for each individual obligation is to reflect the consideration that the company is expecting to have the right to in exchange for the transfer of the promised goods or services to the customer, based on a relative, stand-alone selling price.

Revenue is recognized in step five when the performance obligation is satisfied, either over time or at a point in time, and when the customer obtains control of the asset. Revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided through the entity's performance, when the entity's performance creates or enhances an asset that the customer controls, or when the entity's performance does not create an asset with an alternative use for the entity and the entity also has the right to payment for its performance completed to date. If a performance obligation is not satisfied over time as stated above, the entity fulfils the obligation at a certain point in time. This takes place at the point when the customer gains control of the promised asset. Indicators for determining control can be that the entity has the right to receive payment for the asset, the customer has the legal right of ownership of the asset, the entity has transferred the physical possession of the asset, the customer has the material risks and rewards associated with ownership of the asset or the customer has accepted the asset.

Costs relating to obtaining a contract, i.e., costs the entity would have had if it had not won the contract, are recognized as an asset only if the entity is expecting to have those expenses covered. Expenses to complete a contract that does not fall under a standard other than IFRS 15 are recognized as an asset if the expenses have a direct link to a contract or to an expected contract, if the expenses create or enhance resources that will be used to fulfill the performance obligation in the future and that are also expected to be recovered. These "Assets arising from expenses to obtain or complete a contract with a customer" are included in the line item "Contract assets" and are reported in Note 15.

continued...

2. **Accounting policies- continued**

Contract assets and contract liabilities are recognized net of revenue recognized and invoiced amounts per project. Construction contracts often allow for invoicing in advance. Once an amount has been invoiced, a trade account receivable is recognized. Loss contracts are expensed immediately and provisions for losses are made for the remaining work to be done and recognized according to IAS 37.

The Construction business stream builds and renovates buildings, industrial facilities and infrastructure. It also executes service-related assignments, in areas such as construction services and facility operations and maintenance. This business serves both public and private clients.

A combination of contracts happens rarely, but contract modifications, such as those related to additional orders, are common. In most cases the added goods or services are not distinct and therefore form part of a single performance obligation that is partially met at the time of the contract modification and is reported as being a part of the existing contract.

Most often the contracts, within this business stream, contain only one performance obligation. Performance obligations in the construction stream are the construction contract or the service that is to be delivered, for example the construction of a building on the customer's land or the maintenance of existing facilities, such as roads. If an agreement involves operations in different geographic locations, delivered during different time periods or with different risk exposures, the breakdown of several performance obligations may be relevant.

The stage of completion is measured by reference to the contract costs of fulfilling the performance obligations incurred up to the end of the reporting period as a percentage of total expected fulfilment costs, which is an input measure according to IFRS 15. Typically, invoicing of *customers is on a monthly basis and the Group's standard payment terms is 30 days.*

If there is a right to variable remuneration, such as incentive agreements, this is taken into account to the extent that it is highly unlikely it will be reversed at a later date. Revenue is recognized over time in the construction stream, when the customer simultaneously receives and consumes the benefits provided through the entity's performance or when Skanska creates or enhances an asset that the customer controls. Revenue is recognized over time, determined each quarter, on the basis of accumulated project expenses in relation to estimated accumulated project expenses upon completion.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments applies from 1 January 2018. The new standard has replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 has been implemented retrospectively and has not resulted in any adjustments.

In July 2014, the IASB issued a complete version of IFRS 9 bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The key changes the new standard introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- *changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.*

a) Classification and measurement
IFRS 9 introduces a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

b) Impairment
IFRS 9 sets out a new expected loss impairment model for financial assets and replaces the existing 'incurred loss' model in IAS 39 Financial Instruments: Recognition and Measurement. Under IFRS 9, the impairment model is more forward looking, in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. For financial assets that are measured at amortised cost or FVTOCI, an entity will now always recognise a minimum 12 month expected losses in the Statement of Comprehensive Income. Lifetime expected losses will be recognised on assets for which there is a significant increase in credit risk after initial recognition.

c) Expected credit loss (ECL) impairment model

Under IFRS 9, credit loss allowances *will* be measured on each reporting date according to a *three-stage expected credit loss impairment* model. As soon as a financial instrument is originated or purchased, 12-month expected credit losses must be recognised in profit and loss and an impairment allowance will be established (Stage 1). If the credit risk increases significantly (and the resulting credit quality is not considered to be low credit risk) full lifetime expected credit losses will be provided for (Stage 2).

2. **Accounting policies- continued**

Under both Stage 1 and Stage 2, interest income is recognised on the gross carrying value of the financial asset. Financial assets will move into Stage 3 when they are considered to be credit impaired, i.e. when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance) – as under IAS 39.

d) Hedge accounting
IFRS 9 introduces are a new hedge accounting model. The new hedge accounting model is easier to implement than the hedge accounting model in IAS 39 and is more closely linked to the risk management activities of the business.

New standards and amendments of standards that have not yet begun to be applied

IFRS 16 Leases

IFRS 16 'Leases' will be effective from 1 January 2019. We are planning to adopt IFRS 16 on a modified retrospective basis and the company will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 January 2019. The Company has assessed the impact of the new standard, and do not expect any significant impact on the financial position or performance of the Company.

We estimate that the group will recognise a right-of-use asset of £65.6m and a right-of-use liability of £69.8m at the effective date. We estimate that the company will recognise a right-of-use asset of £36.1m and a right-of-use liability of £39.2m at the effective date.

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

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

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

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

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

continued...

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. A cash-generating unit is the smallest group of assets that generates cash flows which are independent of other groups of assets.

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. Intangible assets, other than goodwill, are assessed for impairment when there are indicators present.

continued...

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

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

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

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

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

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

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

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

continued...

2. Accounting policies – continued

Taxation

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

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

Research and development

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

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

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

Foreign currencies

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

Foreign currency transactions and balances

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

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

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

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

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.

continued...

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.

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

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

3. Revenue

Expected revenue recognition for remaining performance obligations

Contracts may run for a period greater than one year. The expected revenue recognition relating to ongoing or won contracts, at 31 December 2018 is as follows

	2019 £'m	2020 £'m	2021 £'m	2022+ £'m	Total £'m
Expected Revenue	1,328	572	293	1,724	3,917

continued...

3. **Revenue - continued**

	2018 £'000	2017 £'000
Construction works	1,466,581	1,454,654
Rendering of services	468,794	343,260
IFRS 15 revenue from contracts with customers	1,935,375	1,797,914
Rental Income	-	4,800
Turnover from continuing operations	1,935,375	1,802,714

No revenue was derived from exchange of goods or services (2017:£nil). Revenue recognised in the year from amounts that were included in the contract liability at the beginning of the period equals £105,953,000 (2017:£112,008,000). Revenue recognised in the year from performance obligations satisfied in previous years equals £13m (2017: £nil).

4. **Employees and directors**

	2018 £'000	2017 £'000
Wages and salaries	298,261	281,722
Social security costs	31,842	32,094
Other pension costs	30,745	38,263
	360,848	352,079

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

	2018	2017
Construction	1,678	1,550
Administration	4,059	4,191
	5,737	5,741

	2018 £	2017 £
Directors' remuneration	2,001,901	2,726,557
Long-term incentive plans	53,911	355,526
Pensions	88,495	40,617

Information regarding the highest paid director is as follows:

	2018 £	2017 £
Remuneration	364,617	577,503
Long-term incentive plans	23,709	-
Accrued pension at 31 December	30,548	107,245

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

	2018	2017
Defined contribution schemes	4	4
Defined benefit schemes	-	6

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

	2018 £'000	2017 £'000
Defined benefit costs	7,667	29,139
Defined contribution costs	23,078	10,215
	30,745	39,354

continued...

5. Net finance costs

	2018 £'000	2017 £'000
Finance income:		
Bank Interest	3,967	1,932
Finance costs:		
Finance lease interest	-	656
Interest on pension scheme liabilities	1,981	2,387
	1,981	3,043
Net finance income/(cost)	1,986	(1,111)

6. Profit before income tax

	2018 £'000	2017 £'000
Included in cost of sales:		
Cost of inventory recognised as expense	692	813
Depreciation - owned assets	6,734	4,328
Loss on disposal of fixed assets	(704)	(371)
Intangible asset amortisation	848	623
Impairment of intangible assets	6,243	-
Research costs	447	652
Operating lease expense for property and vehicles	24,033	24,489
Included in administrative expenses:		
Impairment of goodwill	-	9,100
Foreign exchange loss	3	27
Audit of Group's consolidated financial statements	5	5
Audit of parent company's financial statements	2	2
Audit of parent company's subsidiaries and related entities	558	466
Total audit fees	565	473
Audit related services	-	15
Other non-audit service fees	24	177
Total fees paid by group	589	665

continued...

7. **Income tax**

	2018 £'000	2017 £'000
Current Tax		
Current year	794	(265)
Adjustments in respect of the prior year	(1,206)	325
Overseas tax current year	-	278
Total current tax (credit)/charge	(412)	338
Deferred Tax		
Current year	6,821	(1,528)
Adjustments in respect of the prior year	(2,771)	1,125
	4,050	(403)
Total tax charge/(credit)	3,638	(65)

	2018 £'000	2017 £'000
Reconciliation of profits to total tax charge:		
Profit before tax	44,081	13,492
Profit before tax multiplied by standard rate of corporation tax in the UK 19% (2017: 19.25%)	8,375	2,597
Expenses not deductible for tax purposes	189	534
Gain on disposal not subject to tax	(321)	(4,884)
Adjustment in respect of prior years	(3,977)	1,450
Change in rate	(697)	238
SEOP adjustment to OCI	69	-
Total tax charge/(credit)	3,638	(65)

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 2018.

8. **Profit/(loss) of parent company**

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements. The Company's profit for the financial year was £165,571,000 (2017: £(4,602,699)).

continued...

9. **Goodwill**

Group

	£'000
Cost	
At 1st January 2018	54,415
Additions	-
At 31st December 2018	54,415
Impairment	
At 1st January 2018	24,594
Impairment for year	-
At 31st December 2018	24,594
Net book value	
At 31st December 2018	29,821
At 31st December 2017	29,821

Goodwill is attributable to two cash generating units (CGUs); Infrastructure Services had £23.4m at 31/12/17 & 31/12/18. Utilities had £6.4m at 31/12/17 and 31/12/18.

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 2018, 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 7.5% (2017: 7%) and cash flows beyond the three-year period are extrapolated using a 1% growth rate (2017: 1.5%). It was concluded that the value in use exceeded the carrying value.

10. **Intangible assets**

	Group IT software assets £'000
Cost	
At 1st January 2018	10,617
Additions	3,831
At 31st December 2018	14,448
Amortisation	
At 1st January 2018	7,357
Amortisation for year	848
Impairment	6,243
At 31st December 2018	14,448
Net book value	
At 31st December 2018	-
At 31st December 2017	3,260

continued...

10. **Intangible assets - continued**

Intangible assets include assets purchased externally. The impairment in the period relates to an intangible asset written down to a £nil carrying value in the year. This asset is still in use.

11. **Property, plant and equipment**

Group

	Freehold property £'000	Long leasehold £'000	Plant and machinery £'000	Totals £'000
Cost				
At 1st January 2018	97	5,957	63,618	69,672
Additions	-	-	5,423	5,423
Disposals	-	-	(2,932)	(2,932)
At 31st December 2018	97	5,957	66,109	72,163
Depreciation				
At 1st January 2018	-	4,402	45,085	49,487
Charge for year	-	73	6,661	6,734
Eliminated on disposal	-	-	(2,195)	(2,195)
At 31st December 2018	-	4,475	49,551	54,026
Net book value				
At 31st December 2018	97	1,482	16,558	18,137
At 31st December 2017	97	1,555	18,533	20,185

Company

	Long leasehold £'000	Plant and machinery £'000	Totals £'000
Cost			
At 1st January 2018	5,841	16,675	22,516
Additions	-	1,298	1,298
At 31st December 2018	5,841	17,973	23,814
Depreciation			
At 1st January 2018	4,295	15,288	19,583
Charge for year	63	1,059	1,122
At 31st December 2018	4,358	16,347	20,705
Net book value			
At 31st December 2018	1,483	1,626	3,109
At 31st December 2017	1,546	1,387	2,933

continued...

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

Group & Company

The carrying value of motor vehicles held under hire purchase contracts at 31st December 2018 was £607,913 (2017: £836,000).

12. **Investments**

Company

	Shares in group undertakings £'000
Cost	
At 1st January 2018 and 31st December 2018	88,935
Provisions	
At 1st January 2018	40,889
Provision for the year	-
At 31st December 2018	40,889
Net book value	
At 31st December 2018	48,046
At 31st December 2017	48,046

continued...

12. **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**
Skanska Technology Ltd
Cementation Construction Ltd***
Cementation Mining Ltd***
Davy Mining Ltd***
McNicholas Group Ltd***
McCauley Strathcona Ltd (In liquidation)***
Redpath Dorman Long Ltd***
Skanska Construction Company Ltd***
Skanska Healthcare Trustees Ltd***
Skanska Construction (Regions) Ltd
Trollope & Colls Ltd
Skanska Construction Services Ltd
Skanska Trusteeships Ltd****

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 (In liquidation)
Skanska J.V. Projects Ltd
Skanska Major Projects Ltd
Skanska MGT Ltd (In liquidation)****
MG Telecomunicatti SRL(In liquidation)****
Skanska Rashleigh Weatherfoil Ltd
Skanska Utilities Ltd
UIS Plant Services Ltd (In liquidation)
66 Queen Square Ltd*
SPD Bentley Ltd*
SPD Moorgate Ltd*
SPD Moorgate 2 Ltd**
SPD Temple Circus Ltd**
SPD Engine Shed 2 Ltd**
SPD Templegate Ltd**
Skanska Construction Services Trustee Ltd****
Skanska TAM Ltd****
Skanska ESS Construction HB

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.

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13. Inventories

	Group	
	2018	2017
	£'000	£'000
Stocks	5,533	4,834
Properties	48,704	32,914
	54,237	37,748

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31st December 2018 was £747,000 (2017: £nil). The rate used to determine the amount of borrowing costs eligible for capitalisation equates to the interest rate charged on the bank overdraft, being the interbank rate plus 1.3%, and the finance lease interest rate utilised of 3.8%.

Finance leases

The carrying value of properties held under a finance lease at 31st December 2018 was £44,491,000 (2017: £29,545,000).

14. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Current:				
Trade receivables	86,478	79,962	-	-
Amounts owed by fellow undertakings	44,832	88,878	176,873	159,962
Other receivables	29,680	127,235	19,881	12,872
Prepayments and accrued income	12,238	13,680	2,911	1,572
	173,228	309,755	199,665	174,406

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 2018, trade receivables with an initial carrying value of £250,200 (2017: £313,700) were impaired and fully provided for.

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

Current	31-60 days	61-90 days	91-120 days	120+ days	Total
72,019	4,726	5,529	2,004	2,200	86,478

15. Contract assets

At 31 December 2018, the Group had contract assets of £182,080,000 (2017: £171,878,000). At 31 December 2018, the Company had contract assets of £8,103,000 (2017: £5,601,000). Contract assets consists of amounts recoverable on contracts. The change in contract assets in the year is due to normal activity and timing of certification of work done in the construction business.

continued...

16. Cash and cash equivalents

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Bank accounts	373,849	293,671	65,509	97,096

Included in this total is £74,930,000 restricted cash held in joint arrangements (2017: £58,170,000).

17. Called up share capital

Authorised, allotted, issued and fully paid share capital:

Number:	**Class:**	**Nominal value:**	**2018 £**	**2017 £**
3,300,000,000	Ordinary	£0.05	165,000,000	165,000,000

18. Reserves

Group	**Retained earnings £'000**
At 1st January 2018	96,776
Profit for the year	40,443
Net actuarial gain on defined pension schemes	34,109
Foreign exchange gain	71
Employee share award scheme	851
Income tax relating to items of other comprehensive income	(5,801)
Dividends paid	(47,700)
At 31st December 2018	118,749

An interim dividend in-specie of £32.7m million (0.990909p per share) in respect of the year ended 31st December 2017 was distributed to the ordinary shareholder on 23rd February 2018. An interim dividend in-specie of £15m million (0.454545p per share) in respect of the year ended 31st December 2018 was distributed to the ordinary shareholder on 11th December 2018.

During 2019, the directors became aware that dividends in specie were distributed in February 2018 and December 2018 totalling £47.7m in contravention of the Companies Act 2006 because interim accounts had not been filed at Companies House prior to distribution. Additionally, the Company did not accrue sufficient distributable reserves to support the dividend in specie distributed in February 2018 until March 2018. At a board meeting on 27 June 2019, a board resolution was passed which authorised the appropriation of distributable profits for the relevant dividends, and removed any right for the Company to pursue shareholders or directors for payments. The overall effect of the resolution being passed was to return all parties to the position they would have been in so far as possible had the relevant dividends been made in full compliance with the Companies Act 2006.

continued...

19. Trade and other payables

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Current:				
Trade payables	58,379	59,562	2,347	1,374
Amounts owed to fellow undertakings	2,794	-	90,404	192,961
Other payables	40,277	29,874	17,488	12,768
Accruals and deferred income	247,607	232,396	16,736	13,425
	349,057	321,832	126,975	220,528

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 29.
- For explanations on the group's liquidity risk management process, refer to note 23.

20. Contract liabilities

At 31 December 2018, the Group had contract liabilities of £86,270,000 (2017: £105,953,000). Contract liabilities consists of billings-in-excess. At 31 December 2018, the Company had contract liabilities of £nil (2017: £832,000). The change in contract liabilities in the year is due to normal activity and timing of certification of work done in the construction business.

21. Financial liabilities - borrowings

	Group	
	2018	**2017**
	£'000	**£'000**
Current:		
Hire purchase contracts (see note 22)	245	55
Finance leases (see note 22)	5,311	20
	5,556	75
Non-current:		
Hire purchase contracts (see note 22)	28	522
Finance leases (see note 22)	3,915	8,200
	3,943	8,722

continued...

21. **Financial liabilities - borrowings - continued**

Group terms and debt repayment schedule

2018

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

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	20	21	63	8,116	8,220
	75	514	92	8,116	8,797

22. **Leasing agreements**

Minimum lease payments fall due as follows:

Group

	Hire purchase contracts 2018 £'000	Hire purchase contracts 2017 £'000	Finance leases 2018 £'000	Finance leases 2017 £'000
Gross obligations repayable:				
Within one year	308	68	5,836	250
Between one and five years	35	641	587	1,000
In more than five years	-	-	21,435	21,990
	343	709	27,858	23,240
Finance charges repayable:				
Within one year	63	13	525	230
Between one and five years	7	119	584	916
In more than five years	-	-	17,523	13,874
	70	132	18,632	15,020
Net obligations repayable:				
Within one year	245	55	5,311	20
Between one and five years	28	522	3	84
In more than five years	-	-	3,912	8,116
	273	577	9,226	8,220

Finance leases

Moorgate

The finance lease has a remaining life of 150 years and a payment of £400,000 per annum.

continued...

22. **Leasing agreements - continued**

The finance lease relates to a property at 51 – 53 Moorgate, London. On 25 June 2018, the group entered into a Deed of Variation to the existing lease and an Agreement for Development and New Lease with the landlord of the company's leasehold investment property asset. The new lease will be granted on practical completion of the refurbishment of the office block. This is anticipated to occur later in 2019. The revised terms of these agreements have been reflected in the finance lease creditor and repayment schedule above.

Operating Leases

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Within one year	19,018	19,422	15,022	12,278
Between one and five years	40,874	43,728	35,626	25,012
In more than five years	22,402	21,970	15,394	16,947
	82,294	85,120	66,042	54,237

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.

23. **Financial instruments**

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

Credit risk

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

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 2018, the Group had cash and cash equivalents totalling £373,849,000 (2017: £293,671,000) and no debt. Included in this total is £74,930,000 restricted cash held in Joint arrangements (2017: £58,170,000).

Effective interest rates and maturity analysis

As at 31st December 2018, income-earning financial assets of the Group comprised cash and cash equivalents totalling £373,849,000 (2017: £293,671,000) and of the Company £65,509,000 (2017: £97,096,000). Interest is earned on net cash balances at floating rates linked to the Swedish base rate. The Group has no overdraft or bank debt.

continued...

23. **Financial instruments - continued**

Fair Value

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

Sensitivity analysis

At 31st December 2018 and 31st December 2017, 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.

continued...

23. **Financial instruments - continued**

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Loans and receivables				
Contract assets	182,080	171,878	8,103	5,601
Trade receivables	86,478	79,962	-	-
Amounts owed by fellow group undertakings	44,832	88,878	176,873	159,962
Other receivables	29,680	127,235	19,881	12,872
Financial assets				
Cash and cash equivalents	373,849	293,671	65,509	97,096
Total financial assets	716,918	761,624	270,367	275,531
Financial liabilities				
Contract liabilities	(86,270)	(105,953)	-	(832)
Trade payables	(58,379)	(59,562)	(2,347)	(1,374)
Amounts owed to fellow group undertakings	(2,794)	-	(90,404)	(192,962)
Other payables	(40,277)	(29,874)	(17,488)	(12,769)
Total financial liabilities	(187,720)	(195,389)	(110,239)	(207,937)

Maturity analysis for non-derivative financial liabilities

	On demand £'000	Less than 3 months £'000	More Than 3 months £'000
Year ended 31 December 2018			
Trade and other payables (Group)	-	62,513	36,143
Trade and other payables (Company)	-	19,835	-
Year ended 31 December 2017			
Trade and other payables (Group)	-	56,671	32,765
Trade and other payables (Company)	-	14,143	-

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 2018 and 2017.

	2018 £'000	2017 £'000
Trade and other payables	349,057	321,832
Contract liabilities	86,270	105,953
Less: cash and short-term deposits	(373,849)	(293,671)
Net deficit	61,478	134,114
Shareholders' equity	283,749	261,776
Capital and net debt	345,227	395,890
Gearing ratio %	17.8%	33.9%

continued...

24. Provisions

	Forward loss on contracts & disputes	Warranty	Other	Total
	£'000	£'000	£'000	£'000
2018				
At 1 January 2018	36,340	44,676	5,389	86,405
Released in year	(843)	(12,647)	-	(13,490)
Created in year	40,223	21,436	2,670	64,329
Reclassification	(10,317)	12,163	(1,403)	443
Utilised	(28,059)	(29,695)	(308)	(58,062)
At 31 December 2018	37,344	35,933	6,348	79,625
2017				
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
Reclassification	-	-	-	-
Utilised	(8,481)	(47,666)	(650)	(56,797)
At 31 December 2017	36,340	44,676	5,389	86,405

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

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

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

25. Deferred tax

	Group 2018	Group 2017	Company 2018	Company 2017
	£'000	£'000	£'000	£'000
Accelerated Capital Allowances	1,719	1,510	787	588
Deferred tax on pension liability	6,426	18,209	5,448	17,397
Unrelieved trading losses	4,577	2,368	2,136	707
Other	(847)	(361)	123	107
Total	11,875	21,726	8,494	18,799
Asset at start of period	21,726	18,743	18,799	16,501
Deferred tax movement in P&L	(4,050)	403	(4,244)	224
Deferred tax direct to equity	(5,801)	2,580	(6,061)	2,074
Total	11,875	21,726	8,494	18,799

Changes in corporation tax rate
The UK corporation tax rate reduced from 20% to 19% from April 2018. 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 2018.

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.

continued...

26. **Employee benefit obligations**

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

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

Pension obligations and plan assets:

	2018 (%)	**2017** (%)
Active members' portion of obligations	4.00	17.00
Dormant pension rights	57.00	48.00
Pensioners' portion of obligations	39.00	35.00
Weighted average duration	20 years	21 years

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

Following the recent High Court judgement in the Lloyds case, pension benefits in the United Kingdom have been equalised to eliminate inequalities between male and female participants in Guaranteed Minimum Pensions ("GMPs"). This equalization affects all contracted-out pension schemes with benefits earned between 17 May 1990 and 5 April 1997 and will mean higher benefits for some members and therefore higher overall costs. The additional liability for the Group amounts to £6m million and has been recognised in other comprehensive income

continued...

(a) The Skanska Pension Fund

The Group, in its capacity as employer, participates in The Skanska Pension Fund. Total contributions paid during the year by the Group (excluding employee contributions) were £19,837,000 (2017: £36,697,000). Ultimately, the contributions are met by the particular group company for which the employees are working. The Group expects to contribute approximately £11.7 million to the Fund in the next financial year.

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

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

During 2017 and 2018 the Company carried out a review of the pension benefits offered to staff, and following consultation, the Career Average Scheme section of the Skanska Pension Fund was closed to further accrual on 31st March 2018. Following the scheme closure, liabilities were reduced by £26.4m. This curtailment benefit has been recognised in the Consolidated Statement of Profit and Loss in the period. A new trust-based Defined Contribution Scheme was set up during the period for staff who were previously members of the Career Average Scheme section of the Skanska Pension Fund, with employer contributions for service from 1 April 2018.

The 31 December 2018 valuation is an update of the actuarial valuation at 31st March 2016 but uses a lower rate of return on assets to discount the scheme liabilities.

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

	2018 (%)	2017 (%)	2016 (%)	2015 (%)
Inflation	3.25	3.25	3.25	3.00
Rate of increase of salaries	3.50	3.50	3.50	3.50
Rate of increase of pension	3.15	3.05	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	2.75	2.50	2.75	3.75

Life expectancy after age 65 is 23 years for men and 24 years for women (2017: 24 years for men and 25 for women).

continued...

26. **Employee benefit obligation - continued...**

The financial position of the fund based on the above assumptions

	2018 £'000	2017 £'000	2015 £'000	2014 £'000
Scheme liabilities	(747,751)	(856,844)	(786,400)	(637,072)
Scheme assets	715,705	754,510	692,450	580,680
Total deficit	(32,046)	(102,334)	(93,950)	(56,392)
Related deferred tax asset	5,448	17,397	15,972	9,326
Net pension (liability)	(26,598)	(84,937)	(77,978)	(47,066)

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

	Valuation of assets 2018 £'000	Valuation of assets 2017 £'000	Expected return 2018 %	Expected return 2017 %
Quoted UK equity	62,769	75,785	2.75	2.50
Quoted overseas equity	182,051	194,875	2.75	2.50
Quoted gilts fixed	100,497	19,080	2.75	2.50
Quoted gilts index linked	114,288	16,920	2.75	2.50
Quoted UK corporate bonds fixed	23,833	101,937	2.75	2.50
Quoted UK corporate bonds index linked	856	90,397	2.75	2.50
Quoted overseas corporate bonds fixed	22,696	38,216	2.75	2.50
Quoted overseas corporate bonds index linked	-	33,890	2.75	2.50
Quoted hedge funds	-	13	2.75	2.50
Cash	34,504	13,690	2.75	2.50
Infrastructure assets	93,183	92,677	2.75	2.50
Freehold property*	17,170	16,170	2.75	2.50
Other	63,858	60,860	2.75	2.50
Total	715,705	754,510	2.75	2.50

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

	2018 £'000	2017 £'000
Actual return on fund assets	(15,818)	47,639

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

	2018 £'000	2017 £'000
Current service cost	7,776	29,482
Employee contribution	(109)	(343)
Total operating charge	7,667	29,139

Analysis of the amount charged to Other Finance Cost

	2018 £'000	2017 £'000
Expected return on pension scheme assets	18,585	19,059
Interest on pension liabilities	(20,455)	(21,352)
Net finance return	**(1,870)**	**(2,293)**

continued...

26. **Employee benefit obligation - continued...**

Analysis of amount recognised in Statement of Comprehensive Income

	2018 £'000	2017 £'000
Actual return less expected return on assets	(34,403)	28,580
Experience gains and losses on liabilities	11,128	1,482
Changes in demographic assumptions	-	224
Changes in financial assumptions	58,929	(42,486)
Actuarial gain/(loss) recognised in statement of comprehensive income	**35,654**	**(12,200)**
Cumulative loss recognised in statement of comprehensive income	**(188,294)**	**(223,948)**

	2018	2017
Movement in the present value of defined benefit obligation		
Present value of obligation 1st January	856,844	786,400
Service cost	7,776	29,482
Interest cost	20,455	21,352
Benefits paid	(40,860)	(21,170)
Curtailment benefit	(26,407)	-
Actuarial (gains)/losses	(70,057)	40,780
Obligation at 31st December	747,751	856,844

	2018	2017
Changes in fair value of fund assets		
Fair value of plan assets, 1st January	754,510	692,450
Expected return on fund assets	18,585	19,059
Employer contribution	19,837	36,697
Member contribution	109	343
Benefits paid	(40,860)	(21,170)
Administrative expenses	(2,073)	(1,449)
Actuarial (losses)/gains	(34,403)	28,580
Fair value at 31st December	715,705	754,510
Scheme deficit	(32,046)	(102,334)

History of experience gains and losses:

	2018	2017	2015	2014
Difference between expected and actual return on scheme assets £'000:	(34,403)	28,580	85,822	5,327
Percentage of scheme assets %	(4.8)	3.8	12.4	0.9
Experience gains and losses on scheme liabilities £'000:	11,128	1,482	26,274	(23,707)
Percentage of scheme liabilities %	1.5	0.2	3.3	(3.7)
Total amount recognised in statement of comprehensive income £'000:	35,654	(12,200)	(38,646)	(18,380)
Percentage of scheme liabilities %	4.8	(1.4)	(4.9)	(2.9)

continued...

26. **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

	2018 £'000	2017 £'000
Total pension liability at 31st December	747,751	856,844
Estimated decrease in pension liability if discount rate increases by 0.25%	(34,907)	(42,199)
Estimated increase in pension liability if discount rate decreases by 0.25%	37,426	45,482
Estimated increase in pension liability if inflation rate increases by 0.25%	24,845	29,057
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(25,762)	(28,603)

(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 2018, in accordance with the Plan rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group expects to contribute approximately £3.1 million to the plan in the next financial year.

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

	2018	2017	2016	2015
Inflation	3.25	3.25	3.25	3.00
Rate of increase of salaries	3.50	3.50	3.50	3.50
Rate of increase of pension	3.25	3.25	3.00	3.15
Pre-and post-retirement rate to discount scheme liabilities	2.75	2.50	2.75	3.75

Life expectancy after age 65 is 22 years (2017: 22 years) for men and 24 years (2017: 24 years) for women.

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

	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Scheme liabilities	(73,411)	(73,963)	(65,600)	(52,423)
Scheme assets	68,473	69,432	62,931	51,954
Scheme deficit	(4,938)	(4,531)	(2,669)	(469)

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

	Valuation of assets 2018 £'000	Valuation of assets 2017 £'000	Expected return 2018 %	Expected return 2017 %
Quoted government bonds	68,473	69,432	2.75	2.50

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

continued...

26. **Employee benefit obligation - continued...**

Analysis of the amount charged to profit or loss

	2018 £'000	2017 £'000
Current service cost	2,947	2,502
Employee contribution	(437)	(467)
Total operating charge	2,510	2,035

Analysis of amount charged to Other Finance Cost

	2018 £'000	2017 £'000
Expected return on pension scheme assets	1,753	1,735
Interest on pension liabilities	(1,863)	(1,813)
Net finance return	(110)	(78)

Analysis of amount recognised in statement of comprehensive income

	2018 £'000	2017 £'000
Actual return less expected return on assets	(4,147)	1,947
Experience gains and losses on liabilities	(243)	(1,417)
Changes in demographic assumptions	(25)	-
Changes in financial assumptions	3,814	(3,656)
Actuarial loss recognised in statement of comprehensive income	(601)	(3,126)
Cumulative loss recognised in statement of comprehensive income	(14,862)	(14,261)

Movement in the present value of defined benefit obligation:

	2018 £'000	2017 £'000
Present value of obligation, 1st January	73,963	65,600
Service cost	2,947	2,502
Interest cost	1,863	1,813
Benefits paid	(1,816)	(1,025)
Actuarial losses	(3,546)	5,073
Closing balance, 31st December	73,411	73,963

Changes in the fair value of plan assets:

	2018 £'000	2017 £'000
Fair value of plan assets, 1st January	69,432	62,931
Expected return on plan assets	1,753	1,735
Company contribution	2,947	3,577
Employee contributions	437	467
Benefits paid	(1,816)	(1,025)
Administrative expenses	(133)	(200)
Actuarial gains	(4,147)	1,947
Closing balance, 31st December	68,473	69,432

continued...

26. **Employee benefit obligation - continued...**

History of experience gains and losses

	2018	2017	2016	2015
Amount (£'000)	(4,147)	1,947	6,494	(1,613)
Percentage of scheme assets (%)	(6%)	3%	10%	(3%)
Experience gains and losses on scheme liabilities:				
Amount (£'000)	(243)	(1,417)	(1,061)	1,052
Percentage of scheme liabilities (%)	(-)	(2%)	(2%)	2%
Total amount recognised in statement of comprehensive income:				
Amount (£'000)	(601)	(3,126)	(3,671)	(561)
Percentage of scheme liabilities (%)	(1%)	(4%)	(6%)	(1%)

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

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

	2018 £'000	2017 £'000
Total pension liability at 31st December	73,411	73,963
Estimated decrease in pension liability if discount rate increases by 0.25%	(3,626)	(3,655)
Estimated increase in pension liability if discount rate decreases by 0.25%	3,887	3,919
Estimated increase in pension liability if inflation rate increases by 0.25%	3,813	3,843
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(3,037)	(3,604)

(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 2018, 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 an unconditional right of refund and therefore under IAS 19 and IFRIC 14, the group only recognises the asset of the pension fund up to the limit of the liability (the asset ceiling).

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

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

	2018 (%)	2017 (%)	2016 (%)	2015 (%)
Inflation	3.25	3.25	3.25	3.00
Rate of increase of salaries	3.50	3.50	2.25	3.50
Rate of increase of pension	3.25	3.25	3.00	3.15
Rate of increase for deferred pensions	3.25	3.25	2.25	2.25
Pre-and post-retirement rate to discount scheme liabilities	2.75	2.50	2.75	3.75

Life expectancy after age 65 is 23 years (2017: 23 years) for men and 25 years (2017: 25 years) for women.

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

	2018 £'000	2017 £'000	2015 £'000	2014 £'000
Scheme liabilities	(20,285)	(21,210)	(20,917)	(16,472)
Scheme assets	20,212	20,966	20,167	17,133
Less asset ceiling provision	(742)	-	-	(661)
Pension (deficit)	(815)	(244)	(750)	-

continued...

26. **Employee benefit obligation - continued...**

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

	Valuation of assets 2018 £'000	Valuation of assets 2017 £'000	Expected return 2018 %	Expected return 2017 %
Quoted bonds	20,212	20,966	2.75	2.50

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.

	2018 £'000	2017 £'000
Current service cost	-	-

	2018 £'000	2017 £'000
Analysis of amount charged to Other Finance Cost		
Expected return on pension scheme assets	523	550
Interest on pension liabilities	(524)	(566)
Net finance return	(1)	(16)

Analysis of amount recognised in statement of comprehensive income

	2018 £'000	2017 £'000
Actual return less expected return on assets	(1,239)	575
Experience gains and losses on liabilities	48	605
Changes in demographic assumptions	(150)	(1,138)
Changes in financial assumptions	1,139	106
Effect of the asset ceiling	(742)	-
Actuarial (loss)/gain recognised in statement of comprehensive income	(944)	148
Cumulative post acquisition gain recognised in statement of comprehensive income	1,951	2,895

Movement in the present value of defined benefit obligation:

	2018 £'000	2017 £'000
Present value of obligation, 1st January	21,210	20,917
Interest cost	524	566
Benefits paid	(412)	(700)
Actuarial loss	(1,037)	427
Closing balance, 31st December	20,285	21,210

Changes in the fair value of plan assets:

	2018 £'000	2017 £'000
Fair value of plan assets, 1st January	20,966	20,167
Expected return on plan assets	523	550
Employer contributions	374	374
Benefits paid	(412)	(700)
Actuarial gains	(1,239)	575
Closing balance, 31st December	20,212	20,966

continued...

26. **Employee benefit obligation - continued...**

History of experience gains and losses

	2018	2017	2015	2014
Difference between expected and actual return on scheme assets:				
Amount (£'000)	(1,239)	575	2,407	1,322
Percentage of scheme assets	(6%)	3%	12%	8%
Experience gains and losses on scheme liabilities:				
Amount (£'000)	48	605	80	(1,011)
Percentage of scheme liabilities	-	3%	4%	(6%)
Total amount recognised in statement of comprehensive income:				
Amount (£'000)	(944)	148	(1,150)	265
Percentage of scheme liabilities	(5%)	1%	(5%)	2%

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

	2018 £'000	2017 £'000
Total pension liability at 31st December	20,285	21,210
Estimated decrease in pension liability if discount rate increases by 0.25%	(1,086)	(1,139)
Estimated increase in pension liability if discount rate decreases by 0.25%	1,170	1,220
Estimated increase in pension liability if inflation rate increases by 0.25%	851	940
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(801)	(884)

27. **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.

28. **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 £1,032,104,000 (2017: £2,112,630,000).

29. **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.

continued...

29. **Related party disclosures – continued...**

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

Related party	Nature of relationship	Good/service provided	Transactions in year £'000 2018	2017	Amount owed to or by Skanska UK Plc at year end £'000 2018	2017
Skanska AB	Ultimate parent company of Skanska UK Plc	Skanska AB provides management services to Skanska UK Plc	2,858	3,824	-	1,927
Skanska AB	Ultimate parent company of Skanska UK Plc	Skanska AB receives management services from Skanska UK Plc	1,855	2,188	84	178
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	0	22	0	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	1,304	1,451	-	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	247	484	102	22
Skanska Residential Developments UK Limited	Fellow group undertaking. Ultimately owned by Skanska AB	Skanska UK PLC provides management and facilities management services to Skanska Residential Developments UK Limited	354	140	824	582

During 2019, the directors became aware that dividends in specie were distributed in February 2018 and December 2018 totalling £47.7m in contravention of the Companies Act 2006 because interim accounts had not been filed at Companies House prior to distribution. Additionally, the Company did not accrue sufficient distributable reserves to support the dividend in specie distributed in February 2018 until March 2018. At a board meeting on 27 June 2019, a board resolution was passed which authorised the appropriation of distributable profits for the relevant dividends, and removed any right for the Company to pursue shareholders or directors for payments. The overall effect of the resolution being passed was to return all parties to the position they would have been in so far as possible had the relevant dividends been made in full compliance with the Companies Act 2006.

continued...

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

Group

	2018 £'000	2017 £'000
Profit before income tax	44,081	13,492
Depreciation	6,734	4,328
Amortisation of intangibles	848	623
Goodwill impairment	-	9,100
Impairment of intangibles	6,243	-
Increase in provisions	(6,780)	28,474
Employee ownership scheme	851	942
Pension service cost	10,177	31,174
Pension company contribution	(20,951)	(38,999)
Pension curtailment	(26,407)	-
Finance costs	1,981	3,043
Finance income	(3,967)	(1,932)
	12,810	50,245
(Increase)/decrease in inventories	(16,489)	2,283
Increase in trade and other receivables	(1,127)	(42,324)
Increase/(decrease) in trade and other payables	8,542	(17,418)
Cash generated from operations	3,736	(7,214)

Company

	2018 £'000	2017 £'000
Profit/(loss) before income tax	165,541	(5,046)
Depreciation charges	1,122	1,073
Increase in investment provision	-	843
Employee share ownership	851	942
Pension Service Cost	7,667	29,139
Pension company contribution	(17,764)	(35,248)
Pension curtailment	(26,407)	-
Finance costs	1,870	2,293
Finance income	(4,654)	(4,326)
	128,226	(10,330)
(Increase)/decrease in trade and other receivables	(75,643)	1,703
Decrease in trade and other payables	(94,385)	(11,090)
Cash generated from operations	(41,802)	(19,717)

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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
Skanska Construction UK Limited			
Skanska Aker Solutions Joint Venture	1,8	Jacobs E&C Limited	50%
Balfour Beatty Skanska Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
Skanska BAM Northern Hub Joint Venture	1,9	BAM Construct UK Limited	50%
Costain Skanska C405 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C360 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C412 Joint Venture	1,2	Costain Limited	50%
SMB Joint Venture	1,5,6	Balfour Beatty / MWH UK Ltd	33%
Balfour Beatty Skanska M25 Junction 30 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
SEESA AMS Joint Venture	1,11,12	Alstom Grid UK Limited / Mott Macdonald Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
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%
Bakerloo Line Link Joint Venture	1,2	Costain Limited	50%
A14 Huntingdon to Cambridge	1,2,5	Balfour Beatty / Costain Limited	33%
Cementation Skanska Limited			
Cementation Skanska Balfour Beatty GE Joint Venture Ground Engineering Joint Venture	1,3	Balfour Beatty Ground Engineering Limited	50%
Cementation Skanska Zublin JV	1,4	ED Zublin AG (UK Branch)	50%
Skanska J.V. Projects Limited			
Skanska Balfour Beatty M25 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%

The addresses of these Joint arrangements are as follows:

1 Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW
2 Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB
3 Pavilion 2, Ashwood Park, Ashwood Way, Basingstoke, Hampshire, RG23 8BG
4 Albstadtweg 1,70567 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

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32. Post balance sheet events

On 1st January 2019, Skanska UK Plc acquired two additional companies Skanska Infrastructure Development Limited and Skanska Infrastructure Investment Limited from its immediate parent undertaking Skanska Infrastructure Development AB. The ultimate parent company of Skanska Infrastructure Development AB is Skanska AB.