

**REGISTERED NUMBER: 00191408 (England and Wales)**

**Skanska Construction UK Limited**

**Group Strategic Report, Directors' Report and**

**Audited Consolidated Financial Statements**

**Year Ended 31st December 2020**

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**Skanska Construction UK Limited (Registered number: 00191408)**

**Company Information  
For The Year Ended 31st December 2020**

**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:**

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SE1 2AF

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Group Strategic Report For The Year Ended 31st December 2020**

The directors present their strategic report of Skanska Construction UK Ltd (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31st December 2020.

#### **Business model**

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

#### **Financial position and review**

The Group recorded total revenues of £1,430.2 million (2019: £1,676.5 million) and operating profit of £33.1 million (2019: £15.6 million) with an operating margin of 2.3% (2019: 0.9%) from continuing and discontinued operations. Adjusting for non-recurring exceptional provisions recorded in the year, which amounted to £21.7 million, the Group's underlying operating profit was £54.8 million with an operating profit margin of 3.8%.

The Group recorded revenues of £1,096.2 million (2019: £1,353.1 million) and operating profit of £23.0 million (2019: £9.9 million) with an operating margin of 2.1% (2019: 0.7%) from continuing operations. Adjusting for non-recurring exceptional provisions recorded in the year, as noted above, the Group's underlying operating profit for its continuing operations was £44.7 million with an operating profit margin of 4.1%.

The reduction in revenues is in line with the Groups long term strategy to reduce revenues in non-core business areas.

The Group's total equity decreased by £12.7 million. This was made up of £25.4 million of post-tax profits, £40m of dividends paid to the Group's parent company Skanska UK PLC, actuarial gains after tax of £1.0 million on the Group's pension schemes and £1.1 million gain on foreign exchange. Total equity attributable to shareholders at the year-end was £119.5 million (2019: £132.2 million). Consolidated year-end cash and cash equivalents totalled £425.4 million, an increase of £19.0 million in the year (2019: £406.4 million). The year-on-year movement was predominantly due to the cash generated through its construction activities. The Group has no external debt.

The impact on the financial position from the COVID-19 pandemic was managed throughout the year through high levels of project scrutiny and cash management. Increased communication and collaboration with our clients and supply partners were key parts of the Business strategy. Productivity dipped initially then recovered at good levels throughout most of the year, due to the nature of existing contracts and projects.

During the year, the process of selling our Infrastructure Services operating unit continued. Contracts were exchanged with the buyer, M Group Services Limited, in December 2020 and completion occurred 30th April 2021. In addition, the decision was made to exit key contracts within the Utilities operating unit, running these down with an expected closure in 2021.

The sale of Infrastructure Services and the decision to exit key contracts within the utilities sector were made after a strategic review, which has led the Business to concentrate on the infrastructure and building markets. The aim is to bring more focus to our customer relationships and service delivery, as well as create greater alignment between the Group's activities and our approach in other parts of the world.

#### **Principle risks and uncertainties**

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

- Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there was no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and amounts due from customers for contract work at the statement of financial position date.
- The Group does not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.
- Liquidity/cash flow risk is the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Group aims to mitigate these risks by setting and monitoring cash flow targets and by assessing credit worthiness of all material business partners.

**Group Strategic Report  
For The Year Ended 31st December 2020**

- COVID-19 has introduced increased risk to all areas of the Group in 2020. A risk averse culture coupled with open and collaborative relationships with our stakeholders has and will continue to mitigate the impact on delivery and financial performance.
- Brexit did not have a material financial impact to the Business in 2020 and it can be seen very little has been realised in 2021 as-of-yet. A reason for this is that we have worked closely with our key supply chain to ensure the fallout from the EU exit (and Covid return to work) is managed from a risk perspective including availability of workforce. The Business continues to review all aspects of how this legislative change could impact its operation and ensure steps are in place to mitigate any financial degradation.

**COVID-19 Pandemic**

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

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

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

From an operational point of view, the Business saw an initial reduction in productivity mainly due to Government lockdown and other legislation, including ensuring social distancing on site. Detailed monitoring of the workforce and its health was paramount in Management's strategy, ensuring their safety and also the safety of our partners. As mentioned earlier though, this reduction was far less than first expected and experienced by other industries.

**Major contract wins**

*20 Ropemaker street* - Construction of a mixed-use commercial scheme, worth £240m. Skanska will also install mechanical, electrical and public health services in the 25-storey commercial project. The scheme consists of 419,093 sq. ft of office space and 11,785 sq. ft of ground level retail space.

*HS2 Main Works* – A “Skanska, Costain & Strabag” joint venture for the commencement of full detailed design and construction of Phase 1 of the UK's new high-speed railway in the southern section of the overall project. The contract involves the design and construction of major tunnels in the approach to the London terminus at Euston station. To date, the joint venture's contract with HS2 Ltd has been to undertake scheme design and site preparation for the civil engineering work. The new contract marks the transition to full detailed design and construction. The contract is worth £1.12bn to Skanska and is estimated to create over 6,000 jobs across the joint venture and its supply chain.

*Norfolk House* - Redevelopment and creation of a new eight-story commercial office building as well install the mechanical, electrical and plumbing fit out services and install a bespoke entrance veil. The value to the Group is £72m.

*Zurich Insurance* - Construction of a commercial property in Swindon, worth £37.2m. Skanska will also install the mechanical, electrical and plumbing engineering services and will provide the specialist piling ground engineering solutions.

*Blossom Street* – Renovation of existing warehouses and construction of new space located a short walk from Liverpool Street Station and just behind Spitalfields Market. When finished, the development will provide 336,000 sq. ft. of commercial, retail and public space. Building Services will install the mechanical, electrical and public health services. The value to the Group is £180m.

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Group Strategic Report For The Year Ended 31st December 2020**

#### **Laser Focus & Further Review**

In late 2017 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, which as already discussed in the financial position and review, resulted in a reorganisation of the Group's Operating Units; reducing the number from 9 to 7.

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

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

#### **Governance Review & Update**

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

The UK framework including all Policies and Procedures will be reviewed and updated in 2021, as per the guidance from Skanska AB which dictates a review should be carried out every two years.

In addition to the above, since 1<sup>st</sup> January 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies which enhances the Skanska AB's governance framework that the Group has adhered to historically.

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

Lastly, the implementation of a new Enterprise Resource Planning (ERP) system has continued, with governance, standard procedures and controls being a key element of its design and build.

#### **Values provide business benefits**

We want our strong Skanska values to guide everything we do 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 Inclusion and Diversity.

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

**Group Strategic Report  
For The Year Ended 31st December 2020**

**Safety, health and wellbeing**

During 2020 we achieved continuous improvements in all areas of safety, health and wellbeing (SHW). This was a significant achievement, especially considering the pandemic. Our lost time accident rate reduced to our lowest ever rate at 1.8 (2019: 2.0). This has been achieved by balancing compliance with and a culture of care and concern. During the year we have been targeting operations where data shows we have had the highest number of serious incidences. This has resulted in a 32% reduction in incidences in our highest risk operation. During 2020 we have started to shift our attention away from the day to day operations and are increasing our effort in designing out risk, planning and site arrangements. Taking this approach eliminates or reduces the risk to health safety and wellbeing. This approach also builds SHW more firmly into the overall business process and our drive towards more efficient project delivery.

We have had to plan and organise our works in line with government COVID-19 regulation and guidance. Equally, we have been heavily involved in supporting the Construction Leadership council (CLC) and Business Energy and Industrial strategy (BEIS) on the specific guidance and advice for the construction sector. Throughout this period, we have stringently followed the Government advice and implemented control measures at the outset across all of our projects, reducing the risk to our employees, sub-contractors and client representatives. We have also managed and supported our people in changing from working regularly in an office to working from home. This has included the supply of home office furniture and equipment during Q2 2020. Work on and communication of our wellbeing programme including mental health has been increased during this time to support our people.

We have continued to maintain ISO45001 during the year, having been the first construction Company in the UK to achieve ISO45001. We celebrated ten years since we commenced our Injury-free environment programme (IFE) and it's been 5 years since we started our Mental health programme. We are recognised by our customers as evidenced in our customer surveys a leader in both these areas and continue to embed a culture of care and concern and maintaining good mental health, through our programme. During the year Skanska AB instructed EY to undertake a review of how SHW data is collected and reported in Skanska UK. No issues were raised regarding the collection or reporting of the data, only recommendations in regard to systemising the process.

**Ethics**

Within the Group we work in line with Skanska AB'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 2020 we maintained our focus on ethics with a varied programme of Code of Conduct-related activities and we continue to ensure that all new employees are trained before they start work with Skanska. In addition, our employees are required to take part in regular 'dilemma' discussions where they debate how they would approach a variety of situations. A key action through 2020 was building on our good processes to increase our focus on improving day-to-day ethical behaviours across our staff and supply chain. As well as internal communications, we place additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We developed our processes for scrutinising the ethical culture of potential partners, and to further engage our supply chain we work to ensure our Supplier Code is discussed in start-up meetings with suppliers, and include ethics as an agenda item at our various supplier engagement events.

In 2020, a total of 37 reports of alleged breach of the Code of Conduct were received by the Skanska UK Ethics Committee (2019: 46). Cases were categorised in line with the topics in Skanska's Code of Conduct. The largest number of reports were concerned with HR-related matters, such as behaviour in the workplace. Other frequent categories of reports were health and safety (including Covid-19) and Company property. Across all categories, eight cases determined a breach of the Code of Conduct (2019: eight), however none of them were considered a high risk to the business.

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**Environment**

The Company and its subsidiary undertakings are required to pursue environmental policies that comply with relevant legislation and standards applicable to their particular industries. Beyond this, Skanska UK, in line with Skanska Group, is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services. Furthermore Skanska UK is committed to operating with net-zero carbon emissions by no later than 2045 and is committing significant resources into developing industry leading de-carbonisation capability. Our aim is to be the leading green contractor and the most respected by our customers for our approach to sustainability. Key areas of progress / highlights include:

- Continuing our excellent track record in operational environmental management, where our internal compliance leadership Group sets annual continual improvement objectives, and has been focusing on improved monitoring and reporting, and delivering better interventions against causes of environmental incident near misses. During the majority of 2020 lockdown conditions and interim site working parameters resulting from the COVID-19 pandemic presented specific environmental management challenges to which we adapted well. An example is the development of protocols for conducting virtual site environmental inspections and audits using digital technology. Demonstrating our leadership in green, three members of our environmental team were appointed Fellows of the Institute of Environmental Management and Assessment (IEMA);
- Supporting winning profitable green business through continued engagement with our clients on sustainability performance, and maintaining our green brand through demonstrating visible leadership. In 2020 Skanska UK was a founding signatory to the UK Contractors' Declare Climate and Biodiversity Emergency initiative, we delivered key-note presentations at Construction Week, Carbon Crunch and a Construction News 'De-carbonising Construction' conference, and we hosted the 2020 Highways UK event as the 'sustainability sponsor'. We broadcast a Skanska produced 'Future of Construction' virtual event which saw our CEO Greg Craig chair a panel discussion on de-carbonising construction with various guests from our client organisations. Our Director of Environment Adam Crossley was appointed Chair of the UK Green Building Council's (UKGBC) Contractors' Forum as well as being a member of the Construction Leadership Council's Green Construction Board (GCB). Skanska UK maintained engagement with two key green industry bodies, the All-Party Parliamentary Group for the Environment (APPEG) and the Supply Chain Sustainability School (SCSS). In Q4 2020 Skanska UK's environmental leadership credentials were recognised through the awards of the Construction News 'Environmental Contractor of the Year 2020' and 'Sustainable Project of the Year' (working with Anglian Water).
- Building on our 2019 commitment to operate with net-zero carbon emissions by 2045 Skanska UK has developed a multi-year strategy to significantly improve our capability as a business to de-carbonise at a quicker rate than our industry, and to support our clients in their de-carbonisation journeys. The plan comprises 6 focus areas:
  - Skills and capabilities for key roles;
  - Carbon data / measurement;
  - Digital cost and carbon management tools;
  - Net-zero materials (focussing on concrete and steel);
  - Net-zero plant and transport;
  - Supply chain collaboration.

An internal governance Group comprising CEO Greg Craig and other senior executives within the business has been established to lead this strategy at the top level. Early successes include the roll-out of an industry leading 'electric vehicle first' Company car policy. We have also been working to continually improve our carbon emissions reporting processes, as well as progression with Certified Emissions Measurement and Reduction Scheme (CEMARS) and Climate Disclosure Project reporting. Having previously committed to transparently publishing our full supply chain carbon emissions estimate each year, we published the annual update including our 2019 emissions. We successfully achieved a third year of external re-certification to the PAS2080 Carbon Management in Infrastructure specification.



**Skanska Construction UK Limited (Registered number: 00191408)**
**Group Strategic Report  
For The Year Ended 31st December 2020**
**Streamlined Energy and Carbon Reporting**

The table below details the Group's Energy and Carbon consumption for the reporting period 1 January 2020 – 31<sup>st</sup> December 2020.

GHG Scope and Emission Source	Mandatory / Optional	TCO2e	kWh	specific exclusions	% activity data estimated	TCO2e	TCO2e baseline
		2020	2020			2019	2010
Scope 1							
Gas consumption at Skanska controlled offices and facilities	M	398	2,164,234	None	0	458	535
Emissions from Skanska controlled company cars and commercial vehicles	M	9,799	40,912,801	None	0	13,586	16,041
Site fuel (Gas oil/Red Diesel) consumed by Skanska on construction sites	M	7,376	28,723,808	Gas Oil bought by Skanska for use of others in back up generation in facilities managed by Skanska	1%	11,302	6,813
Heating oil burned at Skanska controlled facilities	M	26	106,471	None	0	26	48
Fugitive emissions from air conditioning at Skanska controlled facilities	M	13		Excluded on materiality *		33	50
Biomass burned for heating at Skanska controlled facilities	M	2		Excluded on materiality *		5	-
Scope 1 Total		17,599				25,372	23,437
(* not included in total)							
Scope 2							
Electricity Consumption (Location based)	M	1,541	6,613,090	Electricity procured by Skanska but consumed by others through the use of facilities	0	1,746	11,099
Electricity Consumption (Market based reflecting purchasing of REGO electricity)	O	573			0	924	11,099
Scope 2 Total (Location based only)		1,541				1,746	11,099
Scope 1 & 2 Total Emissions		19,140				27,118	34,536
Intensity Metric (emissions / £million revenue) (Revenue includes continuing and discontinued)		13				15	27
Scope 3							
Purchased goods and services	O	235,878		Only high impact carbon areas included	100	307,168	393,083
Capital goods	O	-		Not quantified		-	-
Fuel and energy related activities	O	4,317		None	0	4,929	4,582
Upstream transportation and distribution	O	6,808			100	7,283	8,785
Waste generation in operations	O	3,844		Waste disposal records but waste transportation estimated recorded	30	4,337	3,641
Business travel	M	1,688		Emissions estimated from miles claimed	0	4,672	4,869
Employee commuting	O	2,021		Employees commuting on company fuel card counted in scope 1 as can not accurately be broken out	0	6,366	5,213
Upstream leased assets	O	1,523			100	1,041	703
Downstream transportation and distribution	O	-		Not quantified		-	-
Processing of sold products	O	-		Not quantified		-	-
End-of-life treatment of sold products	O	-		Not quantified		-	-
Down stream leased assets	O	-		Not yet quantified		-	-
Franchises	O	-		Not relevant		-	-
Out of Scope							
Biogenic emissions	O	82					
Total (excluding out of scope)		275,234				362,952	455,462

## Skanska Construction UK Limited (Registered number: 00191408)

### Group Strategic Report For The Year Ended 31st December 2020

#### Reasons for Change in Emissions

Emissions continue to drop from our 2010 base year and good progress has been made reducing the companies carbon intensity. Emissions however dropped sharply in 2020 for two main reasons firstly, disruption caused by the coronavirus pandemic resulted in a 65% reduction in staff travel and a reduction in energy consumption across our offices. Second, the completion of main construction works on two major projects reduced site fuel use over the period.

The Group has implemented a range of carbon reduction policies to address our emissions and during 2020 we implemented our electric first Company car policy to replace our existing green car policy and continue the reductions achieved in this area of emissions. We also implemented a flexible working policy to help reduce business travel and staff commuting.

In 2020 Skanska UK were awarded platinum certification through CEMARS (Certified Emission Management and Reduction Scheme) recognising 10 years of year-on-year carbon reductions. We are proud of this achievement but continue to work towards our overall goal of net zero emission across all GHG scopes by 2045.

#### Quantification and Reporting Methodology

Skanska UK holds certification under ISO14064:1 for carbon emission reporting through the CEMARS scheme. Emission reports are audited annually to a reasonable level of assurance documents supporting this certification can be found at <https://www.toitu.co.nz/our-members/members>

Skanska UK also report estimates of wider scope 3 emissions associated with the activities of our supply chain across all our projects. We continue to work on improving the data on scope 3 emissions so we can more accurately target reductions initiatives in the supply chain.

Excluded emissions do not exceed a combined total of 5% of total emissions and each individual excluded emission source is less than 2% of total emissions. Excluded emissions include

- Refrigerant gas losses from Skanska control facilities
- Biomass consumption at Skanska controlled facilities
- Taxi travel
- Water and wastewater across Skanska controlled facilities and sites

#### Organisational Boundary

The Group uses the financial control approach and JV emissions are included on an equity share bases.

#### **Great People**

Our organisational values - Care for Life, Act Ethically and Transparently, Be Better Together and Commit to Customers - continue to underpin everything we do in Skanska. We know from our people's feedback that these values continue to be key to their engagement and commitment, and that has been especially true during 2020, where our response the pandemic has been based on the foundations our values provide.

Our culture, of safety, care, ethics, inclusion, transparency and performance is brought to life through our people working with our values and purpose in mind. Building for a better society is more than just a statement. Reinforcing the importance of an inclusive culture remains a critical part of our business strategy, enabling the attraction and retention of a diverse range of people, and providing high levels of employee engagement.

We know that being successful requires the right behaviours and skillsets not just for today but also for the future. We remain committed to ensuring that our project teams are set up to deliver the best outcomes for our customers and their customers, and to ensure we deliver a sustainable financial return for the Group. Our Right People and redeployment processes underpin the way we resource our projects through the entire project lifecycle, ensuring we get a diverse balance of sector experience, potential and delivery expertise in operational and leadership roles.

We have a comprehensive approach to developing our people, providing a wide range of opportunities to grow and learn, and regular feedback tells us that these continue to be highly valued. In 2020 we significantly increased the opportunities for two-way communication through the introduction of monthly CEO Teams briefings and quarterly pulse surveys. Results show us that we continued to maintain a high level of engagement and enablement through our approach to the pandemic, in particular through our holistic focus on people, systems, and processes.

We encourage our people to share in the success of the Skanska Group by participating in SEOP, the Skanska employee ownership program. In 2020, 28% of our employees chose to invest in the Skanska Group through SEOP participation.

**Group Strategic Report  
For The Year Ended 31st December 2020**

**Recruitment**

The Group welcomed 624 new employees into Skanska UK in 2020 and 28.5% of these were female. Alongside the challenges of the pandemic, we saw the completion of some major projects, leading to larger opportunities for redeployment than ever before – but a well-defined process saw many choose to stay with the organisation and our voluntary turnover saw a significant reduction.

Whilst the industry remained operational throughout 2020, many of our competitors chose to reduce salaries and employee numbers in order to manage cash and to remain competitive. We took a different approach and did not reduce salaries or implement job cuts because of Covid. We also chose to make a generous top up to the government furlough payment rates and adhered to our people strategy. The perceived stability of Skanska helped to increase our attractiveness in the marketplace, leading to significantly increased application numbers with over 26,000 applications for 890 vacancies, and saving over £2m in agency fees through direct hiring.

**Careers and development**

During the pandemic, we put our face-to-face development programmes on hold, and moved all our development onto our online e-learning platform ‘Skanska Academy’ which is accessible to all employees. We also introduced a Lead and Learn series of inclusive leadership webinars which are self-selected rather than nominated programmes. Feedback has been strong.

We post all our vacancies in our recruitment system and circulate details of these through weekly vacancy bulletins. This ensures that all employees wishing to develop their career have access to vacancies. We actively encourage movement across our business, both within the UK and around our other markets, offering global secondments and development programmes.

We have an annual performance and development review process, which also features a mid-year discussion. Here employees are able to review their performance against set goals and behavioural expectations, alongside discussing their career aspiration and broader work and life opportunities. From a wellbeing perspective, these formal interventions are supplemented with programmes and communications that encourage regular dialog, explaining the positive impacts of this on mental health. In 2020 we introduced the Life Hub employee wellness and growth platform and an Adjusting to Change programme, both of which support our employees’ ability to stay healthy happy and productive. In addition to the Life Hub, we introduced the Production Hub, which is a digital platform where employees can share knowledge and expedite finding solutions to the covid 19 challenges across our projects.

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

Our Talent Review process is run annually, with quarterly interventions to ensure regular progress is made. We use assessments to validate potential, and targeted development interventions are put in place to ensure development gaps are filled and people can accelerate their careers within the organisation.

**Inclusion & Diversity**

Our I&D vision is all about delivering high performance by enabling everyone to bring their whole self to work. This has been strengthened in 2020 by significantly increasing our conversations about subjects that may have previously been uncomfortable. We have encouraged and supported dialogue around our employees’ experiences from the perspective of both race and LGBT+, in order to make sure that the different lived experiences are understood and valued. We have committed to completing a cultural survey in 2021 to ensure we understand the real barriers that our underrepresented colleagues face within our culture.

We recently restructured our Inclusion and Diversity governance to ensure the chairs of our employee networks now sit in a newly formed I&D leaders Group, enabling the CEO, who chairs the meetings, to directly understand the issues and opportunities to improve our inclusivity. We also analyse the data coming out of our pulse and engagement surveys, to ensure we understand the differences in the responses of different demographic Groups.

Throughout the pandemic, we have been particularly aware of the unique impact on parents of school age children, with the requirement for increased home working and home schooling. We introduced additional paid dependants leave and extended the opportunity for furlough to those most in need, whilst providing learning to managers, parents and team members alike to support and provide empathetic and supportive working environments.

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We also launched our Flex-it framework which aims to provide all employees with more informal flexibility about where and when they work. Flex-it gives greater agility and flexibility that will allow people to perform at their best. It marks a significant shift in working patterns for many of our people, allowing them to optimise their personal productivity and wellbeing. It is a key step in creating and implementing new ways of working that reflect our changing times and circumstances and is fundamental to making the construction industry attractive to all.

We continued our flexible working pilots with Timewise and Build UK on the industry-wide flexible working programme to identify barriers and find solutions to adopting flexible working practices on project sites, as we are committed to ensuring we find flexible working solutions for all types of roles including those with construction site restrictions.

**People engagement**

We remain focused on creating and maintaining high levels of people engagement and enablement.

The investment in the Microsoft Office 365 platform, using Yammer and Teams to provide additional ways to connect and engage across the organisation was particularly important in enabling homeworking requirements during 2020. Further 'at point of need' learning was provided through the Skanska Academy learning platform and there was strong positive feedback from employees about the performance of the platform.

Communications remained central to our approach within the introduction of quarterly CEO virtual briefings and increased global engagement sessions. We also stepped up our written communications, and in late 2020 introduced a weekly newsletter called 'Your Week' to sign post colleagues to development, wellbeing and inclusion related events and knowledge sharing. Feedback has shown these bulletins are reinforcing our values and culture and improving the visibility of opportunities to all.

Social connections are a critical part of the culture at Skanska, and we used the regular pulse survey to ask employees how they felt about their social connectivity. Employees were asked for suggestions on how to improve connections and these answers formed part of ongoing communications both in written and verbal formats.

**Market Making**

The Group market strategy is to achieve disciplined profitable revenue growth. This is achieved through a customer-centric approach that seeks to maximize market share in chosen sectors. We refer to this as a 'Market Penetration' strategy.

To ensure the success of this market strategy, there is an ongoing assessment of the investment appetite at both sector level and at the level of the customer. This assessment determines the projected demand for the core capabilities of those products and services where the Group has a proven track record of successful delivery. Assessment of the competitor environment provides further analysis that informs the Group on its most likely route to achieving its market strategy.

The Group aims to be an industry leader in listening, understanding and acting on customers' needs. To achieve this outcome the capabilities of the Group continue to develop in the following areas:

- Customer account management – A framework for customer account management that is developed and embedded across the Group. This includes a customer classification assessment that is reviewed annually and customer insights that provide a net promoter score assessment.
- Early engagement with customers – To enable an optimised outcome for the customer and for the Group.
- Sector & customer insights – Assessment of the suitability of the current market strategy to inform management of the future sales pipeline. The Group continues to invest in customer relationship management software (Salesforce) to enable this.
- Create customer-specific value propositions – providing a deeper understanding and active promotion of the Group's products & services to enable cross-selling to customers.

The values of the Group are assessed through the customer measurement programme. This continues to inform that the Group's values provide a differentiator to customers and that these are a desirable part of the offer to the market. To this end, the strategic alignment of existing and future customers is assessed with the Group's own values. Where there is a close alignment of shared values, there is evidence of repeat business with those customers.

For the year 2020, mitigation measures for the events of both Brexit and the global COVID-19 pandemic required the Group to apply an appropriate risk management approach. This required a close assessment of the market supply and demand pressures relating to both. For both events the Group's market strategy has proven to be resilient where the outlook is stronger than the general market in which the Group operates.

The Group continues to apply 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.

**Group Strategic Report  
For The Year Ended 31st December 2020**

**Early contractor involvement**

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

**Operational Efficiency**

The COVID-19 global pandemic forced us to adapt our production processes in order to maintain a safe and healthy working environment, compliant with regularly changing government guidelines. Our teams responded well, minimising project downtime and rapidly building back up to full productivity. This was enabled by a rigorous focus on detailed works planning and the clear segregation of different teams on our projects. We are now embedding the learning in our ongoing projects.

At the same time, we have implemented significant risk mitigation plans required due to the uncertainty of Brexit. These measures have included detailed scenario planning, forward ordering of materials, stock piling of critical supplies and close partnering with our supply chain. Thanks to these measures we have seen minimal disruption to date from Brexit, but anticipate that we will see impacts for some time to come.

Technology and innovation are essential for us to deliver tangible operational efficiency and differentiated solutions to customers, as well as facilitating more efficient administration. We enable our teams to partner effectively with customers, supply chain, technology providers and disruptors, as well as leverage global knowledge and expertise from colleagues, partners, and suppliers.

Looking ahead, we will adopt a structured and consistent process, accredited by ISO standards, to accelerate innovation from idea stage to business as usual. We develop our technology platforms to create an integrated data platform that will combine models, documents, video, photos and audio to generate data. We build on existing platforms such as ERP and O365, adopting them faster, and using them more effectively.

**Compliance with the Modern Slavery Act 2015**

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

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

The Group ensures there is enhanced modern slavery education and awareness through our external Supply Chain Sustainability School with procurement guidance notes and toolbox talks for project being made available to the School's 50,000+ members.

Skanska's Modern Slavery and Human Trafficking Policy, which provides greater detail on our approach to the eradication of these issues from our business and our supply chain, is published via a link on the homepage of our website. This updated policy was approved by the Board of Directors of the Company on 17<sup>th</sup> June 2021. It is reviewed and published on an annual basis.

**Market & Outlook**

Throughout the pandemic, market conditions have been very unpredictable, so as a Business we have continued to apply a prudent approach to our forecasting and management of the business in 2021 and beyond. Regardless of this, during the period, the Business have been successful in being awarded some highly valuable projects, that suggests the market is still offering a healthy and sizeable set of opportunities. In 2020, the Business has booked projects worth over £2.8bn in revenues that are individually worth over £30m each.

In addition, whilst the impact of Brexit in 2020 has not had a material financial impact, the business still remains wary of the direct and indirect repercussions from the trade deals being finalised. Whilst currently these impacts seem low, management are ensuring appropriate early warning systems are in place which protect the financial performance of the Business in the short, medium and long term. This includes working with our key supply chain partners and clients.

**Section 172 Companies Act 2006**

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In doing this section 172 requires Directors to have regard to, amongst other matters, the:

- likely consequences of any decisions in the long-term,
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others,
- impact of the Company's operations on the community and environment,
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

In discharging our section 172 duties we have regard to the matters set out above. In addition, we also have regard to other factors which we consider relevant to the decision being made. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision making, we aim to make sure that our decisions are consistent and predictable.

We delegate authority for day-to-day management of the Company to Senior Leadership Team and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held regularly where the Directors consider the Company's activities and make decisions. As a part of those meetings the Directors receive information in a range of different formats to ensure that they have regard to section 172 matters when making relevant decisions.

The Company's key stakeholders are its workforce, customers, suppliers and the local communities in which it operates. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. The size and spread of both the Company's stakeholders and the Skanska Group means that generally our stakeholder engagement takes place at an operational and Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual Company. For details of the engagement that takes place with the Group's stakeholders so as to encourage the Directors to understand the issues to which they must have regard please see page 16.

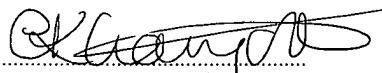
The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board makes decisions for the long-term success of the Company and its stakeholders (see Principle 6 – Stakeholders, of the Corporate Governance Report within these Financial Statements), but also having regard to how the Board ensures the Group complies with the requirements of section 172 of the Companies Act 2016. Our reporting against the Wates Principles has been included on pages 13 to 18.

We set out below an example of how we have had regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duty and the effect of that on decisions taken by us:

When selecting the potential buyers of our Infrastructure Services Operating unit, numerous elements were considered alongside the more traditional financial strength of the buyer and ultimately the offer to buy. The values the buyer demonstrates and demonstrates accompanied with how they treat their employees were key considerations. The relationships they have with their supply chain and their position on diversity and the environment were also other areas reviewed. Looking at the whole picture gave management a better platform when deciding who to partner with, ensuring that our employees transferring into their business would still be able to flourish and grow under their stewardship.

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

**On behalf of the board:**

  
C K K Gangotra - Director

Date: .....05/10/2021.....

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Corporate Governance Report For The Year Ended 31st December 2020**

#### **Statement of Corporate Governance arrangements**

For the year ended 31st December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website).

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

#### **Principle 1 – Purpose and Leadership**

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

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

##### **Purpose**

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

##### **Values and Culture**

The Group's four core values are: care for life, act ethically & transparently, be better – together and commit to customers. Our values express our moral foundation and compass. They express who we are, how we behave and what we believe in, and help us in our day-to-day work. Values provide business benefits (p4) and living our values will make us successful. Actions that are not in line with, or may jeopardise, our values are not accepted.

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

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

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

##### **Strategy**

Our Business Plan, "Profit with Purpose", outlines the strategic direction (p4). The aim is to increase shareholder value while working toward a more sustainable future for employees, customers and communities. This is how Skanska creates profit with purpose. The strategy is reviewed and updated as necessary, as are the policies and procedures of the Group.

A new business plan is being launched towards the end of 2021 which will develop a roadmap for Skanska's business. Our new business plan will set our direction for the next several years, advancing us toward our strategic ambitions. The plan will build on Skanska's long-term foundation: our values and our purpose of, "We build for a better society."

### **Strategic objectives**

The first stage of the Laser Focus Plan (p4) focused on strategic objectives in five key areas:

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

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

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

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

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

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

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

### **Principle 2 – Board Composition**

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

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

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

### **Principle 3 – Directors’ Responsibilities**

#### **Accountability**

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

The board usually meets twice a month as an executive team and additionally as required.



## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Corporate Governance Report For The Year Ended 31st December 2020**

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

#### **Integrity of information**

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

Information is reported from the Group's operational, commercial and accounting systems. The employees involved are appropriately qualified to ensure the integrity of this information and are provided with the necessary training to keep up to date with any regulatory changes. Financial controls are regularly and routinely reviewed by the ultimate parent's internal audit function.

#### **Principle 4 – Opportunity and Risk**

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

#### **Opportunity**

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

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

We only bid on projects in areas which we have a proven track record of success and delivers a 3% or greater operating margin. In order to identify these projects, we continuously monitor sectors we currently operate in from both a financial and performance perspective whilst also assessing the potential future opportunities. From time to time this evaluation protocol is also extended to newly-emerging sectors. The results of this process allow us to see where we can consistently make an operating margin of 3% or greater. Combining these elements together has given us a good understanding of the projects we should bid for. It is not just, however, about what we do, but also how we do it. To make the Laser Focus Plan a success we aim to: base our decisions on fact and realism; scrutinise effectively; learn from success and failure; address underperformance; and do what we say we will do.

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

#### **Risk**

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

The UK is required to carry out a business-wide enterprise risk assessment every two years, with the assessment being formally monitored by the ultimate parent in the interim year. This enables the board to monitor and assess risks at a local level and consider whether these are in line with the ultimate parent's assessed risks at a global level. The last review was carried out during 2019. The Group has subsequently ensured that they have policies and procedures in place to guarantee that these risks are managed. The principal risks for the Group are set out within the Strategic Report (p2).

## **Responsibilities**

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

### **Principle 5 – Remuneration**

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

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

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

The annual bonus plan for the CEO and other board Directors is based on two factors: profitability; and performance against a small number of strategic measures. Targets for both areas are set annually. The annual strategic measures are aligned with the three areas of the “Profit with Purpose” five-year Business Plan – Great People, Operational Excellence, and Market Making.

### **Principle 6 – Stakeholder Relationships and Engagement**

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

## **Our Communities**

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

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

## **Stakeholder Relationships and Engagement**

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

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

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

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Corporate Governance Report For The Year Ended 31st December 2020**

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

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

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

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

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

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

Over the past few years, the EMT has taken steps to improve employee relations by launching more interactive meetings, improving financial, commercial and operational systems, expanding the range of employee benefits, encouraging more flexible working practices and supporting wellbeing initiatives. An employee engagement survey, 'Your Voice, Our Success' (YVOS), is carried out annually to provide every employee with the opportunity to give input to improve Skanska and enable an approach for understanding strengths and development areas. The EMT treats the results of the YVOS survey as an important indicator of the workforce's confidence in the Group's strategic direction. Specific feedback is requested on how employees believe the EMT are performing and whether they are trustworthy and capable at leading the Business. Once again, the results of this survey in 2020 demonstrated a high level of trust and belief in the EMT.

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

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

The Company's website ([www.skanska.co.uk](http://www.skanska.co.uk)), intranet and social media channels provide extensive and up-to-date news on recent developments.


**Skanska Construction UK Limited (Registered number: 00191408)**

**Corporate Governance Report  
For The Year Ended 31st December 2020**

**Principal decision-making**

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

**On behalf of the board:**



.....  
C K K Gangotra - Director

Date: .....05/10/2021.....

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Directors' Report For The Year Ended 31st December 2020**

The directors present their report with the financial statements of the Company and the Group for the year ended 31st December 2020.

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

#### **Principal activities**

The principal activity of the group in the year under review was that of a construction services business with core activities in construction, civil engineering, utilities, infrastructure services, piling and ground engineering, design, mechanical and electrical works and hard and soft facilities management. We also developed our own projects by adding financing and development components to design and build projects. Our business model is to integrate our core disciplines to deliver project solutions across our chosen market sectors.

#### **Dividends**

A dividend of £40m (100p per share) in respect of the year ended 31st December 2019 was distributed to ordinary shareholders on 30 January 2020 (2019: £21m).

#### **Future developments**

The Group will continue to focus on its new business plan being launched in 2021 which will set out our direction for the next several years as well as continuing to focus on mitigation plans in respect of COVID-19 and BREXIT.

#### **Directors**

The directors who have held office during the whole of the period from 1st January 2020 to the date of this report are:

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

#### **Directors' interests and transactions with directors**

None of the directors at 31st December 2020 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the directors' interests between 31st December 2020 and the date of approving this report. No director during the year had an interest in any contract significant to the Group's business.

#### **Statement of corporate governance arrangements**

From the 1<sup>st</sup> January 2018, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website). They embrace the Group's existing governance framework, which already contained many of the principles to satisfy the new legislative requirements.

The Corporate Governance Report approved by the Board is provided on pages 13 to 18.

#### **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 2020 represented 5 days purchases (2019: 8 days).

#### **Research and Development**

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

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Directors' Report For The Year Ended 31st December 2020**

#### **Going concern**

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

The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities. Such arrangements are commonplace in large groups and facilitates effective cash management. The Company has therefore not prepared an individual going concern forecast as the Group relies upon the going concern assessment performed by its UK parent entity, Skanska UK Plc.

Skanska UK Plc has confirmed it will provide financial support to the Group to assist with meeting liabilities as they fall due, but only to the extent that money is not otherwise available to the Group to meet such liabilities. Skanska UK Plc has also confirmed that it has the ability to provide such support and will provide this support to the Company, to the extent outlined above, for a period up to 31 December 2022. The Group's financial forecasts, taking into consideration the current environment, show that the Group has adequate resources to continue in operational existence for the period from the date of signing these financial statements to 31 December 2022.

The directors of the Group have made appropriate enquiries to ensure that Skanska UK Plc have sufficient resources to provide the support. Accordingly the directors continue to adopt going concern basis in preparing the Group's financial statements.

#### **Employment policies**

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

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

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

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

#### **Environment**

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

The Group's Streamlined Energy and Carbon Reporting can be found within the strategic report on page 7.

#### **Disabled employees**

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

#### **Pensions**

On an IAS 19 basis, the Group's defined benefit pension scheme had a deficit of £3.2 million at 31 December 2020, compared with a £4.7 million deficit at the previous year end. The decrease in the deficit has been driven by changes in actuarial assumptions. Total contributions paid into the Skanska Pension schemes by the Group was £3.3 million (2019: £3.6 million).

**Skanska Construction UK Limited (Registered number: 00191408)**

**Directors' Report  
For The Year Ended 31st December 2020**

**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 2020.

**Post balance sheet events**

On 24 February 2020, as part of a strategic review, the Group announced its intention to divest its Infrastructure Services operating unit and exit highways, rail, and street lighting maintenance. Contracts were exchanged with M Group Services Limited in December 2020 and completion occurred 30<sup>th</sup> April 2021. The Group recognised an estimated gain on sale of £31.5 million before tax in relation to the sale subject to the finalisation of completion accounts. The gain will be recognised in the 2021 Financial Statements.

On the 23 March 2020 the Government in the UK announced a national lockdown in response to the COVID-19 pandemic. Throughout 2020 there was a series of restrictions placed on the country with another national lockdown announced at the end of 2020. Early 2021 the government announced the easing of these restrictions and disclosed a road map out of the pandemic. The Group has retained a strong balance sheet and order book through the pandemic and has adopted a cautious approach to the easing of the restrictions.

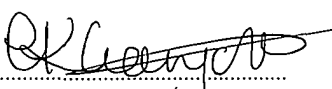
**Disclosure of information to auditor**

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

**Auditors**

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

**On behalf of the board:**

  
.....  
C K K Gangotra - Director

Date: .....05/10/2021.....

**Skanska Construction UK Limited (Registered number: 00191408)**

**Statement of Directors' Responsibilities  
For The Year Ended 31st December 2020**

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 in conformity with the requirements of the Companies Act 2006. 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, in conformity with the requirements of the Companies Act 2006, 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. 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 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 2020 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 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with section 408 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 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. We are independent of the group 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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We assessed the risk around going concern in planning our audit and again at the year-end phase;
- We confirmed our understanding of the process followed by management to prepare the Group's going concern assessment process, including assessing the ongoing impact of the Covid-19 pandemic;
- We obtained management's going concern assessment, including the cashflow forecast for the going concern period to 31 December 2022;
- We identified and challenged the key assumptions underlying managements forecasts and models by checking to corroborative evidence. We also searched for contrary evidence to challenge the assumptions;
- We performed our own sensitivity analysis on the forecast in addition to sensitivity analysis performed by management;
- We have performed reverse stress testing on the forecast prepared by management;
- We checked the logic and arithmetical accuracy of the models developed by Management;
- We assessed the accuracy of management forecasting by comparing forecasts made in prior periods to actual outcomes;
- We have obtained a copy of the Group's order bookings and performed an assessment over the secured revenue; and
- We assessed the accuracy and appropriateness of management's disclosure in the Directors' Report and the Going Concern basis of preparation note.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern from when the financial statements are authorised for issue through to the period ended 31 December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

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

### **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 contained within the annual report.

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.

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 course of 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 themselves. 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.

### **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 22, 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.

### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

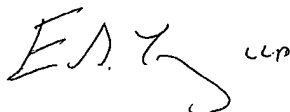
## Report of the Independent Auditors to the Members Skanska Construction UK Limited

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the Companies Act 2006, Bribery Act 2010, Construction (Design and Management) Regulations 2015 and the relevant tax regulations in the United Kingdom.
- We understood how Skanska UK Plc is complying with those frameworks through enquiry with management, and by identifying the Group's policies and procedures regarding compliance with laws and regulations. We corroborated our enquires through our review of board minutes, compliance issues reported through a whistleblowing hotline and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur through enquiry with management (including legal) and those charged with governance to understand where they considered there was susceptibility to fraud. As part of this we understood the performance targets of management. We also considered the risk of management override.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved testing manual journals and other journals identified by specific risk criteria, review of board minutes and any legal correspondence, enquiries with senior management and where applicable, those charged with governance and obtaining written representations from the directors of the company.

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

Date 05 October 2021

**Skanska Construction UK Limited (Registered number: 00191408)**

**Consolidated Statement of Profit or Loss  
For The Year Ended 31st December 2020**

	Notes	2020 £'000		Total	
		Continuing	Discontinued		
<b>Revenue</b>	4	1,096,181	334,040	1,430,221	
Cost of sales		(1,018,742)	(310,495)	(1,329,237)	(
<b>Gross profit</b>		77,439	23,545	100,984	
Other operating income	5	3,197	387	3,584	
Administrative expenses		(57,665)	(13,843)	(71,508)	
<b>Operating profit</b>		22,971	10,089	33,060	
Finance costs	7	(520)	(666)	(1,186)	
Finance income	7	-	-	-	
<b>Profit before income tax</b>		22,451	9,423	31,874	
Income tax	9	(5,243)	(1,222)	(6,465)	
<b>Profit</b>		17,208	8,201	25,409	
Profit attributable to: Owners of the parent		17,208	8,201	25,409	

The notes on pages 34 to 73 form part of these financial statements

**Skanska Construction UK Limited (Registered number: 00191408)**

**Consolidated Statement of Comprehensive Income  
For The Year Ended 31st December 2020**

	<b>2020 £'000</b>			
	<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>	<b>C</b>
<b>Profit for the year</b>	17,208	8,201	25,409	
<b>Other comprehensive income</b>				
<b>Items that may not be reclassified subsequently to profit or loss:</b>				
Net actuarial gain on pension scheme	1,012	-	1,012	
Current tax credit relating to items of other comprehensive Income	86	-	86	
Deferred tax charge relating to items of other comprehensive Income	(334)	-	(334)	
	<u>764</u>	<u>-</u>	<u>764</u>	
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Exchange difference	1,074	-	1,074	
	<u>1,074</u>	<u>-</u>	<u>1,074</u>	
<b>Other comprehensive loss for the year, net of income tax</b>	<u>1,838</u>	<u>-</u>	<u>1,838</u>	
<b>Total comprehensive income for the year</b>	<u>19,046</u>	<u>8,201</u>	<u>27,247</u>	
<b>Total comprehensive income attributable to: Owners of the parent</b>	<u>19,046</u>	<u>8,201</u>	<u>27,247</u>	

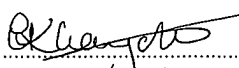
The notes on pages 34 to 73 form part of these financial statements

**Skanska Construction UK Limited (Registered number: 00191408)**

**Consolidated Statement of Financial Position  
For The Year Ended 31st December 2020**

	Notes	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	-	255
Property, plant, and equipment	13	14,127	15,078
Right-of-use assets	14	6,839	17,349
Deferred tax	27	7,566	7,740
		<u>28,532</u>	<u>40,422</u>
<b>Current assets</b>			
Inventories	16	577	4,809
Trade and other receivables	17	101,829	102,803
Contract assets	18	58,145	129,572
Tax receivable		-	-
Cash and cash equivalents	19	425,431	406,427
		<u>585,982</u>	<u>643,611</u>
Assets held for sale	10	38,772	-
		<u>624,754</u>	<u>643,611</u>
<b>Total Assets</b>		<u>653,286</u>	<u>684,033</u>
<b>Equity</b>			
<b>Shareholder's equity</b>			
Called up share capital	20	40,000	40,000
Retained earnings	21	79,486	92,239
<b>Total equity</b>		<u>119,486</u>	<u>132,239</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	24	4,379	14,522
Pension liability	28	3,216	4,704
Deferred tax	27	2,556	1,842
Provisions	26	80,912	65,542
		<u>91,063</u>	<u>86,610</u>
<b>Current liabilities</b>			
Trade and other payables	22	313,103	374,643
Contract liabilities	23	86,249	79,703
Tax payable		4,698	5,251
Lease liabilities	24	4,104	5,587
		<u>408,154</u>	<u>465,184</u>
Liabilities directly associated with the assets held for sale	10	34,583	-
		<u>442,737</u>	<u>465,184</u>
<b>Total liabilities</b>		<u>533,800</u>	<u>551,794</u>
<b>Total equity and liabilities</b>		<u>653,286</u>	<u>684,033</u>

The financial statements were approved by the Board of Directors on .....05/10/2021.... and were signed on its behalf by:

  
C K K Gangotia, Director

The notes on pages 34 to 73 form part of these financial statements

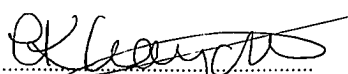
**Skanska Construction UK Limited (Registered number: 00191408)**

**Company Statement of Financial Position  
For The Year Ended 31st December 2020**

	Notes	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	-	255
Property, plant, and equipment	13	-	2,578
Right-of-use assets	14	6,838	17,296
Investments	15	45,946	46,002
Pension surplus	28	609	165
Deferred tax	27	6,705	5,825
		<u>60,098</u>	<u>72,121</u>
<b>Current assets</b>			
Inventories	16	-	4,403
Trade and other receivables	17	102,377	98,677
Contract assets	18	42,006	114,768
Tax receivable		-	-
Cash and cash equivalents	19	324,197	296,665
		<u>468,580</u>	<u>514,513</u>
Assets held for sale	10	38,772	-
		<u>507,352</u>	<u>514,513</u>
<b>Total Assets</b>		<u>567,450</u>	<u>586,634</u>
<b>Equity</b>			
<b>Shareholder's equity</b>			
Called up share capital	20	40,000	40,000
Retained earnings	21	31,315	26,062
<b>Total equity</b>		<u>71,315</u>	<u>66,062</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	24	4,379	14,522
Pension liability	28	-	-
Deferred tax	27	2,556	1,842
Provisions	26	45,992	44,162
		<u>52,927</u>	<u>60,526</u>
<b>Current liabilities</b>			
Trade and other payables	22	330,125	386,159
Contract liabilities	23	67,619	63,056
Tax payable		6,777	5,298
Lease liabilities	24	4,104	5,533
		<u>408,625</u>	<u>460,046</u>
Liabilities directly associated with the assets held for sale	10	34,583	-
		<u>443,208</u>	<u>460,046</u>
<b>Total liabilities</b>		<u>496,135</u>	<u>520,572</u>
<b>Total equity and liabilities</b>		<u>567,450</u>	<u>586,634</u>

The directors have taken the exemption provided by Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company. The profit for the year of the Company was £44,448,000 (2019: £17,728,000).

The financial statements were approved by the Board of Directors on .....05/10/2021..... and were signed on its behalf by:

  
C K K Gangotra - Director

The notes on pages 34 to 73 form part of these financial statements

**Skanska Construction UK Limited (Registered number: 00191408)**

**Consolidated Statement of Changes in Equity  
For The Year Ended 31st December 2020**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2019</b>	40,000	102,177	142,177
Profit for the year	-	11,285	11,285
Other comprehensive loss	-	(223)	(223)
Total comprehensive income	-	11,062	11,062
Dividends paid	-	(21,000)	(21,000)
<b>Balance as at 31 December 2019</b>	<b>40,000</b>	<b>92,239</b>	<b>132,239</b>
Profit for the year	-	25,409	25,409
Other comprehensive income	-	1,838	1,838
Total comprehensive income	-	27,247	27,247
Dividends paid	-	(40,000)	(40,000)
<b>Balance as at 31 December 2020</b>	<b>40,000</b>	<b>79,486</b>	<b>119,486</b>

The notes on pages 34 to 73 form part of these financial statements



**Skanska Construction UK Limited (Registered number: 00191408)**

**Company Statement of Changes in Equity  
For The Year Ended 31st December 2020**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2019</b>	40,000	29,361	69,361
Profit for the year	-	17,727	17,727
Other comprehensive loss	-	(26)	(26)
<b>Total comprehensive income</b>	-	17,701	17,701
Dividends paid	-	(21,000)	(21,000)
<b>Balance as at 31 December 2019</b>	40,000	26,062	66,062
Profit for the year	-	44,448	44,448
Other comprehensive income	-	805	805
<b>Total comprehensive income</b>	-	45,253	45,253
Dividends paid	-	(40,000)	(40,000)
<b>Balance as at 31 December 2020</b>	40,000	31,315	71,315

The notes on pages 34 to 73 form part of these financial statements

**Skanska Construction UK Limited (Registered number: 00191408)**

**Consolidated Statement of Cash Flows  
For The Year Ended 31st December 2020**

	Notes	2020 £'000	2019 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	32	31,117	87,015
Interest element of hire purchase and finance lease		-	-
Finance costs paid		-	-
Tax paid		-	-
Net cash from operating activities		<u>31,117</u>	<u>87,015</u>
<b>Cash flows from investing activities</b>			
Purchase of intangible fixed assets		(847)	(255)
Purchase of tangible fixed assets		(4,269)	(4,264)
Sale of tangible fixed assets		116	423
Interest received/(paid)		(510)	514
Net cash from investing activities		<u>(5,510)</u>	<u>(3,582)</u>
<b>Cash flows from financing activities</b>			
Capital repayments in year		-	(272)
Principal paid on lease liabilities (2019: principal paid on finance leases)		(6,603)	(6,570)
Net cash from financing activities		<u>(6,603)</u>	<u>(6,843)</u>
<b>Increase in cash and cash equivalents</b>		19,004	76,590
<b>Cash and cash equivalents at beginning of year</b>		406,427	329,837
<b>Cash and cash equivalents at end of year</b>		<u>425,431</u>	<u>406,427</u>

The notes on pages 34 to 73 form part of these financial statements

**Skanska Construction UK Limited (Registered number: 00191408)**

**Company Statement of Cash Flow  
For The Year Ended 31st December 2020**

	Notes	2020 £'000	2019 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	32	35,418	37,055
		<hr/>	<hr/>
Net cash from operating activities		35,418	37,055
<b>Cash flows from investing activities</b>			
Purchase of intangible fixed assets		(847)	(255)
Purchase of tangible fixed assets		(360)	(640)
Sale of tangible fixed assets		35	8
Interest (paid)/received		(163)	535
		<hr/>	<hr/>
Net cash from investing activities		(1,335)	(352)
<b>Cash flows from financing activities</b>			
Capital repayments in year		-	(273)
Principal paid on lease liabilities		(6,551)	(6,535)
		<hr/>	<hr/>
Net cash from financing activities		(6,551)	(6,808)
<b>Increase in cash and cash equivalents</b>		27,532	29,895
<b>Cash and cash equivalents at beginning of year</b>		296,665	266,770
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		324,197	296,665
		<hr/>	<hr/>

The notes on pages 34 to 73 form part of these financial statements

## **Skanska Construction UK Limited (Registered number: 00191408)**

### **Notes to the Consolidated Financial Statements For The Year Ended 31st December 2020**

#### **1. Statutory information**

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

The presentation currency of the financial statements is the Pound Sterling (£), the functional currency of the Group. 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 conformity with the requirements of the Companies Act 2006 and under the historical cost convention and include the results of activities described in the Directors' report.

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence and meet its liabilities as they fall due, for at least the period from the date of signing these financial statements to 31 December 2022.

The Group has net current assets of £182.0 million and net assets of £119.5 million. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

The Directors have considered the impact of the COVID-19 crisis on the Group's business operations and future prospects. The Group's operations did not feature on the list of business premises which need to close, and specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for our people in order to maintain operational activity for the majority of our sites. The Business saw an initial reduction in productivity mainly due to Government lockdown and other legislation, including ensuring social distancing on site. This reduction was far less than first expected and experienced by other industries.

The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities. Such arrangements are commonplace in large groups and facilitates effective cash management. The Company has therefore not prepared an individual going concern forecast as the Group relies upon the going concern assessment performed by its UK parent entity, Skanska UK Plc.

Skanska UK Plc has confirmed it will provide financial support to the Group to assist with meeting liabilities as they fall due, but only to the extent that money is not otherwise available to the Group to meet such liabilities. Skanska UK Plc has also confirmed that it has the ability to provide such support and will provide this support to the Company, to the extent outlined above, for a period through to 31 December 2022. The Group's financial forecasts, taking into consideration the current environment, show that the Group has adequate resources to continue in operational existence for the period from the date of signing these financial statements to 31 December 2022.

The directors of the Group have made appropriate enquiries to ensure that Skanska UK Plc have sufficient resources to provide the support. In view of the circumstances referred to above, the directors of the Group believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to prepare a profit and loss account as the Company's results are included in the consolidated statement of profit or loss shown on page 26.

##### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the 'Group') as at 31<sup>st</sup> December 2020. 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

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies – continued**

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

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

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

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

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

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

**Associated undertakings and joint arrangements**

A joint arrangement exists where the co-owners have rights to the assets of the arrangement and obligations for the liabilities of the arrangement. An arrangement that is not structured through the formation of a separate Company is a joint operation. Contracting projects performed in cooperation with outside contracting companies, with joint and several liability, are reported by the Group as joint operations. 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 operation. 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 operations with different partners for the purposes of undertaking specific contracts. Interests in joint operations are accounted for by recognising the Group's share of income and expenses and assets and liabilities measured according to the terms of the arrangements.

**Investment in subsidiaries**

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

**Early adoption of new or revised IFRS and interpretations**

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

**New standards and interpretations**

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2020 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- IFRS 3 *Business Combinations* (Amendment – Definition of Business)
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7);
- COVID-19-Related Rent Concessions (Amendments to IFRS 16);
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies - continued**

**New standards, interpretations and amendments not yet effective**

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is as follows, which are all effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

Skanska UK Plc is currently assessing the impact of these new accounting standards and amendments. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

**Revenue**

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

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

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

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

**Contract Assets and Contract Liabilities**

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

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies - continued**

**Profit from disposal of investments**

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

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

**Pre-contract costs**

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

**Cash dividend**

The Company recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

**Non-current assets held for sale and discontinued operations**

The Group classifies non-current assets and disposal Groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal Groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal Group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal Group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal Group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a separate column in the statement of profit or loss.

Additional disclosures are provided in Note 10. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies – continued**

**Intangible assets and goodwill**

Goodwill arising on the acquisition of subsidiaries, representing the difference between the fair value of purchase consideration and the fair value of net assets acquired, is capitalised in the statement of financial position. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit or loss within administrative expenses and is not subsequently reversed. The fair value of net assets in excess of the fair value of purchase consideration is credited to the income statement in the year of acquisition. In 2019 goodwill attributable to two cash generating units (CGUc); Infrastructure Services (£23.4m) and Utilities (£6.4m) was fully impaired in the Consolidated Statement of Profit or Loss.

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the profit or loss on a straight-line basis over 5 years. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

**Research and development**

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Amortisation is recognised in the profit or loss on a straight-line basis over 7 years. During the period of development, the asset is tested for impairment annually.

**Property, plant and equipment**

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

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

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

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



**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies – continued**

**Financial instruments**

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

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

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

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

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

**Inventories**

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

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

- Stocks: Purchase cost on a first-in/first-out basis

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.

**Cash**

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

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

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies – continued**

**Taxation**

Current income tax is recognised in the statement of comprehensive income, except tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

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

**Foreign currency transactions and balances**

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

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

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

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

**Employee benefit costs**

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

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

**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.

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

2. Accounting policies – continued

Leases

In the prior year, the Group adopted *IFRS 16 Leases* using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. For the Group and Company this resulted in the recognition of right-of-use assets of £22.6m and lease liabilities of £24.0m as well as an adjustment to equity of £1.2m.

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

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

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

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

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

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

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

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

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

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

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

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

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**2. Accounting policies – continued**

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

**Nature of leasing activities (in the capacity as lessee)**

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

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

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

**31 December 2020**

	<b>Payments in the year £000</b>	<b>Lease Contracts Number</b>	<b>Fixed Payments %</b>	<b>Variable payments %</b>	<b>Sensitivity £000</b>
Property leases with payments linked to inflation	1,039	9	-	16%	10
Property leases with fixed payments	5,435	32	82%	-	-
Leases of plant and equipment	129	3	2%	-	-
	<u>6,603</u>	<u>44</u>	<u>84%</u>	<u>16%</u>	<u>10</u>

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

At 31 December 2020, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on both dates it was considered reasonably certain that the group would not exercise its right to exercise any right to break the lease. Total lease payments of £6,859,558 are potentially avoidable were the group to exercise break clauses at the earliest opportunity.

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**3. Accounting judgements and estimation uncertainty**

The preparation of the financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 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, investments in subsidiary undertakings impairment tests and lease length and incremental borrowing rate used.

Principal assumptions underlying the valuation of defined benefit pension liabilities (Note 28) - These assumptions were set on the advice of the schemes' actuaries having regard to current market conditions, history, and factors specific to the scheme.

Investments in subsidiary undertakings - these have been assessed for impairment by comparing their carrying amounts with the present value of the discounted cash flows expected to be generated by the relevant cash-generating units (CGUs) identified in note 15.

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

Determination of the incremental borrowing rate used to measure lease liabilities - The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The IBR is determined on a quarterly basis, by the Group's ultimate parent entity, Skanska AB. Discount rates used are disclosed in note 24 of these financial statements.

**Skanska Construction UK Limited (Registered number: 00191408)****Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020****4. Revenue****Expected revenue recognition for remaining performance obligations**

Contracts may run for a period greater than one year. The expected revenue recognition relating to ongoing or won contracts, at 31 December 2020 is as follows

	2021 £'m	2022 £'m	2023 £'m	2024+ £'m	Total £'m
Expected Revenue	821	545	401	1,065	2,832

	2020 £'000	2019 £'000
Construction works	928,337	1,207,428
Rendering of services	167,844	145,705
IFRS revenue from continuing operations	1,096,181	1,353,133

No revenue was derived from exchange of goods or services (2019: £nil). Revenue recognised in the year from amounts that were included in the contract liability at the beginning of the period equals £79,703,000 (2019: £70,218,000). Revenue recognised in the year from performance obligations satisfied in previous years equals £5,850,000 (2019: £13,700,000).

**5. Other operating income**

	2020 £'000	2019 £'000
Other income	3,197	-

Other income relates to money received from Skanska UK Plc supporting the payroll of the Company's employees during the COVID-19 pandemic.

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**6. Employees and Directors**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	229,424	239,469
Social security costs	25,316	26,744
Other pension costs	23,016	25,130
	<u>277,756</u>	<u>291,343</u>

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

	<b>2020</b>	<b>2019</b>
Construction	3,224	3,355
Administration	1,557	1,583
	<u>4,782</u>	<u>4,938</u>

Included in other pension costs is:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Defined benefit costs	2,809	2,472
Defined contribution costs	20,207	22,658
	<u>23,016</u>	<u>25,130</u>

No directors' emoluments, fees or other costs were incurred by the Company during the current year. The directors were remunerated by other Skanska Group companies for their qualifying services provided to those entities. The amount of that remuneration apportioned to the Company is £nil (2019: £nil).

**7. Net finance costs**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Finance income:		
Bank interest	-	514
Finance costs:		
Bank interest	106	-
Interest expense on lease liabilities	322	685
Interest on pension scheme liabilities	92	151
	<u>520</u>	<u>836</u>
Net finance costs	<u>(520)</u>	<u>(322)</u>

**8. Profit before income tax**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Included in cost of sales:</b>		
Cost of inventory recognised as expense	455	1,038
Depreciation of owned assets	3,145	2,927
(Profit) / loss on disposal of fixed assets	(7)	429
Depreciation of right-of-use assets	2,807	2,582
Intangible asset amortisation	-	-
Impairment of intangible assets	-	-
Expense relating to short-term leases	367	3,512
Expense relating to low-value leases	-	117
Research costs	-	-
<b>Included in administrative expenses:</b>		
Impairment of goodwill	-	30,423
Depreciation of right-of-use assets	1,416	1,893
Impairment of right-of-use assets	-	1,853
Foreign exchange (gains)/losses	(30)	(33)
Audit fee	468	461

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**9. Income tax**

The major components of income tax expense for the years ended 31 December 2020 and 2019 are:

<b>Consolidated profit or loss</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Current income tax</b>		
Current income tax charge	4,355	3,650
Adjustments in respect of current income tax of previous year	1,552	1,693
<b>Total current tax credit</b>	<b>5,907</b>	<b>5,343</b>
<b>Deferred tax</b>		
Current year tax charge	1,688	(772)
Adjustments in respect of	(229)	(546)
Impact of change in corporation tax rate	(901)	-
<b>Total deferred tax previous year</b>	<b>558</b>	<b>(1,318)</b>
<b>Total tax expense reported in the statement of profit or loss</b>	<b>6,465</b>	<b>4,025</b>
<b>Consolidated other comprehensive income</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Current tax on pensions	86	92
Deferred tax on pensions (note 28)	(334)	(179)
<b>Total tax credit reported in other comprehensive income</b>	<b>(248)</b>	<b>(87)</b>
Reconciliation of tax expense and the accounting profit multiplied by UK tax rate for 2019 and 2020:		
Accounting profit before tax from continuing operations	22,451	10,490
Profit before tax from a discontinued operation	9,423	4,820
<b>Reconciliation of profits to total tax charge:</b>		
Profit before tax	31,874	15,310
Profit before tax multiplied by standard rate of corporation tax in the UK 19% (2019: 19%)	6,056	2,909
Expenses not deductible for tax purposes	(79)	(283)
Adjustment in respect of prior years	1,322	1,147
Change in rate	(834)	252
<b>Total tax charge</b>	<b>6,465</b>	<b>4,025</b>
Income tax expense reported in the statement of profit or loss	5,243	3,159
Income tax attributable to a discontinued operation	1,222	866
	<b>6,465</b>	<b>4,025</b>

**Changes in corporation tax rate**

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax rate, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019 – 19%) which represents the future corporation tax rate that was enacted at the balance sheet date.

**Factors affecting future tax charge**

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the company's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax credit of £4.9m.



**Skanska Construction UK Limited (Registered number: 00191408)****Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020****10. Discontinued operations**

On 24 February 2020, the Group publicly announced the decision of its Board of Directors to withdraw from highways maintenance, rail maintenance and street lighting maintenance sectors and therefore sell its infrastructure services operating unit. At the end of 2020, the shareholders of the Company approved the plan to sell. The sale of Infrastructure Services was completed on the 30 April 2021. At 31 December 2020, Infrastructure Services was classified as a disposal Group held for sale and as a discontinued operation.

The results of the Infrastructure Services operating unit for the year are presented below:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Revenue from contracts with customers	334,040	323,341
Cost of sales	(310,495)	(301,587)
Other operating income	387	-
Administrative expenses	(13,843)	(16,053)
Operating income	<u>10,089</u>	<u>5,701</u>
Finance costs	(402)	(280)
Lease interest	(264)	(601)
Profit before tax from a discontinued operation	<u>9,423</u>	<u>4,820</u>
Tax expense:		
Related to pre-tax profit from the ordinary activities for the period	(1,222)	(866)
<b>Profit for the year from discontinued operations</b>	<u><u>8,201</u></u>	<u><u>3,954</u></u>

The major classes of assets and liabilities of the operating unit classified as held for sale as at 31 December are, as follows:

	<b>2020</b>
	<b>£'000</b>
<b>Assets</b>	
Intangible assets (note 12)	1,102
Property, plant and equipment (note 13)	1,946
Right of use assets (note 14)	7,636
Inventory	3,919
Contract assets	21,755
Debtors	2,414
Assets held for sale	<u>38,772</u>
<b>Liabilities</b>	
Contract liabilities	3,919
Creditors	21,643
Provisions	1,168
Lease liabilities (note 24)	7,853
Liabilities held for sale	<u>34,583</u>
<b>Net assets directly associated with disposal Group</b>	<u><u>4,189</u></u>

In addition to the above, Right of use assets of £15,954k and lease liabilities of £16,235k are held for sale in Skanska UK Plc the Company as the Company is the contracting entity for the lease contracts and these are held as part of the sale of the operating unit.

**Skanska Construction UK Limited (Registered number: 00191408)****Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020****10. Discontinued operations - continued**

The net cash flows incurred by Infrastructure Services, as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Operating	17,804	23,482
Investing	(1,065)	(1,312)
Financing	(6,833)	(6,561)
<b>Net cash (outflow)/inflow</b>	<u>9,906</u>	<u>15,609</u>

Immediately before the classification of Infrastructure Services as discontinued operations, the recoverable amount was estimated for certain items of property, plant and equipment and no impairment loss was identified.

As at 31 December 2020, there was no further write-down as the carrying amount of the disposal Group did not fall below its fair value less costs to sell. There were no gains or losses recognised in profit or loss or in OCI with respect to these assets.

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

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The Company's profit after tax for the financial year was £44,448,000 (2019: £17,728,000).

**12. Intangible assets****Group and company**

	<b>IT Software</b>
	<b>£'000</b>
<b>Cost</b>	
At 1 January 2020	14,703
Additions	847
Assets held for sale (note 10)	<u>(1,102)</u>
At 31 December 2020	<u>14,448</u>
<b>Amortisation</b>	
At 1 January 2020 and 31 December 2020	<u>8,205</u>
<b>Impairment</b>	
At 1 January 2020 and 31 December 2020	<u>6,243</u>
<b>Net book value</b>	
At 31 December 2020	<u>-</u>
At 31 December 2019	<u>255</u>

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**13. Property, plant and equipment**

**Group**

	<b>Freehold property £'000</b>	<b>Plant and machinery £'000</b>	<b>Totals £'000</b>
<b>Cost</b>			
At 1 January 2020	17	48,624	48,641
Additions	-	4,269	4,269
Disposals	-	(6,453)	(6,453)
Assets held for sale (note 10)	-	(6,690)	(6,690)
At 31 December 2020	17	39,750	39,767
<b>Depreciation</b>			
At 1 January 2020	17	33,546	33,563
Charge for the year	-	3,158	3,158
Eliminated on disposal	-	(6,337)	(6,337)
Assets held for sale (note 10)	-	(4,744)	(4,744)
At 31 December 2020	17	25,623	25,640
<b>Net book value</b>			
At 31 December 2020	-	14,127	14,127
At 31 December 2019	-	15,078	15,078

**Company**

	<b>Plant and machinery £'000</b>
<b>Cost</b>	
At 1 January 2020	16,035
Additions	360
Disposals	(6,310)
Assets held for sale (note 10)	(6,690)
At 31 December 2020	3,395
<b>Depreciation</b>	
At 1 January 2020	13,457
Charge for the year	958
Eliminated on disposal	(6,276)
Assets held for sale (note 10)	(4,744)
At 31 December 2020	3,395
<b>Net book value</b>	
At 31 December 2020	-
At 31 December 2019	2,578

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

14. Right-of-use Assets

Group	Land and Buildings £'000	Plant and equipment £'000	Totals £'000
At 1 January 2020	17,219	130	17,349
Additions	2,168	-	2,168
Amortisation	(4,989)	(130)	(5,119)
Effect of modification of lease terms	77	-	77
Assets held for sale (note 10)	(7,636)	-	(7,636)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	6,839	-	6,839

Company	Land and Buildings £'000	Plant and equipment £'000	Totals £'000
At 1 January 2020	17,166	130	17,296
Additions	2,168	-	2,168
Amortisation	(4,937)	(130)	(5,067)
Effect of modification of lease terms	77	-	77
Assets held for sale (note 10)	(7,636)	-	(7,636)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	6,838	-	6,838

15. Investments

Company	Shares in group undertakings £'000
<b>Cost</b>	
At 1 January 2020 and 31 December 2020	<hr/> 95,981
<b>Provisions</b>	
At 1 January 2020	49,979
Provision for the year	56
	<hr/>
At 31 December 2020	50,035
<b>Net book value</b>	
At 31 December 2020	<hr/> 45,946
At 31 December 2019	<hr/> 46,002

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**15. Investments - continued**

**Company**

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

**Subsidiary**

The following subsidiary undertakings all have construction as their principal activity. 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 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 (In liquidation) - (Registered office: 1 Stokes Place, St Stephen's Garden, Dublin)  
Clark & Fenn Skanska Ltd  
Skanska J.V. Projects Ltd  
Skanska Major Projects Ltd  
Skanska MGT Ltd (In liquidation)\* - (Registered office: 25 Farringdon Street, London, EC4A 4AB)  
Skanska Rashleigh Weatherfoil Ltd  
Wilson & Jennings Ltd  
Skanska ESS Construction HB - (Registered office: Odarslövsvägen 113, Lund, Skåne, 225 92, Sweden)

The following subsidiary is 100% indirectly owned:

MG Telecommunicatii SRL\* - (Registered office: Anina Str., No 35, Cluj-Napoca - 400326, Romania)

The following Company is exempt from publishing audited accounts under Section 479A of Companies Act 2006:

Wilson & Jennings Limited - registration: 00752550  
Skanska J.V. Projects Limited - registration: 03686027  
Skanska Major Projects Limited - registration: 00993835  
Clark & Fenn Skanska Limited - registration: 00679167

**16. Inventories**

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Stocks	<u>577</u>	<u>4,809</u>	<u>-</u>	<u>4,403</u>

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

17. Trade and other receivables

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current:				
Trade receivables	56,437	72,280	37,501	44,751
Amounts owed by subsidiary companies	-	-	24,495	-
Amounts owed by other group undertakings	4,713	-	7,441	-
Amounts owed by fellow undertakings	-	4,616	-	29,836
Other receivables	33,497	16,832	26,570	16,211
Prepayments and accrued income	7,182	9,075	6,370	7,879
	<u>101,829</u>	<u>102,803</u>	<u>102,377</u>	<u>98,677</u>

Trade and other receivables are part of the Group's operating cycle and are recognised as current assets. Trade and other receivables are non-interest bearing and are generally on terms of 30 to 90 days. As at 31 December 2020, trade receivables with an initial carrying value of £3,409,000 (2019: £236,000) were impaired and fully provided for.

Amounts owed by fellow undertakings to the Group in 2019 include amounts owed by other group undertakings of £4,616,000. Amounts owed by fellow undertakings to the Company in 2019 include amounts owed by subsidiary companies of £22,015,000 and amounts owed by other group undertakings of £7,821,000.

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

	Current	31-60 days	61-90 days	91-120 days	120+ days	Total
Group	48,179	1,255	1,575	414	5,014	56,437
Company	31,961	1,035	1,287	295	2,923	37,501

18. Contract assets

At 31 December 2020, the Group had contract assets, excluding those held for sale, of £58,145,000 (2019: £129,572,000). At 31 December 2020, the Company had contract assets of £42,006,000 (2019: £114,768,000). Contract assets consists of amounts recoverable on contracts. The change in contract assets in the year is due to normal activity and timing of certification of work done in the construction business.

19. Cash and cash equivalents

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Bank accounts	<u>425,431</u>	<u>406,427</u>	<u>324,197</u>	<u>296,665</u>

Included in this total is £56,560,229 restricted cash held in joint arrangements (2019: £84,485,099).

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**20. Called up share capital**

Authorised, allotted, issued and fully paid share capital:

Number:	Class	Nominal Value:	2020 £	2019 £
40,000,000	Ordinary	£1	40,000,000	40,000,000

**21. Reserves**

**Group**

	Retained earnings £'000
At 1 January 2020	92,239
Profit for the year	25,409
Net actuarial gain on defined pension schemes	1,012
Foreign exchange gain	1,074
Income tax relating to items of other comprehensive income	(248)
Dividends paid	(40,000)
At 31 December 2020	<u>79,486</u>

A dividend of £40m (100p per share) in respect of the year ended 31st December 2019 was distributed in specie to ordinary shareholders on 30 January 2020 (2019: £21m).

**22. Trade and other payables**

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Current:				
Payments on account	-	1,866	-	1,866
Trade payables	30,682	59,828	22,408	45,821
Amounts owed to parent entity	101,378	-	120,791	-
Amounts owed to subsidiary companies	-	-	55,736	-
Amounts owed to other group undertakings	17,764	-	17,746	-
Amounts owed to fellow undertakings	-	74,714	-	164,891
Other payables	32,326	40,522	25,065	34,536
Accruals and deferred income	130,953	197,713	88,379	139,045
	<u>313,103</u>	<u>374,643</u>	<u>330,125</u>	<u>386,159</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally on 45-day payment terms.
- Other payables are non-interest bearing
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions with parent entity, subsidiary companies and other group undertakings, refer to Note 31.
- For explanations on the Group's liquidity risk management process, refer to Note 25.

Amounts owed to fellow undertakings by the Group in 2019 include amounts owed to parent entity of £57,501,000 and amounts owed to other group undertakings of £17,213,000. Amounts owed to fellow undertakings by the Company in 2019 include amounts owed to parent entity of £76,710,000, amounts owed to subsidiary companies of £70,845,000 and amounts owed to other group undertakings of £17,336,000.

**23. Contract liabilities**

At 31 December 2020, the Group had contract liabilities, excluding those held for sale, of £86,249,000 (2019: £79,703,000). Contract liabilities consists of billings-in-excess. At 31 December 2020, the Company had contract liabilities of £67,619,000 (2019: £63,056,000). The change in contract liabilities in the year is due to normal activity and timing of certification of work done in the construction business.

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**24. Lease liabilities**

<b>Group</b>	<b>Land and Buildings £'000</b>	<b>Plant and equipment £'000</b>	<b>Totals £'000</b>
At 1 January 2020	19,980	128	20,108
Additions	2,168	-	2,168
Interest expense	587	-	587
Lease payments	(6,476)	(128)	(6,604)
Effect of modification of lease terms	77	-	77
Liabilities held for sale (note 10)	(7,853)	-	(7,853)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	8,483	-	8,483
	<hr/>	<hr/>	<hr/>
<b>Company</b>	<b>Land and Buildings £'000</b>	<b>Plant and equipment £'000</b>	<b>Totals £'000</b>
At 1 January 2020	19,928	128	20,056
Additions	2,168	-	2,168
Interest expense	587	-	587
Lease payments	(6,423)	(128)	(6,551)
Effect of modification of lease terms	77	-	77
Liabilities held for sale (note 10)	(7,854)	-	(7,854)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	8,483	-	8,483
	<hr/>	<hr/>	<hr/>
		<b>Company 2020 £'000</b>	<b>Group 2020 £'000</b>
Short term lease expense		6,595	6,700
Low value lease expense		-	-
		<hr/>	<hr/>

The table below shows incremental borrowing rate (IBR) used to measure lease liabilities:

<b>Lease Term</b>	<b>Discount rate (%)</b>						
	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>	<b>15 years</b>	<b>30 year</b>
Q4 2019	2.0	1.9	1.9	2.0	2.3	2.8	3.5
Q1 2020	1.9	1.8	1.8	1.8	2.2	2.6	3.2
Q2 2020	2.0	2.0	2.0	2.2	3.1	3.5	4.1
Q3 2020	2.0	1.9	1.9	2.4	3.7	4.0	4.7
Q4 2020	1.7	1.7	1.7	2.2	3.3	3.5	4.3



**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**25. Financial instruments**

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

**Credit risk**

Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and contract assets at the statement of financial position date. The Group expects there to be little or no impact of Covid-19 on the credit risk of the Group.

**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. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

**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 31<sup>st</sup> December 2020, the Group had cash and cash equivalents totalling £425,431,000 (2019: £406,427,000) and no debt. Included in this total is £56,560,229 restricted cash held in Joint arrangements (2019: £84,485,099).

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

**Effective interest rates and maturity analysis**

As at 31<sup>st</sup> December 2020, income-earning financial assets of the Group comprised cash and cash equivalents totalling £425,431,000 (2019: £406,427,000) and of the Company £324,197,000 (2019: £296,665,000). Interest is earned on net cash balances at floating rates linked to the Swedish base rate. The Group has no overdraft or bank debt.

**Fair Value**

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

**Sensitivity analysis**

At 31<sup>st</sup> December 2020 and 31<sup>st</sup> December 2019, it was estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

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

**Capital Management**

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

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

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

25. Financial instruments – continued

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
<b>Loans and receivables</b>				
Contract assets	58,145	129,572	42,006	114,768
Trade receivables	56,437	72,280	37,501	44,751
Amounts owed by fellow group undertakings	4,713	4,616	31,936	29,836
Other receivables	33,497	16,832	26,570	16,211
<b>Financial assets</b>				
Cash and cash equivalents	425,431	406,427	324,197	296,665
<b>Total Financial Assets</b>	<u>578,223</u>	<u>629,727</u>	<u>462,210</u>	<u>502,231</u>
<b>Financial liabilities</b>				
Contract liabilities	86,249	79,703	67,619	63,056
Payment received on account	-	1,866	-	1,866
Trade payables	30,682	59,828	22,408	45,821
Amounts owed to fellow undertakings	119,142	74,714	194,274	164,891
Other payables	32,326	40,522	25,065	34,536
Lease Liabilities	8,483	20,109	8,483	20,055
<b>Total financial liabilities</b>	<u>276,882</u>	<u>276,742</u>	<u>317,849</u>	<u>330,225</u>

Maturity analysis for non-derivative financial liabilities

	On demand	Less than 3 months	More than 3 months
	£'000	£'000	£'000
<b>Year ended 31 December 2020</b>			
Trade and other payables (Group)	3,001	28,669	31,338
Trade and other payables (Company)	2,579	21,896	22,998
<b>Year ended 31 December 2019</b>			
Trade and other payables (Group)	-	63,587	36,763
Trade and other payables (Company)	-	50,918	29,439

Maturity analysis for lease liability payments (undiscounted)

Group and Company	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2020	£'000	£'000	£'000	£'000	£'000
Lease liabilities	1,349	3,887	4,155	2,972	7,176

£10m of the above relates to the sale of infrastructure services and therefore the Group does not expect to be liable for payment.

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**25. Financial instruments – continued**

	2020 £'000	2019 £'000
Trade and other payables	313,102	374,643
Contract liabilities	86,249	79,703
Lease liabilities	4,104	5,587
Less: cash and short-term deposits	(425,431)	(406,427)
Net (surplus)/deficit	(21,976)	53,506
Shareholders' equity	119,486	132,239
Capital and net debt	97,510	185,745
Gearing ratio %	(22.5%)	28.8%

**26. Provisions**

**Group**

	Forward loss on contracts & disputes £'000	Warranty £'000	Other £'000	Total £'000
<b>2020</b>				
At 1 January 2020	15,993	33,898	15,651	65,542
Released in year	(6,103)	(27,617)	(4,949)	(38,669)
Created in year	4,181	59,271	14,014	77,466
Reclassification	(5,709)	6,445	(421)	315
Utilised	(2,127)	(9,159)	(11,289)	(22,575)
Liabilities held for sale (note 10)	-	(168)	(1,000)	(1,168)
<b>At 31 December 2020</b>	<u>6,236</u>	<u>62,670</u>	<u>12,007</u>	<u>80,912</u>
<b>2019</b>				
At 1 January 2019	37,344	35,933	16,623	89,900
Released in year	(13,788)	(13,868)	(8,871)	(36,527)
Created in year	9,043	28,297	12,510	49,850
Reclassification	-	(968)	1,055	87
Utilised	(16,606)	(15,496)	(5,666)	(37,768)
<b>At 31 December 2019</b>	<u>15,993</u>	<u>33,898</u>	<u>15,651</u>	<u>65,542</u>

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

26. Provisions - continued

Company	Forward loss on contracts & disputes £'000	Warranty £'000	Other £'000	Total £'000
<b>2020</b>				
At 1 January 2020	9,808	20,340	14,014	44,162
Released in year	(1,122)	(20,370)	(4,949)	(26,441)
Created in year	-	31,258	13,270	44,527
Reclassification	(5,283)	5,594	(421)	(109)
Utilised	-	(4,204)	(10,775)	(14,979)
Liabilities held for sale (note 10)	-	(168)	(1,000)	(1,168)
<b>At 31 December 2020</b>	<b>3,404</b>	<b>32,450</b>	<b>10,139</b>	<b>45,992</b>
<b>2019</b>				
At 1 January 2019	35,278	19,287	16,623	71,188
Released in year	(12,463)	(6,256)	(9,352)	(28,071)
Created in year	1,200	18,241	11,917	31,358
Reclassification	-	(405)	492	87
Utilised	(14,207)	(10,527)	(5,666)	(30,400)
<b>At 31 December 2019</b>	<b>9,808</b>	<b>20,340</b>	<b>14,014</b>	<b>44,162</b>

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

Warranty provisions are made in the normal cause of our business. Other provisions include provisions for 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.

27. Deferred tax

Group	2020			2019		
	Asset £'000	Liability £'000	Total £'000	Asset £'000	Liability £'000	Total £'000
Accelerated Capital Allowances	1,295	-	1,295	1,764	-	1,764
Deferred tax on pension liability	611	-	611	800	-	800
Unrelieved trading losses	1,973	-	1,973	2,625	-	2,625
Other	1,993	(2,556)	(563)	946	(1,842)	(896)
Goodwill	1,694	-	1,694	1,605	-	1,605
<b>Total</b>	<b>7,566</b>	<b>(2,556)</b>	<b>5,010</b>	<b>7,740</b>	<b>(1,842)</b>	<b>5,898</b>
At beginning of year	7,740	(1,842)	5,898	5,509	(1,082)	4,427
IFRS 16 Adjustment (note 2)	-	-	-	235	-	235
Restated	7,740	(1,842)	5,898	5,744	(1,082)	4,662
Adjustments in relation to prior year	4	-	4	-	-	-
Deferred tax movement in P&L	156	(714)	(558)	2,078	(760)	1,318
Deferred tax direct to equity	(334)	-	(334)	(82)	-	(82)
<b>Total</b>	<b>7,566</b>	<b>(2,556)</b>	<b>5,010</b>	<b>7,740</b>	<b>(1,842)</b>	<b>5,898</b>

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

27. Deferred tax – continued

Company

	Asset £'000	2020 Liability £'000	Total £'000	Asset £'000	2019 Liability £'000	Total £'000
Accelerated Capital Allowances	1,744	-	1,744	1,763	-	1,763
Deferred tax on pension liability	(116)	-	(116)	(28)	-	(28)
Unrelieved trading losses	1,735	-	1,735	2,157	-	2,157
Other	1,648	(2,556)	(908)	328	(1,842)	(1,514)
Goodwill	1,694	-	1,694	1,605	-	1,605
<b>Total</b>	<b>6,705</b>	<b>(2,556)</b>	<b>4,149</b>	<b>5,825</b>	<b>(1,842)</b>	<b>3,983</b>
At beginning of year	5,825	(1,842)	3,983	2,988	(1,082)	1,906
IFRS 16 Adjustment (note 2)	-	-	-	235	-	235
Restated	5,825	(1,842)	3,983	3,223	(1,082)	2,141
Deferred tax movement in P&L	965	(714)	251	2,662	(760)	1,902
Deferred tax direct to equity	(85)	-	(85)	(60)	-	(60)
<b>Total</b>	<b>6,705</b>	<b>(2,556)</b>	<b>4,149</b>	<b>5,825</b>	<b>(1,842)</b>	<b>3,983</b>

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.

28. Employee benefit obligations

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

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

Pension obligations and plan assets:

	2020 (%)	2019 (%)
Active members' portion of obligations	15	15
Dormant pension rights	45	45
Pensioners' portion of obligations	40	40
Weighted average duration	20 years	20 years

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

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

28. Employee benefit obligations – continued

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 2020, 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 £3.3 million to the plan in the next financial year.

The following valuation is an update of the actuary's valuation at 5th April 2019. The actuarial valuation in accordance with IAS 19 used the projected unit actuarial valuation based on the following assumptions:

	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Inflation	3.00	3.00	3.25	3.25
Rate of increase of salaries	3.25	3.25	3.50	3.50
Rate of increase of pension	3.00	3.00	3.25	3.25
Rate of increase of deferred pensions	3.00	3.00	3.25	3.25
Pre and post retirement rates to discount scheme liabilities	1.40	2.00	2.75	2.50

Life expectancy after age 65 is 22 years (2019: 22 years) for men and 24 years (2019: 24 years) for women. The financial position of the scheme based on the above assumptions is detailed below:

	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Scheme liabilities	(94,622)	(87,546)	(73,411)	(73,963)
Scheme assets	91,406	82,842	68,473	69,432
Scheme deficit	<u>(3,216)</u>	<u>(4,704)</u>	<u>(4,938)</u>	<u>(4,531)</u>

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

	Valuation of assets 2020 £'000	Valuation of assets 2019 £'000	Expected return 2020 %	Expected return 2019 %
Quoted UK equities	55,913	51,126	2.00	2.00
Quoted gilts fixed	35,140	31,565	2.00	2.00
Cash	353	151	2.00	2.00
Total	<u>91,406</u>	<u>82,842</u>	<u>2.00</u>	<u>2.00</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.

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**28. Employee benefit obligations – continued**

Analysis of amount recognised to profit or loss

	2020 £'000	2019 £'000
Current service cost	3,243	2,770
Employee contribution	(434)	(436)
Total operating charge	<u>2,809</u>	<u>2,334</u>

Analysis of amount charged to Other Finance Cost

	2020 £'000	2019 £'000
Expected return on pension scheme assets	1,672	1,902
Interest on pension liabilities	(1,764)	(2,031)
Net finance return	<u>(92)</u>	<u>(129)</u>

Analysis of amount recognised in statement of comprehensive income

	2020 £'000	2019 £'000
Actual return less expected return on assets	5,332	11,084
Experience gains and losses on liabilities	2,067	(3,112)
Changes in demographic assumptions	-	(38)
Changes in financial assumptions	(6,094)	(8,135)
Actuarial gain/(loss) recognised in statement of comprehensive income	<u>1,305</u>	<u>(201)</u>
Cumulative loss recognised in statement of comprehensive income	<u>(13,758)</u>	<u>(15,063)</u>

Movement in the present value of defined benefit obligation

	2020 £'000	2019 £'000
Present value of obligation 1st January	87,546	73,411
Service cost	3,243	2,770
Interest cost	1,764	2,031
Benefits paid	(1,958)	(2,089)
Curtailment losses	-	138
Actuarial losses	4,027	11,285
Closing balance, 31 <sup>st</sup> December	<u>94,622</u>	<u>87,546</u>

Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020

28. Employee benefit obligations – continued

Changes in fair value of fund assets

	2020 £'000	2019 £'000
Fair value of plan assets, 1st January	82,842	68,473
Expected return on plan assets	1,672	1,902
Company contribution	3,278	3,193
Employee contribution	434	436
Benefits paid	(1,958)	(2,089)
Administrative expenses	(194)	(157)
Actuarial gains	5,332	11,084
Closing balance, 31st December	<u>91,406</u>	<u>82,842</u>

History of experience gains and losses:

	2020	2019	2018	2017
Amount £'000:	5,332	11,084	(4,147)	1,947
Percentage of scheme assets %	<u>6%</u>	<u>13%</u>	<u>(6%)</u>	<u>3%</u>
Experience gains and losses on scheme liabilities £'000:	2,067	(3,112)	(243)	(1,417)
Percentage of scheme liabilities %	<u>2%</u>	<u>(4%)</u>	<u>(-)</u>	<u>(2%)</u>
Total amount recognised in statement of comprehensive income £'000:	1,305	(201)	(601)	(3,126)
Percentage of scheme liabilities %	<u>1%</u>	<u>(-)</u>	<u>(1%)</u>	<u>(4%)</u>

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

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

	2020 £'000	2019 £'000
Total pension liability at 31st December	<u>94,622</u>	<u>87,546</u>
Estimated decrease in pension liability if discount rate increases by 0.25%	(5,123)	(4,309)
Estimated increase in pension liability if discount rate decreases by 0.25%	<u>5,448</u>	<u>4,542</u>
Estimated increase in pension liability if inflation rate increases by 0.25%	5,318	4,590
Estimated decrease in pension liability if inflation rate decreases by 0.25%	<u>(4,707)</u>	<u>(4,360)</u>

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 2020, in accordance with the Scheme rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group does not expect to contribute to the plan in the next financial year.

For The McNicholas Plc Retirement Benefit Scheme the Group believes there is not an unconditional right of refund and therefore under IAS 19 and IFRIC 14, the Group only recognises the asset of the pension fund up to the limit of the liability (the asset ceiling). The scheme was closed to both new members and future accruals in 2003.



**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**28. Employee benefit obligations – continued**

The valuation below is an update of the actuarial valuation at 1st March 2018. The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Inflation	3.00	3.00	3.25	3.25
Rate of increase of salaries	3.25	3.25	3.50	3.50
Rate of increase of pension	2.90	3.00	3.25	3.25
Rate of increase for deferred pensions	2.30	3.00	3.25	3.25
Pre and post retirement rates to discount scheme liabilities	1.40	2.00	2.75	2.50

Life expectancy after age 65 is 22 years (2019: 22 years) for men and 24 years (2019: 24 years) for women.

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

	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Scheme liabilities	(21,221)	(22,223)	(20,285)	(21,210)
Scheme assets	21,221	22,223	20,212	20,966
Less asset ceiling provision	(3,680)	(409)	(742)	-
Pension deficit	<u>(3,680)</u>	<u>(409)</u>	<u>(815)</u>	<u>(244)</u>

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

	Valuation of assets 2020 £'000	Valuation of assets 2019 £'000	Expected return 2020 %	Expected return 2019 %
Quoted UK equities	1,210	1,609	2.00	2.00
Quoted UK bonds	11,886	12,477	2.00	2.00
Other	8,125	8,137	2.00	2.00
Total	<u>21,221</u>	<u>22,223</u>	<u>2.00</u>	<u>2.00</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.

	2020 £'000	2019 £'000
Current service cost	<u>-</u>	<u>-</u>

Analysis of amount charged to Other Finance Cost

	2020 £'000	2019 £'000
Expected return on pension scheme assets	439	532
Interest on pension liabilities	<u>(439)</u>	<u>(554)</u>
Net finance return	<u>-</u>	<u>(22)</u>

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

**28. Employee benefit obligations – continued**

Analysis of amount recognised in statement of comprehensive income

	2020 £'000	2019 £'000
Actual return less expected return on assets	(901)	1,640
Experience gains and losses on liabilities	230	450
Changes in demographic assumptions	-	-
Changes in financial assumptions	671	(2,120)
Effect of the asset ceiling	-	-
Actuarial loss recognised in statement of comprehensive income	<u>-</u>	<u>(30)</u>
Cumulative loss recognised in statement of comprehensive income	<u>1,921</u>	<u>1,921</u>

Movement in the present value of defined benefit obligation

	2020 £'000	2019 £'000
Present value of obligation 1 <sup>st</sup> January	22,223	20,285
Interest cost	439	554
Benefits paid	(540)	(286)
Actuarial (gains)/losses	<u>(901)</u>	<u>1,670</u>
Closing balance, 31 <sup>st</sup> December	<u>21,221</u>	<u>22,223</u>

Changes in fair value of plan assets

	2020 £'000	2019 £'000
Fair value of plan assets, 1 <sup>st</sup> January	22,223	20,212
Expected return on plan assets	439	532
Employer contribution	-	125
Benefits paid	(540)	(286)
Actuarial (losses)/gains	<u>(901)</u>	<u>1,640</u>
Closing balance, 31 <sup>st</sup> December	<u>21,221</u>	<u>22,223</u>

History of experience gains and losses:

	2020	2019	2018	2017
Amount £'000:	(901)	1,640	(1,239)	575
Percentage of scheme assets %	<u>(4%)</u>	<u>7%</u>	<u>(6%)</u>	<u>3%</u>
Experience gains and losses on scheme liabilities £'000:	230	450	48	605
Percentage of scheme liabilities %	<u>1%</u>	<u>2%</u>	<u>-</u>	<u>3%</u>
Total amount recognised in statement of comprehensive income £'000:	-	(30)	(944)	148
Percentage of scheme liabilities %	<u>-</u>	<u>(-)</u>	<u>(5%)</u>	<u>1%</u>

**Skanska Construction UK Limited (Registered number: 00191408)****Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020****28. Employee benefit obligations – continued**

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

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

	2020 £'000	2019 £'000
Total pension liability at 31st December	21,221	22,223
Estimated decrease in pension liability if discount rate increases by 0.25%	(1,033)	(1,082)
Estimated increase in pension liability if discount rate decreases by 0.25%	1,088	1,137
Estimated increase in pension liability if inflation rate increases by 0.25%	803	845
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(773)	(814)

**29. 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. The registered address for Skanska AB is 25, SE-112 74 Stockholm, Sweden.

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.

**30. 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 £83,293,000 (2019: £458,245,000).

**31. Related party disclosures**

Transactions between the parent entity, subsidiary companies and other Group undertakings are detailed below. Balances with the Parent entity, subsidiary companies and other Group undertakings are disclosed in the debtors and creditors notes. Amounts owed to and from these entities are unsecured and interest free.

Related party	Nature of relationship	Good/service provided	Transactions in year		Amount owed to or by Skanska Construction UK Ltd at year end	
			2020 £'000	2019 £'000	2020 £'000	2019 £'000
SPD Moorgate Ltd	Fellow group undertaking. Ultimately owned by Skanska UK Plc	Skanska Construction UK Limited provides construction services to SPD Moorgate Ltd	33	11,169	-	-

**Remuneration of key management personnel**

Details of remuneration of the directors, who are the key management personnel of the Company, are contained in Note 6.

**Skanska Construction UK Limited (Registered number: 00191408)**

**Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020**

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

**Group**

	2020 £'000	2019 £'000
Profit before income tax	31,874	15,310
Depreciation	8,277	9,096
Impairment of right of use assets	-	1,853
Goodwill impairment	-	30,423
Increase/(decrease) in provisions	16,538	(24,358)
Pension service cost	2,809	2,334
Pension company contribution	(3,083)	(3,161)
Pension curtailment	-	138
Pension other	-	(109)
Finance costs	1,187	836
Finance income	-	(514)
	<u>57,602</u>	<u>31,848</u>
Decrease in inventories	313	723
Decrease in trade and other receivables	49,013	63,126
Decrease in trade and other payables	<u>(75,811)</u>	<u>(8,682)</u>
<b>Cash generated from operations</b>	<u><u>31,117</u></u>	<u><u>87,015</u></u>

**Company**

	2020 £'000	2019 £'000
Profit before income tax	51,061	21,198
Depreciation	6,025	6,790
Impairment of right of use assets	-	1,853
Impairment of investments	56	-
Goodwill impairment	-	29,821
Increase/(decrease) in provisions	2,998	(27,026)
Pension service cost	222	165
Pension company contributions	(668)	(747)
Pension other	-	(109)
Pension curtailment	-	138
Finance costs	981	703
Finance income	(239)	(535)
	<u>60,436</u>	<u>32,251</u>
Decrease in inventories	484	550
Decrease in trade and other receivables	45,705	38,094
Decrease in trade and other payables	<u>(71,207)</u>	<u>(33,840)</u>
<b>Cash generated from operations</b>	<u><u>35,418</u></u>	<u><u>37,055</u></u>

**Skanska Construction UK Limited (Registered number: 00191408)****Notes to the Consolidated Financial Statements  
For The Year Ended 31st December 2020****33. 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
<b>Skanska Construction UK Limited</b>			
Skanska Aker Solutions Joint Venture	1,8	Jacobs E&C Limited	50%
Balfour Beatty Skanska Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
Skanska BAM Northern Hub Joint Venture	1,9	BAM Construct UK Limited	50%
Costain Skanska C405 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C360 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C412 Joint Venture	1,2	Costain Limited	50%
SMB Joint Venture	1,5,6	Balfour Beatty / MWH UK Ltd	33%
Balfour Beatty Skanska M25 Junction 30 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%
SEESA AMS Joint Venture	1,11,12	Alstom Grid UK Limited / Mott Macdonald Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
tRIIO	1,10	Morrison Utility Services Limited	50%
HS2 Enabling	1,2	Costain Limited	50%
HS2 Main Works SCS S1	1,2,7	Strabag AG-UK Branch / Costain Limited	34%
HS2 Main Works SCS S2	1,2,7	Strabag AG-UK Branch / Costain Limited	34%
Skanska Porr A-Hak Joint Venture	1,13,14	Porr Bau GmbH / A-Hak International B.V.	40%
Bakerloo Line Link Joint Venture	1,2	Costain Limited	50%
A14 Huntingdon to Cambridge	1,2,5	Balfour Beatty / Costain Limited	33%
<b>Cementation Skanska Limited</b>			
Cementation Skanska Balfour Beatty GE Joint Venture	1,3	Balfour Beatty Ground Engineering Limited	50%
Ground Engineering Joint Venture: Cementation Skanska Zublin JV	1,4	ED Zublin AG (UK Branch)	50%
<b>Skanska J.V. Projects Limited</b>			
Skanska Balfour Beatty M25 Joint Venture	1,5	Balfour Beatty Civil Engineering Limited	50%

The addresses of these Joint arrangements are as follows:

- 1 Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW
- 2 Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB
- 3 The Curve Building Axis Business Park Hurricane Way Langley Berkshire SL3 8AG
- 4 Albstadtweg 1,70567 Stuttgart, Germany
- 5 5 Churchill Place, Canary Wharf, London, E14 5HU
- 6 Soapworks, Colgate Lane, Salford, England, M5 3LZ
- 7 Hogarth House 2nd Floor, London, 136 High Holborn, WC1V 6PX
- 8 Cottons Centre Cottons Lane London SE1 2QG
- 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

**34. Post balance sheet events**

On 24 February 2020, as part of a strategic review, the Group announced its intention to divest its Infrastructure Services operating unit and exit highways, rail, and street lighting maintenance. Contracts were exchanged with M Group Services Limited in December 2020 and completion occurred 30<sup>th</sup> April 2021. The Group recognised an estimated gain on sale of £31.5 million before tax in relation to the sale subject to the finalisation of completion accounts. The gain will be recognised in the 2021 Financial Statements.

On the 23 March 2020 the Government in the UK announced a national lockdown in response to the COVID-19 pandemic. Throughout 2020 there was a series of restrictions placed on the country with another national lockdown announced at the end of 2020. Early 2021 the government announced the easing of these restrictions and disclosed a road map out of the pandemic. The Group has retained a strong balance sheet and order book through the pandemic and has adopted a cautious approach to the easing of the restrictions.