

**Strategic Report, Directors' Report and
Audited Financial Statements For The Year Ended 31st December 2018**
for
Cementation Skanska Limited



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For The Year Ended 31st December 2018**

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Cementation Skanska Limited

Company Information

For The Year Ended 31st December 2018

Directors:

J M Dunbar
J D Morris

Secretary:

S Leven

Registered office:

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

Registered number:

00937574 (England and Wales)

Auditors:

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

**Strategic Report
For The Year Ended 31st December 2018**

The directors present their strategic report for the year ended 31st December 2018.

Review of business

The Company made an operating profit of £12,044,000 in the year (2017: £7,490,000 operating profit). The Company continued to invest in the business during the year to ensure that it continues to build upon its place in the piling, foundations and ground engineering market.

Principal risks and uncertainties

The Company'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 Company'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 Company 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 Company aims to mitigate these risks by setting and monitoring cash flow targets and by assessing credit worthiness of all material business partners.

Market & outlook

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

Key performance indicators

The Company's key performance indicators are revenue growth and operating margin. This is consistent with Skanska UK Plc and the other principal trading companies within the Skanska Group.

In addition, the Company is monitored throughout the year against a scorecard of issues which include: client satisfaction assessments; the number of employee performance appraisals and development plans undertaken; adherence to the Skanska Group's in-house commercial procedures; etc.

The environment

The Company is required to pursue policies that comply with the relevant legislation and standards applicable to its particular industries

By order of the board:



.....
S Leven - Secretary

Date: 1 MARCH 2019

Directors' Report

For The Year Ended 31st December 2018

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

Principal activity

The Company's principal activities are to carry out piling and foundation work, including ground engineering, which are sold into the market place.

Dividends

No dividend is proposed for the year ending 31st December 2018.

An interim dividend of £9.8 million (£1.31 per share) in respect of the year ended 31st December 2017 was paid to ordinary shareholders on 21st February 2018.

Future developments

While the market conditions remain challenging, the Board considers that there is scope for development of the Company's activities.

Directors

The directors shown below have held office during the whole of the period from 1st January 2018 to the date of this report.

J M Dunbar

J D Morris

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 this report. No director during the year had a material interest in any contract significant to the Company's business.

Directors' indemnity provisions

In accordance with the requirements of the Companies (Audit, Investigations and Community Enterprise) Act 2004, as at the date of this report, the articles of association contained provision for third-party qualifying indemnities where the Company had agreed to indemnify the directors in respect of losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company, and this was in force throughout the financial year ended 31st December 2018.

Policy on payment of creditors

Operating businesses within the Skanska Group are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is the Company's 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.

Directors' Report
For The Year Ended 31st December 2018

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.

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 Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position, are set out above and in the Strategic Report. The directors having given due consideration to these, believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries and reviewing the Company's forecasted future cashflows, the directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. Accordingly, the directors continue to adopt going concern basis in preparing the Company's financial statements.

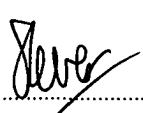
Statement as to disclosure of information to auditor

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 Company'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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the board:


.....
S Leven - Secretary

Date: 1 MARCH 2019

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

The directors are responsible for preparing the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' and applicable law). 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 of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK accounting standards 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 company will continue in business.

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

Report of the Independent Auditors to the Members of Cementation Skanska Limited

Opinion

We have audited the financial statements of Cementation Skanska Limited for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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 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
Cementation Skanska Limited**

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 5, 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 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 company or to cease operations, or have no realistic alternative but to do so.

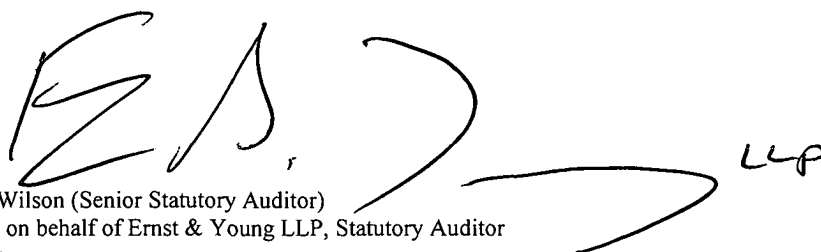
Auditor's responsibilities for the audit of the financial statements

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.

A large, stylized handwritten signature in black ink, appearing to read 'DAVID WILSON' followed by a long horizontal flourish and the letters 'LLP'.

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

04 MAR 2019

Date:

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

	Notes	2018 £'000	2017 £'000
Continuing Operations			
Turnover	3	62,398	68,800
Cost of sales		<u>(41,883)</u>	<u>(53,692)</u>
Gross profit		20,515	15,108
Administrative expenses		<u>(8,471)</u>	<u>(7,618)</u>
Operating profit		12,044	7,490
Interest receivable and similar income	5	<u>111</u>	<u>30</u>
Profit before taxation	6	12,155	7,520
Tax on profit	7	<u>(2,465)</u>	<u>(1,421)</u>
Profit for the financial year		9,690	6,099
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>9,690</u></u>	<u><u>6,099</u></u>

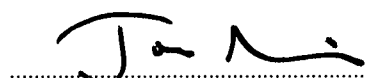
All activity relates to continuing operations.

Statement of Financial Position
31st December 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	8	12,550	10,788
Current assets			
Stocks	9	579	706
Trade receivables	10	7,560	13,159
Prepayments and other debtors	11	1,491	49
Contract assets	12	6,134	37
Deferred tax asset	13	393	397
Cash at bank		<u>15,833</u>	<u>27,211</u>
		31,990	41,559
Creditors: Amounts falling due within one year			
Creditors	14	(12,758)	(7,421)
Contract liabilities	15	(219)	(2,847)
Income tax payable		-	(2,137)
		<u>(12,977)</u>	<u>(12,405)</u>
Net current assets		<u>19,013</u>	<u>29,154</u>
Total assets less current liabilities		31,563	39,942
Provisions for liabilities	16	<u>(5,705)</u>	<u>(13,974)</u>
Net assets		<u>25,858</u>	<u>25,968</u>
Capital and reserves			
Called up share capital	17	7,500	7,500
Retained earnings	18	<u>18,358</u>	<u>18,468</u>
Shareholders' funds		<u>25,858</u>	<u>25,968</u>

01 MAR 2019

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



J D Morris - Director

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	7,500	12,369	19,869
Changes in equity			
Profit for the year	-	6,099	6,099
Other comprehensive income	-	-	-
Total comprehensive income	-	6,099	6,099
Balance at 31st December 2017	7,500	18,468	25,968
Changes in equity			
Profit for the year	-	9,690	9,690
Other comprehensive income	-	-	-
Total comprehensive income	-	9,690	9,690
Dividends paid	-	(9,800)	(9,800)
Balance at 31st December 2018	7,500	18,358	25,858

**Notes to the Financial Statements
For The Year Ended 31st December 2018**

1. Statutory information

Cementation Skanska Limited (the 'Company') is a private 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), except where otherwise indicated.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and in accordance with applicable accounting standards. The financial statements have been prepared under the historical cost convention and the Companies Act 2006.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
 - paragraph 50 of IAS 41 Agriculture;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 39C, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.
- the requirements of the second sentence of paragraph 110, and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

The results of the Company are included in the consolidated financial statements of Skanska Construction UK Limited which are available from Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW.

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

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 IFRS 15 Revenue from Contracts with Customers mainly concerns how revenue from contracts with customers, excluding leases, is to be reported and how payment from customers is to be measured. If a customer contract contains more than one performance obligation, the price for each performance obligation is to be determined and the revenue recognised when the obligation has been satisfied, either over time or at a point in time.

The Company adopted the IFRS 15 Revenue from Contracts with Customers standard with effect from January 1, 2018. The Company 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 Company recognised no adjustments. The Company 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.

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.

Any changes required will be applied by adjusting the balance sheet on 31 December 2018, the date of initial application, with no restatement of comparative information.

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.

The Company does not expect any material changes in relation to the classification and measurement of financial assets and liabilities, and the associated accounting policies as detailed in the notes to the financial statements.

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.

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).

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

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.

There is no expected impact on the Company of the new ECL impairment model. Trade receivables and other receivables do not carry any interest and are stated at their nominal value less an appropriate allowance for unrecoverable amounts.

c) Hedge accounting

IFRS 9 introduces 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.

The hedge accounting requirements under IFRS 9 are not expected to have any impact on the Company.

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

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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Trade receivables and other receivables do not carry any interest and are stated at their nominal value, reduced by appropriate allowances for expected credit losses. Expected credit losses are calculated utilising a provision matrix under the simplified approach under IFRS 9. Overdrafts are stated at their nominal value. Interest is recognised as it accrues using the effective interest method. Trade payables on normal terms are not interest bearing and are stated at their nominal value

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

2. Accounting policies - continued

Inventories

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

Cost of consumables is calculated based on purchase cost on a first-in/first-out basis.

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

Taxation

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

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

Provisions

Provisions are recognised when the Company 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 Company 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 comprehensive income 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.

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.

Employee benefit costs

The company operates a defined contribution pension scheme. Contributions payable to the Company's pension scheme are charged to the income statement in the period to which they relate.

Certain of the Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is a fellow group company. The Company recognises a cost in its income statement equal to its contribution payable for the period, but does not separately recognise the related assets and liabilities on its balance sheet. The contribution paid by the entity is based on employees' salaries.

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 Company 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 Company holds a participating interest on a long-term basis and exercises significant influence.

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

2. Accounting policies - continued

The Company 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 Company's share of income and expenses and assets and liabilities measured according to the terms of the arrangements.

Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the Company'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 income statement.

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.

Tangible fixed assets

Tangible fixed assets are 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:

Plant & Equipment	3-10 years
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Accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with FRS 101 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 and warranty provisions.

The accounting policy for turnover, details the principal estimation techniques used in establishing attributable profit on construction contracts.

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

3. Turnover

The turnover and profit before taxation are attributable to the one principal activity of the Company.

An analysis of turnover by geographical market for the year ended 31st December 2018 is given below:

	2018 £'000	2017 £'000
United Kingdom	<u>62,398</u>	<u>68,800</u>
	<u><u>62,398</u></u>	<u><u>68,800</u></u>

No revenue was derived from exchange of goods or services (2017: £nil).

4. Employees and directors

	2018 £'000	2017 £'000
Wages and salaries	17,126	17,792
Social security costs	1,769	1,842
Other pension costs	<u>2,167</u>	<u>1,989</u>
	<u><u>21,062</u></u>	<u><u>21,623</u></u>

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

	2018	2017
Management and administration	191	216
Technical	<u>152</u>	<u>162</u>
	<u><u>343</u></u>	<u><u>378</u></u>

	2018 £	2017 £
Directors' remuneration	361,492	344,885
Long-term incentive plans	2,532	2,650
Pensions	<u>39,662</u>	<u>42,464</u>

Information regarding the highest paid director is as follows:

	2018 £	2017 £
Remuneration	193,923	155,073
Pension	<u>22,262</u>	<u>22,231</u>

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

	2018	2017
Defined benefit schemes	-	2
Defined contribution schemes	<u>2</u>	<u>-</u>

5. Interest receivable and similar income

	2018 £'000	2017 £'000
Bank interest	<u>111</u>	<u>30</u>
	<u><u>111</u></u>	<u><u>30</u></u>

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

6. Profit before taxation

The profit before taxation is stated after charging/(crediting):

	2018	2017
	£'000	£'000
Depreciation - owned assets	2,227	2,259
Profit on disposal of fixed assets	-	(581)
Costs of inventory recognised as an expense	692	813
Auditors' remuneration	30	10
	<u>2,949</u>	<u>2,501</u>

7. Taxation

Analysis of tax expense

	2018	2017
	£'000	£'000
Current tax:		
UK Corporation Tax current period	2,390	2,267
Adjustment in respect of prior period	70	(130)
Total current tax	<u>2,460</u>	<u>2,137</u>
Deferred tax:		
Deferred tax current period	(116)	(716)
Adjustment in respect of prior period	121	-
Total deferred tax	<u>5</u>	<u>(716)</u>
Total tax expense in statement of comprehensive income	<u>2,465</u>	<u>1,421</u>

Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018	2017
	£'000	£'000
Profit before income tax	<u>12,155</u>	<u>7,520</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	2,309	1,448
Effects of:		
Expenses not deductible for tax purposes	(49)	8
Prior year adjustments	191	(130)
Change in tax rate	14	(95)
Tax expense	<u>2,465</u>	<u>1,421</u>

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 reductions to 17% from April 2020 have been substantively enacted and in accordance with Accounting Standards the impact of these reductions have been reflected in the financial statements as at 31st December 2018.

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

8. Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1st January 2018	29,927
Additions	4,046
Disposals	<u>(968)</u>
At 31st December 2018	<u>33,005</u>
Depreciation	
At 1st January 2018	19,139
Charge for year	2,227
Eliminated on disposal	<u>(911)</u>
At 31st December 2018	<u>20,455</u>
Net book value	
At 31st December 2018	<u>12,550</u>
At 31st December 2017	<u>10,788</u>

9. Stocks

	2018 £'000	2017 £'000
Consumables	<u>579</u>	<u>706</u>
	<u>579</u>	<u>706</u>

10. Trade receivables: amounts falling due within one year

	2018 £'000	2017 £'000
Trade debtors	7,191	831
Amounts owed by fellow undertakings	<u>369</u>	<u>12,328</u>
	<u>7,560</u>	<u>13,159</u>

Amounts due from fellow group undertakings are interest-free and repayable upon demand.

11. Prepayments and other debtors: amounts falling due within one year

	2018 £'000	2017 £'000
Prepayments and accrued income	<u>1,491</u>	<u>49</u>
	<u>1,491</u>	<u>49</u>

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

12. **Contract Assets**

At 31 December 2018, the Company had contract assets of £6,134,000 (2017: £37,000), which is net of an expected credit loss allowance of £101,500 (2017: £nil). Contract assets consists of work-in-progress.

13. **Deferred tax asset**

Deferred tax asset: falling due in more than one year

	2018 £'000	2017 £'000
Accelerated capital allowances	<u>393</u>	<u>397</u>
		Deferred tax
		£'000
Deferred tax asset at 1st January 2018		397
Deferred tax credit in the profit and loss account		(4)
		<hr/>
Deferred tax asset at 31st December 2018		<u>393</u>

14. **Creditors: amounts falling due within one year**

	2018 £'000	2017 £'000
Trade creditors	2,751	972
Amounts owed to fellow group undertakings	2,666	825
Other creditors	1,367	2,006
Accruals	5,974	3,618
	<hr/>	<hr/>
	<u>12,758</u>	<u>7,421</u>

Amounts owed to fellow group undertakings are interest-free and repayable upon demand. Trade creditors and other creditors are non-interest bearing and are normally settled on average 30 day basis.

15. **Contract Liabilities**

At 31 December 2018, the Company had contract liabilities of £219,000 (2017: £2,847,000). Contract liabilities consists of billings-in-excess.

Revenue recognised in the year from amounts that were included in the contract liability at the beginning of the period equals £2,847,000 (2017:£8,357,238). Revenue recognised in the year from performance obligations satisfied in previous years equals £nil (2017: £nil).

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

16. Provisions for liabilities

	Warranty £'000
2018	
At 01 January 2018	13,974
Released in year	(10,577)
Created in year	2,308
Utilised	-
	<hr/>
At 31 December 2018	<u><u>5,705</u></u>

Following a detailed review of historical performance and cost of quality on relevant projects, the required provisions was determined to be lower than previously recorded, and therefore there was a release of £10,577,000.

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

Warranty provisions were made in the normal cause of our business.

17. Called up share capital

Authorised, Allotted, issued and fully paid:		Nominal value: £1	2018	2017
Number:	Class:		£	£
7,500,000	Ordinary		<u><u>7,500,000</u></u>	<u><u>7,500,000</u></u>

Notes to the Financial Statements - continued
For The Year Ended 31st December 2018

18. Reserves

	Retained earnings £'000
At 1st January 2018	18,468
Profit for the year	9,690
Other comprehensive income	-
	<u>28,158</u>
Dividends paid	(9,800)
At 31st December 2018	<u>18,358</u>

19. Ultimate parent company

Skanska Construction UK Limited is the immediate parent undertaking and heads the smallest group in which the results of the Company are consolidated.

The ultimate parent company is Skanska AB, a company incorporated in Sweden, which heads the largest group in which the results of the Company are consolidated.

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

20. Contingent liabilities

The Company 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 company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefit will be required to settle the obligation.

21. Joint arrangements

The Company has entered into a number of Joint arrangements with different partners for the purposes of undertaking specific contracts. The principal Joint arrangements within the company are as follows:

Name of Joint arrangements	Address	Joint arrangement partners	Control
Cementation Skanska Balfour Beatty Ground Engineering Joint Venture	1,2	Balfour Beatty Ground Engineering	50%
Cementation Skanska Zublin JV	1,3	Ed Zublin AG	50%

The addresses of these Joint arrangements are as follows:

- 1 Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW
- 2 Pavilion 2, Ashwood Park, Ashwood Way, Basingstoke, Hampshire, RG23 8BG
- 3 Albstadtweg 1, 70567 Stuttgart, Germany

22. Retirement benefit obligations

The Skanska Pension Fund

The Company, in its capacity as employing company, participates in The Skanska Pension Fund, which includes a defined benefit section and a defined contribution section. This scheme is accounted for in a parent company Skanska UK PLC, details of the pension scheme can be found in these accounts.