

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

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For The Year Ended 31st December 2017**

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Skanska Construction UK Limited

Company Information
For The Year Ended 31st December 2017

Directors:

G L Craig
C K K Gangotra
T P Faulkner
M G Neeson
K M Dowding

Secretary:

S Leven

Registered office:

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

Registered number:

00191408 (England and Wales)

Auditors:

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

Skanska Construction UK Limited

Group Strategic Report For The Year Ended 31st December 2017

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

The Group recorded an operating loss of £3.2 million in 2017 (2016: £32.1 million operating profit) on revenues of £1,760.1 million (2016: £1,610.5 million). This included an impairment charge on goodwill amounting to £(9.1) million. Operating margins were -0.2% or 0.3% adjusted for the impairment charge (2016: 2.0%).

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

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

Financial position

The Group's total equity decreased by £6.9 million in the year. This was predominantly made up of £4.8 million post-tax losses and actuarial losses before tax of £(2.5) million arising from the Group's pension schemes. Total equity attributable to our shareholders at the year-end was £250.2 million (2016: £257.7 million).

Our consolidated year-end cash and cash equivalents totalled £293.8 million, a reduction of £18.3 million in the year. Cash inflow from operating activities was £8.6 million (2016: £9.2 million outflow). The Group has no debt.

Principle risks and uncertainties

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

Major contract wins

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

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

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

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

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

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

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

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

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

Major Project Completion

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

Laser Focus Plan

In late 2017 as part of our Profit with Purpose Business Plan, which will guide us through 2020, the Laser Focus Plan was launched with the aim to ensure we remain a profitable and sustainable business. With an over-arching objective to hit or beat tender margin on every contract, the first phase of the plan is to focus on five key areas: Right people, Design control, Understanding and applying the deal, Quality, and Forecasting and Reporting. The second phase of the Laser Focus Plan was launched in the first quarter of 2018, which following a strategic review of our markets and sectors, resulted in a reorganisation of the Group's Operating Units; reducing the number from 8 to 6. The Group's two building operations units which were formerly separated on a geographical basis were brought together into one organisation, and the Facilities Services operation combined with the Mechanical and Electrical engineering business into one Building Services operating unit.

Values provide business benefits

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

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

Safety, health and wellbeing

During 2017 we have made significant improvements in all areas of safety, health and wellbeing. Our lost time accident rate has reduced to the lowest ever rate at 2.1. This has been achieved by focusing on the right balance between compliance and a culture of care and concern. On a practical level this has been delivered through training on the H&S management system, developing effective pre-task planning and the competence of supervisors. In regard to health and wellbeing, we are the first UK construction company to achieve SEQOHS accreditation for our occupational health clinical work. Wellbeing is a growing concern in society and in the construction sector and we are a leader in the industry. During 2017 we remodelled and relaunched our wellbeing offering and participated in the Britain's Healthiest Company survey. We developed our mental health programme and now have over 200 mental health ambassadors in the business.

Ethics

Within the Group we work in line with Skanska AB Group's Code of Conduct to increasingly act in a sustainable, transparent and responsible manner, to better meet the long-term demands of the Group's shareholders, customers and employees, as well as society at large. Our aim is to ensure all projects reflect our purpose and are not only profitable but are delivered without ethical breaches and with a transparent and inclusive culture. During 2017 we maintained our focus on ethics leadership by ensuring all our employees are trained on our Code of Conduct within one month of starting and re-trained every two years, and that our employees take part in regular 'dilemma' discussions where they debate how they would approach a variety of situations. A key discussion topic through 2017 was the interaction between profit and ethics, and how to run a highly ethical and profitable company such that the two aspirations are mutually supportive. We also used 2017 to continue the roll-out of our new Code of Conduct launched in 2016. As well as an internal communications campaign, we placed additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We developed new processes for scrutinising the ethical culture of potential partners, to further engage our supply chain we worked to ensure our Supplier Code is discussed in start-up meetings with suppliers, and we ensured ethics was an agenda item at our various supplier engagement events. Finally, as part of a Group-wide initiative, we engaged top leadership and clusters of employees in an ethics risk assessment exercise, the results of which will feed into our ongoing ethics improvement plans.

Environment

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

- Operational environmental management, where our internal compliance leadership group sets annual continual improvement objectives, and has been focusing on improved monitoring and reporting, better waste management, and better sharing of best practice;
- Winning profitable green business, where we maintain our green brand through demonstrating visible leadership: one of our Executive Vice Presidents is a member of a sustainability leadership sub-group of the Construction Leadership Council; our Director of Environment hosted a rail industry sustainability summit and presented on low carbon construction at the Institute of Civil Engineers, our facilities management business was listed at the top of the Sustainable Facilities Management Index (SFMI), and the Group's environmental professionals continue to engage with a wide range of external green groups, such as the UK Green Building Council;

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

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

Awards won:

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

Great People

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

The Group aims to be the most attractive employer in its industry. The Group sets a culture based on transparency, values and high performance, with employees working together in teams to build for a better society. The Group provides its people with many opportunities to learn and grow: when an employee grows, the Group as a company develops. The Group wants employees to continuously develop and contribute to the Group.

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 700 new people to the Group during 2017, with a headcount at the year-end of 5,200 employees.

Careers and development

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

We continue to ensure that every employee participates in a formal performance development review discussion, where they are able to discuss their work performance and development needs. Those development needs are then turned into development plans, which incorporate formal training programmes or qualifications, mentoring or coaching, stretch assignments, e-learning or on-the-job learning. The Group remains committed to technical training and management development, to ensure the highest levels of employee competence and to equip line managers with the capability to lead and develop others. Our philosophy of development and promoting from within means we are able to grow much of the leadership talent needed for the future. The Skanska Academy sets out our employee development offering and has self-service functionality, placing employees at the centre of their own development. Driving operational excellence through tailored programmes includes training in financial analysis, quality of scrutiny, forecasting and reporting, project management, health and safety, environment and Business Information Modelling. All programmes are designed to improve organisational capabilities in these critical areas.

Improving through diversity and inclusion

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

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

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

People engagement

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

Awards Won

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

Market Making

By understanding the needs of customers, the Group can together with them provide the best solutions. This requires the Group to become more structured and proactive in customer relationships, and to have a more customer-focused mind-set. The aim is for more customers to recommend and choose the Group as their partner.

During 2017 we set the foundations for a three pronged initiative to become better engaged and connected with our customers.

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

These programmes will allow us to understand our customers better and identify new ways in which we can work with them as well as ensuring our base delivery is meeting or exceeding their expectations.

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

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

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

Early contractor involvement

Demand is increasing among the Group's customers for help with designing functional and cost-saving solutions. Joining a project at an early stage aids the Group in helping customers be more successful in their core businesses. This is a procurement route that we increasingly demand during our opportunity selection phase.

Operational Efficiency

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

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

Awards won:

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

Compliance with the Modern Slavery Act 2015

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

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

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

Skanska's Modern Slavery and Human Trafficking Policy, which provides greater detail on our approach to the eradication of these issues from our business and our supply chain, is published via a link on the homepage of our website. It is reviewed and published on an annual basis.

Market & Outlook

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

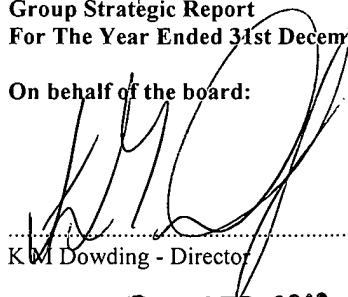
Local and national authorities continue to outsource the maintenance of premises and the roads network. This will continue to provide opportunities for our Building Services and Infrastructure Services businesses. These authorities have a growing demand to generate long term revenues from their property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

We have a conservative view for 2018, despite maintaining a good order book level, with one year until the UK leaves the EU the industry is still in a state of uncertainty as the future impact remains unclear especially on issues such as access to labour, what non-tariff barriers will apply or the likelihood of tariffs being imposed.

Skanska Construction UK Limited

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

On behalf of the board:



.....
K M Dowding - Director

Date: **28 SEP 2018**
.....

Skanska Construction UK Limited

Directors' Report

For The Year Ended 31st December 2017

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

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

Principal activities

Skanska Construction UK Limited ("the Group") is a construction services business comprising ten principal reporting units, with core activities in construction, civil engineering, utilities, infrastructure services, design, mechanical and electrical, hard and soft facilities management, steel decking and residential construction. The Group's construction activities are further split between PFI projects, frameworks including alliances and more traditional contractual arrangements.

Our business model is to integrate our core disciplines to deliver project solutions across our chosen market sectors.

Dividends

An interim dividend of £138.0m million (£3.45 per share) in respect of the year ended 31st December 2017 was paid to ordinary shareholders on 22nd February 2018.

No dividends were distributed for the year ended 31st December 2016.

Future developments

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

Directors

The directors shown below have held office during the whole of the period from 1st January 2017 to the date of this report.

G L Craig
C K K Gangotra
T P Faulkner
M G Neeson

Other changes in directors holding office are as follows:

M C Putnam - resigned 8th May 2017
Ms K M Dowding was appointed as a director on 23rd May 2017

Directors' interests and transactions with directors

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

Policy on payment of creditors

The Company and its subsidiary undertakings are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Company policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The Group's trade creditors at 31st December 2017 represented 17 days' purchases (2016: 17 days).

Directors' Report

For The Year Ended 31st December 2017

Going concern

The directors have considered the preparation of these financial statement 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 principle risks and uncertainties outlined in the Strategic Report;
- The future forecasts for the Group.

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

Employment Policies

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

To reflect society at large, the areas in which we work, and our customer profile the Group needs to increase the diversity of its workforce in terms of educational and occupational background, gender and ethnicity. Therefore, the Group is broadening its recruitment base by attaching greater importance to these issues. In addition, to provide encouragement, support and professional development for women a new Skanska Female Mentoring Programme has started. Furthermore, the Group is in the process of setting up a Diversity Forum, to ensure a wide range of views on these topics are represented, encouraged, aired and responded to appropriately.

The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the 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 Group and its subsidiary undertakings are required to pursue policies that comply with the relevant legislation and standards applicable to their particular industries.

Disabled Employees

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

Pensions

On an IAS 19 basis, the Group's defined benefit pension scheme showed a deficit of £4.8 million at 31st December 2017, compared with a £3.4 million deficit at the previous year end. The increase in the deficit has been driven by changes in actuarial assumptions. Total contributions paid into the Skanska Pension Schemes by the Group was £3.6 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 2017.

Statement as to disclosure of information to auditors

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

Skanska Construction UK Limited

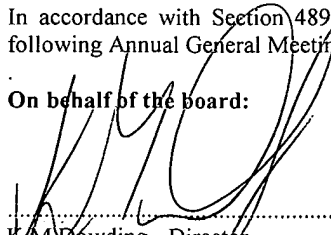
Directors' Report

For The Year Ended 31st December 2017

Auditors

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

On behalf of the board:



K M Dowding - Director

28 SEP 2018

Date:

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

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

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

Report of the Independent Auditors to the Members of Skanska Construction UK Limited

Opinion

We have audited the financial statements of Skanska Construction UK Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Financial Position, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss 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 Construction UK Limited**

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 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

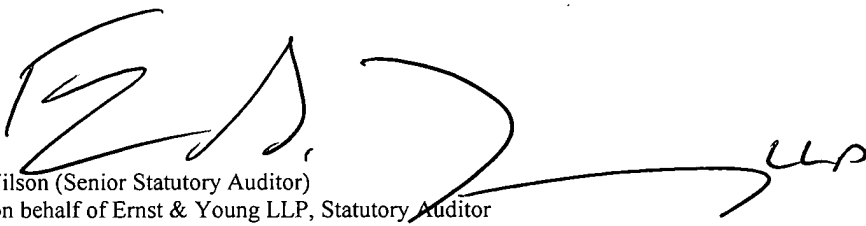
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



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

28 SEP 2018

Date:

Skanska Construction UK Limited

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

	Notes	2017 £'000	2016 £'000
Continuing operations			
Revenue	3	1,760,138	1,610,532
Cost of sales		<u>(1,683,349)</u>	<u>(1,500,734)</u>
Gross profit		76,789	109,798
Administrative expenses		<u>(80,023)</u>	<u>(77,744)</u>
Operating (loss)/profit		(3,234)	32,054
Finance costs	5	(892)	(2,736)
Finance income	5	<u>-</u>	<u>2,647</u>
(Loss)/profit before income tax	6	(4,126)	31,965
Income tax charge	7	<u>(723)</u>	<u>(5,983)</u>
(Loss)/profit for the year		<u>(4,849)</u>	<u>25,982</u>
(Loss)/profit attributable to: Owners of the parent		<u>(4,849)</u>	<u>25,982</u>

The notes on pages 22 to 50 form part of these financial statements

Skanska Construction UK Limited

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

	2017	2016
	£'000	£'000
(Loss)/profit for the year	(4,849)	25,982
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Net actuarial loss on pension scheme	(2,979)	(4,501)
Currency translation exchange difference	377	793
Income tax relating to items of other comprehensive loss	<u>507</u>	<u>765</u>
Other comprehensive loss for the year, net of income tax	<u>(2,095)</u>	<u>(2,943)</u>
Total comprehensive (loss)/income for the year	<u>(6,944)</u>	<u>23,039</u>
 Total comprehensive (loss)/income attributable to: Owners of the parent	 <u>(6,944)</u>	 <u>23,039</u>

The notes on pages 22 to 50 form part of these financial statements

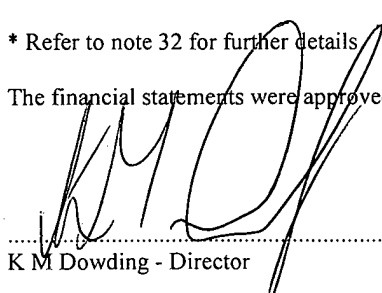
Consolidated Statement of Financial Position
31st December 2017

	Notes	2017 £'000	2016 £'000 Restated*	2015 £'000
Assets				
Non-current assets				
Goodwill	10	30,423	39,523	39,523
Intangible assets	11	3,242	602	2,001
Property, plant and equipment	12	17,146	15,033	14,163
Deferred tax	24	4,124	2,302	2,562
		<u>54,935</u>	<u>57,460</u>	<u>58,249</u>
Current assets				
Inventories	14	4,833	7,409	7,428
Trade and other receivables	15	420,940	409,037	425,628
Cash and cash equivalents	16	293,752	275,434	301,699
		<u>719,525</u>	<u>691,880</u>	<u>734,755</u>
Total assets		<u>774,460</u>	<u>749,340</u>	<u>793,004</u>
Equity				
Shareholder's equity				
Called up share capital	17	40,000	40,000	40,000
Retained earnings	18	210,718	217,662	194,623
Total equity		<u>250,718</u>	<u>257,662</u>	<u>234,623</u>
Liabilities				
Non-current liabilities				
Trade and other payables		-	-	368
Financial liabilities - borrowings				
Interest bearing loans and borrowings	20	522	577	-
Pension liability	25	4,775	3,419	469
Provisions	23	84,694	56,524	55,576
		<u>89,992</u>	<u>60,520</u>	<u>56,413</u>
Current liabilities				
Trade and other payables	19	431,657	426,512	497,208
Financial liabilities - borrowings				
Interest bearing loans and borrowings	20	55	298	1,301
Tax payable		2,038	4,348	3,459
		<u>433,750</u>	<u>431,158</u>	<u>501,968</u>
Total liabilities		<u>523,742</u>	<u>491,678</u>	<u>558,381</u>
Total equity and liabilities		<u>774,460</u>	<u>749,340</u>	<u>793,004</u>

* Refer to note 32 for further details

28 SEP 2018

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


.....
K M Dowding - Director

The notes on pages 22 to 50 form part of these financial statements

Company Statement of Financial Position
31st December 2017

	Notes	2017 £'000	2016 £'000 Restated*	2015 £'000 Restated*
Assets				
Non-current assets				
Goodwill	10	29,821	38,921	38,921
Intangible assets	11	3,242	602	2,001
Property, plant and equipment	12	6,346	3,694	3,170
Investments	13	46,002	46,002	46,002
Pension asset		-	-	509
Deferred tax	24	1,596	1,421	1,771
		<u>87,007</u>	<u>90,640</u>	<u>92,374</u>
Current assets				
Inventories	14	4,126	6,527	6,427
Trade and other receivables	15	324,066	323,933	314,969
Tax due		827	-	-
Cash and cash equivalents	16	218,939	192,419	178,574
		<u>547,958</u>	<u>522,879</u>	<u>499,970</u>
Total assets		<u>634,965</u>	<u>613,519</u>	<u>592,344</u>
Equity				
Shareholder's equity				
Called up share capital	17	40,000	40,000	40,000
Retained earnings		97,290	106,122	89,713
Total equity		<u>137,290</u>	<u>146,122</u>	<u>129,713</u>
Liabilities				
Non-current liabilities				
Trade and other payables		-	-	368
Financial liabilities - borrowings				
Interest bearing loans and borrowings	20	522	577	-
Pension liability	25	511	258	-
Provisions	23	56,172	39,830	44,629
		<u>57,205</u>	<u>40,665</u>	<u>44,997</u>
Current liabilities				
Trade and other payables	19	440,415	423,639	416,181
Financial liabilities - borrowings				
Interest bearing loans and borrowings	20	55	298	1,301
Tax payable		-	2,795	152
		<u>440,470</u>	<u>426,732</u>	<u>417,634</u>
Total liabilities		<u>497,675</u>	<u>467,397</u>	<u>462,631</u>
Total equity and liabilities		<u>634,965</u>	<u>613,519</u>	<u>592,344</u>

* Refer to note 32 for further details

28 SEP 2018

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

.....
K M Dowding - Director

The notes on pages 22 to 50 form part of these financial statements

Skanska Construction UK Limited

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2016	40,000	194,623	234,623
Profit for the year	-	25,982	25,982
Other comprehensive loss	-	(2,943)	(2,943)
Total comprehensive income	-	23,039	23,039
Balance at 31st December 2016	<u>40,000</u>	<u>217,662</u>	<u>257,662</u>
Loss for the year	-	(4,849)	(4,849)
Other comprehensive loss	-	(2,095)	(2,095)
Total comprehensive loss	-	(6,944)	(6,944)
Balance at 31st December 2017	<u>40,000</u>	<u>210,718</u>	<u>250,718</u>

The notes on pages 22 to 50 form part of these financial statements

Skanska Construction UK Limited

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2016	40,000	89,713	129,713
Profit for the year	-	17,101	17,101
Other comprehensive loss	-	(692)	(692)
Total comprehensive income	-	16,409	16,409
Balance at 31st December 2016	40,000	106,122	146,122
Loss for the year	-	(8,152)	(8,152)
Other comprehensive loss	-	(680)	(680)
Total comprehensive loss	-	(8,832)	(8,832)
Balance at 31st December 2017	40,000	97,290	137,290

The notes on pages 22 to 50 form part of these financial statements

Skanska Construction UK Limited

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

		2017 £'000	2016 £'000 Restated*
Cash flows from operating activities			
Cash generated from operations	29	28,798	(17,006)
Interest paid		(703)	(59)
Interest element of hire purchase payments paid		(68)	(97)
Finance costs paid		(27)	-
Tax paid		<u>(768)</u>	<u>(4,068)</u>
Net cash from operating activities		<u>27,232</u>	<u>21,230</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(3,263)	-
Purchase of tangible fixed assets		(5,744)	(4,922)
Sale of tangible fixed assets		<u>391</u>	<u>313</u>
Net cash from investing activities		<u>(8,616)</u>	<u>(4,609)</u>
Cash flows from financing activities			
Capital repayments in year		<u>(298)</u>	<u>(426)</u>
Net cash from financing activities		<u>(298)</u>	<u>(426)</u>
		<u> </u>	<u> </u>
Decrease in cash and cash equivalents		(329)	(26,265)
Cash and cash equivalents at beginning of year	30	<u>275,434</u>	<u>301,699</u>
		<u> </u>	<u> </u>
Cash and cash equivalents at end of year	30	<u><u>293,752</u></u>	<u><u>275,434</u></u>

* Refer to note 32 for further details

Skanska Construction UK Limited

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

		2017 £'000	2016 £'000 Restated*
Cash flows from operating activities			
Cash generated from operations	29	35,267	17,059
Interest paid		(739)	(328)
Interest element of hire purchase payments paid		(68)	(97)
Tax paid		<u>(768)</u>	<u>(761)</u>
Net cash from operating activities		<u>33,692</u>	<u>15,873</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(3,263)	-
Purchase of tangible fixed assets		<u>(3,611)</u>	<u>(1,602)</u>
Net cash from investing activities		<u>(6,874)</u>	<u>(1,602)</u>
Cash flows from financing activities			
Capital repayments in year		<u>(298)</u>	<u>(426)</u>
Net cash from financing activities		<u>(298)</u>	<u>(426)</u>
Increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	30	26,520	13,845
		<u>192,419</u>	<u>188,005</u>
Cash and cash equivalents at end of year	30	<u>218,939</u>	<u>192,419</u>

* Refer to note 32 for further details

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

1. Statutory information

Skanska Construction UK Limited (the 'Company') is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office address can be found on the General 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 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 other comprehensive income shown on page 15.

Accounting judgements and estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates and judgements in drawing up the financial statements are in connection with construction contracts in progress, claims on construction contracts, the valuation of pension liabilities and goodwill and investments in subsidiary undertakings impairment tests.

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and

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

2. Accounting policies - continued

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

New standards and interpretations

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

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

Early adoption of new or revised IFRS and interpretations

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

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

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

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

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

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

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

2. Accounting policies - continued

Revenue recognition

Construction stream

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

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

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

Cash received on account of contracts is deducted from amounts due from customers for contract work. Such amounts which have been received and exceed amounts due from customers are included in trade and other payables. Contract provisions in excess of amounts due from customers are included in provisions. The specific recognition criteria below must also be met before revenue is recognised:

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 profit or loss in the year of acquisition.

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

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

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:

Buildings	3 - 30 years
PP&E	3 - 10 years

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

Financial instruments

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

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

2. Accounting policies - continued

Inventories

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

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

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

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

Taxation

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

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

Research and development

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

Transactions and balances

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

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

Group companies

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

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

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

2. Accounting policies - continued

Employee benefit costs

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

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

Provisions

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

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

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

Leases

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 property 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 comprise cash at banks and on hand and with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

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

2. Accounting policies - continued

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

	2017 £'000	2016 £'000
Rendering of service	1,760,138	1,609,659
Rental Income	-	873
	<u>1,760,138</u>	<u>1,610,532</u>

Turnover from continued operations

No revenue was derived from exchange of goods or services (2016:£nil)

4. Employees and directors

	2017 £'000	2016 £'000
Wages and salaries	247,048	242,841
Social security costs	27,549	26,288
Other pension costs	32,712	29,478
	<u>307,308</u>	<u>298,607</u>

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

	2017	2016
Construction	<u>5,125</u>	<u>4,941</u>
	<u>5,125</u>	<u>4,941</u>

Included in other pension costs is:

	2017 £'000	2016 £'000
Defined benefit costs	27,357	25,107
Defined contribution costs	4,455	4,371
	<u>31,812</u>	<u>29,478</u>

	2017 £	2016 £
Directors' remuneration	<u>-</u>	<u>-</u>

No directors' emoluments, fees or other costs were incurred by the Company during the current year. The directors' emoluments were incurred by the parent company and no part of their remuneration can be specifically attributed to the Company.

Skanska Construction UK Limited

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

5. Net finance costs

	2017 £'000	2016 £'000
Finance income:		
Interest income on pension scheme assets	<u>-</u>	<u>2,647</u>
Finance costs:		
Bank interest	730	59
Finance lease interest	68	97
Interest on pension scheme liabilities	<u>94</u>	<u>2,580</u>
	<u>892</u>	<u>2,736</u>
Net finance costs	<u>892</u>	<u>89</u>

6. (Loss)/profit before income tax

	2017 £'000	2016 £'000
Included in cost of sales:		
Depreciation - owned assets	3,240	3,739
Profit on disposal of fixed assets	(371)	-
Other Intangible assets amortisation	623	1,399
Research costs	56	48
Operating lease expense for property and vehicles	6,952	4,849
Included in administrative expenses:		
Impairment of goodwill	9,100	-
Foreign exchange loss	27	-
Audit fee	<u>434</u>	<u>323</u>

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

7. Income tax

	2017 £'000	2016 £'000
Current Tax		
Current year	1,809	5,363
Adjustments in respect of the prior year	<u>229</u>	<u>(405)</u>
Total current tax charge	2,038	4,958
Deferred Tax		
Current year	(2,540)	843
Adjustments in respect of the prior year	1,225	37
Impact of change in corporate tax rate	<u>-</u>	<u>145</u>
	(1,315)	1,025
Total tax charge	<u><u>723</u></u>	<u><u>5,983</u></u>
Reconciliation of profits to total tax charge:		
Profit before tax	<u><u>(4,126)</u></u>	<u><u>31,965</u></u>
Profit before tax multiplied by standard rate of corporation tax in the UK 19.25% (2016: 20%)	(794)	6,393
Expenses not deductible for tax purposes	(32)	(99)
Adjustment in respect of prior years	1,176	(367)
Change in rate	<u>373</u>	<u>56</u>
Total tax charge	<u><u>723</u></u>	<u><u>5,983</u></u>

Changes in corporation tax rate

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

8. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the profit or loss of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £(8,152,000) (2016 - £17,101,000 profit).

9. Construction contracts

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

	2017 £'000	2016 £'000
Group		
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	5,789,944	8,904,106
Advances received	21,131	27,003
Retentions	14,196	18,707
Company		
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	4,936,029	5,923,271
Advances received	18,131	27,003
Retentions	13,613	13,700

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

10. Goodwill

Group	£'000
Cost	
At 1st January 2017	39,523
Impairments	<u>(9,100)</u>
At 31st December 2017	<u>30,423</u>
Net book value	
At 31st December 2017	<u>30,423</u>
At 31st December 2016	<u>39,523</u>

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

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

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

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

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

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

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

Company	£'000
Cost	
At 1st January 2017 and 31st December 2017	<u>38,921</u>
Amortisation	
Charge for year	<u>9,100</u>
At 31st December 2017	<u>9,100</u>
Net book value	
At 31st December 2017	<u>29,821</u>
At 31st December 2016	<u>38,921</u>

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

11. Intangible assets

Group

	Other Intangible assets £'000
Cost	
At 1st January 2017	7,336
Additions	<u>3,263</u>
At 31st December 2017	<u>10,599</u>
Amortisation	
At 1st January 2017	6,734
Amortisation for year	<u>623</u>
At 31st December 2017	<u>7,357</u>
Net book value	
At 31st December 2017	<u><u>3,242</u></u>
At 31st December 2016	<u><u>602</u></u>

Intangible assets include assets purchased externally.

Company

	Other Intangible assets £'000
Cost	
At 1st January 2017	7,336
Additions	<u>3,263</u>
At 31st December 2017	<u>10,599</u>
Amortisation	
At 1st January 2017	6,734
Amortisation for year	<u>623</u>
At 31st December 2017	<u>7,357</u>
Net book value	
At 31st December 2017	<u><u>3,242</u></u>
At 31st December 2016	<u><u>602</u></u>

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

12. Property, plant and equipment

Group

	Freehold property £'000	Plant and machinery £'000	Totals £'000
Cost			
At 1st January 2017	674	45,337	46,011
Additions	-	5,744	5,744
Disposals	<u>(657)</u>	<u>(4,791)</u>	<u>(5,448)</u>
At 31st December 2017	<u>17</u>	<u>46,290</u>	<u>46,307</u>
Depreciation			
At 1st January 2017	652	30,326	30,978
Charge for year	11	3,229	3,240
Eliminated on disposal	<u>(655)</u>	<u>(4,402)</u>	<u>(5,057)</u>
At 31st December 2017	<u>8</u>	<u>29,153</u>	<u>29,161</u>
Net book value			
At 31st December 2017	<u>9</u>	<u>17,137</u>	<u>17,146</u>
At 31st December 2016	<u>22</u>	<u>15,011</u>	<u>15,033</u>

Company

	Plant and machinery £'000
Cost	
At 1st January 2017	12,748
Additions	<u>3,611</u>
At 31st December 2017	<u>16,359</u>
Depreciation	
At 1st January 2017	9,054
Charge for year	<u>959</u>
At 31st December 2017	<u>10,013</u>
Net book value	
At 31st December 2017	<u>6,346</u>
At 31st December 2016	<u>3,694</u>

The net book value of Plant and Equipment includes £825,087 (2016: £1,122,299) in respect of assets held under hire purchase agreements.

Skanska Construction UK Limited

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

13. Investments

Company

Shares in
group
undertakings
£'000

Cost

At 1st January 2017
and 31st December 2017

95,981

Provisions

At 1st January 2017
and 31st December 2017

49,979

Net book value

At 31st December 2017

46,002

At 31st December 2016

46,002

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. The subsidiary undertakings marked * are owned but not controlled by Skanska Construction UK Limited 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, Skanska ESS Construction HB which is registered in Sweden and MG Telecommunicatii SRL which is registered in Romania. 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 Garden, Dublin 2. The registered office in Sweden is: Odarslövsvägen 113, Lund, Skåne, 225 92, Sweden. The registered office in Romania is: Anina Str., No 35, Cluj-Napoca - 400326, Romania.

The following subsidiaries are 100% directly owned with the exception of Skanska ESS Construction HB which is 25% owned. All shares are same class and ordinary shares.

Cementation Skanska Ltd
Cementation Skanska Ireland Ltd
Clark & Fenn Skanska Ltd
Hector JWH Ltd
Skanska J.V. Projects Ltd
Skanska Major Projects Ltd
Skanska MGT Ltd (In liquidation)*
Skanska Rashleigh Weatherfoil Ltd
Skanska Utilities Ltd
UIS Plant Services Ltd
Skanska ESS Construction HB

The following subsidiary is 100% indirectly owned:

MG Telecommunicatii SRL*

The following Companies are exempt from publishing audited accounts under Section 479A of the Companies Act 2006:
UIS Plant Services Ltd - registration: 05939831 and Hector JWH Ltd - registration: 06009058.

The following Company is exempt from publishing audited accounts under Section 477 & 476 of Companies Act 2006:
Skanska Utilities Ltd - registration: 00752550.

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

14. Inventories

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Stocks	<u>4,833</u>	<u>7,409</u>	<u>4,126</u>	<u>6,527</u>

15. Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Current:				
Trade debtors	79,657	102,029	53,775	63,541
Amounts owed by fellow undertakings	130,972	131,028	94,661	103,430
Gross amount due from customers for contract work	164,599	131,868	140,371	110,680
Other debtors	33,654	17,542	26,714	14,930
Prepayments and accrued income	<u>12,058</u>	<u>26,570</u>	<u>8,545</u>	<u>20,712</u>
	<u>420,940</u>	<u>409,037</u>	<u>324,066</u>	<u>313,293</u>

Trade and other receivables are expected to be realised within 12 months after the year end and are recognised as current assets. Trade and other receivables are non-interest bearing and are generally on terms of 30 to 90 days. As at 31 December 2017, trade receivables with an initial carrying value of £313,700 (2016: £112,000) were impaired and fully provided for.

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

Total	Unclassified	Current	0-30 days	31-60 days	61-90 days	91-120 days	121-150 days	151+ days
79,657	8,564	40,109	7,251	1,958	3,973	419	241	17,142

The amounts due after 151 days relate to retentions receivable.

16. Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank accounts	<u>293,752</u>	<u>275,434</u>	<u>218,939</u>	<u>*Restated 192,419</u>

* Refer to note 32 for further details

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

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

17. Called up share capital

Authorised and issued share capital:

Number:	Class:	Nominal value:	2017	2016
		£1	£	£
40,000,000	Ordinary		40,000,000	40,000,000

18. Reserves

Group

Retained earnings
£'000

At 1st January 2017	217,662
Deficit for the year	(4,849)
Net actuarial gain/loss on defined pension schemes	(2,979)
Tax effect of movement in pension scheme	507
Exchange difference	<u>377</u>
At 31st December 2017	<u>210,718</u>

19. Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
				*Restated
Current:				
Payments on account	103,144	110,775	71,475	68,956
Trade creditors	58,018	54,233	43,794	34,394
Amounts owed to fellow group undertakings	20,278	16,336	159,787	159,758
Other creditors	33,052	28,881	24,486	18,763
Accruals and deferred income	<u>217,165</u>	<u>216,287</u>	<u>140,873</u>	<u>141,768</u>
	<u>431,657</u>	<u>426,512</u>	<u>440,415</u>	<u>423,639</u>

* Refer to note 32 for further details

Terms and conditions of the above financial liabilities:

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

20. Financial liabilities - borrowings

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Current:				
Hire purchase contracts (see note 21)	<u>55</u>	<u>298</u>	<u>55</u>	<u>298</u>

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

20. Financial liabilities - borrowings - continued

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Non-current:				
Hire purchase contracts (see note 21)	<u>522</u>	<u>577</u>	<u>522</u>	<u>577</u>

Group terms and debt repayment schedule

2017

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Totals £'000
Hire purchase contracts	<u>55</u>	<u>493</u>	<u>29</u>	<u>-</u>	<u>577</u>

2016

	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Totals £'000
Hire purchase contracts	<u>298</u>	<u>302</u>	<u>275</u>	<u>-</u>	<u>875</u>

21. Leasing agreements

Minimum lease payments fall due as follows:

Group

	Hire purchase contracts	
	2017	2016
	£'000	£'000
Gross obligations repayable:		
Within one year	68	366
Between one and five years	<u>641</u>	<u>709</u>
	<u>709</u>	<u>1,075</u>
Finance charges repayable:		
Within one year	13	68
Between one and five years	<u>119</u>	<u>132</u>
	<u>132</u>	<u>200</u>
Net obligations repayable:		
Within one year	55	298
Between one and five years	<u>522</u>	<u>577</u>
	<u>577</u>	<u>875</u>

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

21. Leasing agreements - continued

Company

	Hire purchase contracts	
	2017	2016
	£'000	£'000
Gross obligations repayable:		
Within one year	68	366
Between one and five years	<u>641</u>	<u>709</u>
	<u>709</u>	<u>1,075</u>
Finance charges repayable:		
Within one year	13	68
Between one and five years	<u>119</u>	<u>132</u>
	<u>132</u>	<u>200</u>
Net obligations repayable:		
Within one year	55	298
Between one and five years	<u>522</u>	<u>577</u>
	<u>577</u>	<u>875</u>

	Group	Group	Company	Company
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Within one Year	4,676	2,450	4,453	1,970
Between one and five years	9,204	1,047	8,602	1,039
In more than five years	<u>4,064</u>	<u>2</u>	<u>4,062</u>	<u>-</u>
	<u>17,944</u>	<u>3,499</u>	<u>17,117</u>	<u>3,009</u>

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

22. Financial instruments

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

Credit risk

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

Interest rate risk

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

Liquidity risk

The Group uses cash-flow projections as a means of managing the fluctuations in short-term liquidity and to minimise the risk that it cannot meet its payment obligations due to lack of liquidity. As at 31st December 2017, the Group had cash and cash equivalents totalling £293,752,000 (2016 restated: £275,434,000) and no debt. Included in this total is £58,170,000 restricted cash held in Joint arrangements (2016: £49,611,000).

Effective interest rates and maturity analysis

As at 31st December 2017, income-earning financial assets of the Group comprised cash and cash equivalents totalling £293,752,000 (2016 restated: £275,434,000) and of the Company £218,939,000 (2016 restated: £192,419,000). Interest is earned on cash balances at floating rates linked to the Bank of England base rate. As at 31st December 2017, interest-bearing financial liabilities of the Company were £Nil (2016: £Nil), all of which is repayable on demand. Interest is payable on bank overdrafts at floating rates linked to the Bank of England base rate.

Fair 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 2017 and 31st December 2016, it was estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

Capital requirements vary between business streams. The Skanska's construction projects are mainly based on customer funding. As a result, in its Construction Business stream, the Company 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. Skanska 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.

	Group 2017 £'000	Group 2016 £'000 Restated*	Company 2017 £'000	Company 2016 £'000 Restated*
Loans and receivables				
Gross amount due from customers for contract work	164,599	131,868	140,371	110,680
Trade receivables	79,657	102,029	53,775	63,541
Amounts owed by fellow group undertakings	130,972	131,028	94,661	103,430
Other receivables	33,654	17,542	26,714	14,930
Financial assets				
Cash and cash equivalents	<u>293,752</u>	<u>275,434</u>	<u>209,204</u>	<u>192,419</u>
Total financial assets	<u>702,634</u>	<u>657,901</u>	<u>524,725</u>	<u>485,000</u>
Financial liabilities				
Payments received on account	(103,144)	(110,775)	(71,475)	(68,956)
Trade payables	(58,018)	(54,233)	(43,794)	(34,394)
Amounts owed to fellow group undertakings	(20,278)	(16,336)	(159,787)	(159,758)
Other payables	<u>(33,052)</u>	<u>(28,881)</u>	<u>(24,486)</u>	<u>(18,763)</u>
Total financial liabilities	<u>(214,492)</u>	<u>(210,225)</u>	<u>(299,542)</u>	<u>(281,871)</u>

*Refer to note 32 for further details.

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

22. Financial instruments - continued

Maturity analysis for non-derivative financial liabilities

	On demand	Less than 3 months	More Than 3 months
	£'000	£'000	£'000
Year ended 31 December 2017			
Trade and other payables (Group)	-	58,305	32,765
Trade and other payables (Company)	-	44,280	24,000
Year ended 31 December 2016			
Trade and other payables (Group)	-	57,122	25,992
Trade and other payables (Company)	-	28,533	24,623

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

Capital Management

Capital requirements vary between business streams. Skanska'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.

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 Skanska's equity of at least 18% and a return on capital employed. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

	2017 £'000	2016 £'000
Trade and other payables	431,657	426,512
Less: cash and short-term deposits	(293,752)	(275,434)
Net deficit / (surplus)	137,905	151,078
Shareholders' equity	250,718	257,662
Capital and net debt	388,623	408,740
Gearing ratio %	35.5	37.0

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

23. Provisions

Group	Forward loss £'000	Warranty £'000	Other £'000	Total £'000
2017				
At 1 January 2017	10,436	42,111	3,977	56,524
Released in year	(8,889)	-	(98)	(8,987)
Created in year	37,776	47,621	505	85,902
Utilised	(8,481)	(39,613)	(651)	(48,745)
At 31 December 2017	<u>30,842</u>	<u>50,119</u>	<u>3,733</u>	<u>84,694</u>
2016				
At 1 January 2016	18,957	34,224	2,395	55,576
Released in year	(1,826)	(2,966)	(284)	(5,076)
Reclassification	(482)	482	-	-
Created in year	1,577	38,266	2,872	42,715
Utilised	(7,790)	(27,895)	(1,006)	(36,691)
At 31 December 2016	<u>10,436</u>	<u>42,111</u>	<u>3,977</u>	<u>56,524</u>
Company	Forward loss £'000	Warranty £'000	Other £'000	Total £'000
2017				
At 1 January 2017	9,895	28,783	1,152	39,830
Released in year	(8,108)	-	(98)	(8,206)
Created in year	30,279	24,118	505	54,902
Utilised	(3,879)	(26,198)	(277)	(30,354)
At 31 December 2017	<u>28,187</u>	<u>26,703</u>	<u>1,282</u>	<u>56,172</u>
2016				
At 1 January 2016	17,167	25,267	2,195	44,629
Released in year	(1,216)	(2,851)	(82)	(4,149)
Created in year	945	23,010	47	24,002
Utilised	(7,001)	(16,643)	(1,008)	(24,652)
At 31 December 2016	<u>9,895</u>	<u>28,783</u>	<u>1,152</u>	<u>39,830</u>

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

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

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

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

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

24. Deferred tax

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Accelerated capital allowances	300	211	42	286
Deferred tax on pension liability	811	853	87	317
Unrelieved trading losses	2,536	414	1,386	-
Other	<u>477</u>	<u>824</u>	<u>81</u>	<u>818</u>
	<u>4,124</u>	<u>2,302</u>	<u>1,596</u>	<u>1,421</u>
Asset at start of period	2,302	2,562	1,421	1,771
Deferred tax movement in P&L	1,315	(1,025)	(1)	(509)
Deferred tax direct to equity	<u>507</u>	<u>765</u>	<u>176</u>	<u>159</u>
	<u>4,124</u>	<u>2,302</u>	<u>1,596</u>	<u>1,421</u>

A deferred tax asset has not been recognised (Group and company) on unrelieved trading losses of £3,352,685 (2016: £3,352,685). With no fixed expiry date on the basis they are unlikely to have any value in the future.

Changes in corporation tax rate

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

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

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

25. Employee benefit obligations

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

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

(a) The Federated Pension Plan

The Group also sponsors The Federated Pension Plan, a defined benefit pension plan. The benefit provided by this plan is a final salary benefit. The assets of the Plan are held separately under Trust from those of the Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2017, in accordance with the Plan rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group expects to contribute approximately £3.6 million to the plan in the next financial year.

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

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

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

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

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

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

	Valuation of assets 2017 £'000	Valuation of assets 2016 £'000	Expected return 2017 %	Expected return 2016 %
Quoted government bonds	<u>69,432</u>	<u>62,931</u>	<u>2.50</u>	<u>2.75</u>

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

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

Analysis of the amount charged to profit or loss

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

Analysis of amount charged to Other Finance Cost

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

Analysis of amount recognised in statement of comprehensive income

	2017	2016
	£'000	£'000
Actual return less expected return on assets	1,947	6,494
Experience gains and losses on liabilities	(1,417)	1,061
Changes in financial assumptions	(3,656)	(11,226)
Actuarial loss recognised in statement of comprehensive income	<u>(3,126)</u>	<u>(3,671)</u>
Cumulative loss recognised in statement of comprehensive income	<u>(14,261)</u>	<u>(11,135)</u>

Movement in the present value of defined benefit obligation:

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

Changes in the fair value of plan assets:

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

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

History of experience gains and losses

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

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

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

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

(b) The McNicholas Plc Retirement Benefits Scheme

The Group also sponsors The McNicholas Plc Retirement Benefits Scheme, a defined benefit plan. The assets of the Scheme are held separately under Trust from those of the group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2017, in accordance with the Scheme rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group expects to contribute approximately £0.4 million to the plan in the next financial year.

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

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

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

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

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

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

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

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

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

	Valuation of assets 2017 £'000	Valuation of assets 2016 £'000	Expected return 2017 %	Expected return 2016 %
Quoted bonds	<u>20,966</u>	<u>20,167</u>	<u>2.50</u>	<u>2.75</u>

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

Analysis of the amount charged to profit or loss.

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

Analysis of amount recognised in statement of comprehensive income

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

Movement in the present value of defined benefit obligation:

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

Changes in the fair value of plan assets:

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

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

History of experience gains and losses

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

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

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

26. Ultimate parent company

The immediate parent undertaking is Skanska UK Plc, a company incorporated in the UK.

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 Plc and Skanska AB financial statements can be obtained from Skanska UK Plc at Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire WD3 9SW.

27. Contingent liabilities

The Group faces contingent liabilities in respect of guarantees and potential claims by third parties under contracting agreements entered into by them in the normal course of business. These are provided as liabilities only to the extent that the directors believe that the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. Contingent liabilities relating to the group's portion of the joint and several liabilities for the obligations of joint arrangement totalled £2,112,630,000 (2016: £1,254,147,000).

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

28. Related party disclosures

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

Remuneration of key management personnel

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

Trading transactions

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

Related party	Nature of relationship	Good/service provided	Transactions in year £'000		Amount owed to or by Skanska Construction UK Ltd at year end £'000	
			2017	2016	2017	2016
SPD Moorgate Ltd	Fellow group undertaking. Ultimately owned by Skanska UK Plc	Skanska Construction UK Limited provides construction services to SPD Moorgate Ltd	1,108	239	-	-

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

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

	2017	2016
	£'000	£'000
(Loss)/profit before income tax	(4,126)	31,965
Depreciation	3,240	3,739
Amortisation of intangibles	623	1,399
Goodwill impairment	9,100	-
Increase in provisions	28,170	948
Pension service cost	2,035	1,577
Pension company contribution	(3,751)	(3,581)
Finance costs	892	2,736
Finance income	-	(2,647)
	<u>36,183</u>	<u>36,136</u>
Decrease in inventories	2,576	19
(Increase)/decrease in trade and other receivables	(33,722)	29,516
Increase/(decrease) in trade and other payables	<u>5,114</u>	<u>(70,612)</u>
Cash generated from operations	<u>10,151</u>	<u>(4,941)</u>

Company

	2017	2016
	£'000	£'000
(Loss)/profit before income tax	(8,210)	21,014
Depreciation	959	1,078
Amortisation of intangibles	623	1,399
Goodwill impairment	9,100	-
Increase/(decrease) in provisions	16,342	(4,799)
Pension service cost	175	(437)
Pension company contribution	(963)	-
Finance costs	812	1,105
Finance income	-	(733)
	<u>18,838</u>	<u>18,627</u>
Decrease/(increase) in inventories	2,401	(100)
Increase in trade and other receivables	(13,388)	(2,197)
Increase/(decrease) in trade and other payables	<u>27,416</u>	<u>729</u>
Cash generated from operations	<u>35,267</u>	<u>17,059</u>

* Refer to note 32 for further details

Skanska Construction UK Limited

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

30. Cash and cash equivalents

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

	Group		Company	
Year ended 31st December 2017	31/12/17 £'000	1/1/17 £'000	31/12/17 £'000	1/1/17 £'000
Cash and cash equivalents	<u>293,752</u>	<u>275,434</u>	<u>218,939</u>	<u>192,419</u>
				*Restated
Year ended 31st December 2016	31/12/16 £'000	1/1/16 £'000	31/12/16 £'000	1/1/16 £'000
Cash and cash equivalents	<u>294,081</u>	<u>301,699</u>	<u>192,419</u>	<u>178,574</u>
			*Restated	

* Refer to note 32 for further details

31. Jointly controlled operations

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	1,6	MWH UK Ltd	33%
Balfour Beatty Skanska M25 Junction 30 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
SEESA AMS Joint Venture	1,11,12	Alstom Grid UK Limited / Mott Macdonald Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
tRHO	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%
Cementation Skanska Limited			
Cementation Skanska Balfour Betty	1,3	Balfour Beatty Ground Engineering	50%
Ground Engineering Joint Venture			
Cementation Skanska Zublin JV	1,4	ED Zublin AG (UK Branch)	50%
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 3, D-70567 Stuttgart, Germany
- 5 5 Churchill Place, Canary Wharf, London, E14 5HU
- 6 Buckingham Court, Kingsmead Business Park, High Wycombe, Buckinghamshire, HP11 1JU
- 7 Meldon, Chenies Road, Chorleywood, Hertfordshire, WD3 5LY
- 8 1180 Eskdale Road, Winnersh, Wokingham, Berkshire, RG41 5TU
- 9 Breakspear Park, Breakspear Way, Hemel Hempstead, HP2 4FL
- 10 Abel Smith House, Gunnels Wood Road, Stevenage, Herts SG1 2ST
- 11 St Leonards Building, Harry Kerr Drive, Stafford, ST16 1WT
- 12 Mott Macdonald House, 8-10 Sydenham Road, Croydon, Surrey, CR0 2EE
- 13 Absberggasse 47, 1100 Vienna, Austria
- 14 Steenoven 2-6, NL-4196 HG Tricht, the Netherlands

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

32. Correction to prior period

Following a review of bank accounts, the directors have concluded that a correction is required to the Company and Group's cash balances.

In the prior year, £36,851,000 of cash in the Company's bank accounts were incorrectly recorded in a subsidiary undertaking and £10,461,000 of cash in bank accounts in the name of the Company's parent, Skanska UK PLC, were incorrectly recorded in the Company.

Impact on equity	2016
	£'000
Current assets	
Cash and cash equivalents	26,211
Amounts owed from fellow undertakings	10,640
Current liabilities	
Amounts owed to fellow undertakings	(36,851)
Net impact on equity	<u>-</u>

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

Similarly, the directors have concluded that a correction is also required to the Group's cash balance. In the prior year, £18,647,000 of cash in bank accounts in the name of the Group's parent, Skanska UK PLC, were incorrectly recorded in the Group.

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

Again, there is no impact on profit or loss or on the Statement of Comprehensive Income.

33. Post balance sheet events

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