

Skanska Major Projects Limited

Report and Financial Statements

for the year ended

31st December 2008

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Skanska Major Projects Limited

DIRECTORS' REPORT AND BUSINESS REVIEW

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2008.

PRINCIPAL ACTIVITIES

The Company's principal activities are the provision of construction and engineering services.

FINANCIAL PERFORMANCE

The Company had a good year. Revenue increased by 76% to £129.0 million, from £73.1 million in 2007. Operating profit for the year at £8.0 million represents a 151% increase from the 2007 result of £3.9 million. The deficit on Shareholders' funds was reduced by £10.3 million to £23.9 million.

MARKET & OUTLOOK

The year was characterised by a good construction market in the private and public sectors. The Company is a vehicle for major construction projects and this work is expected to continue.

KEY PERFORMANCE INDICATORS

The Company's key performance indicators are revenue growth and operating margin. This is consistent with Skanska UK Plc and the other principal trading companies within the group. In addition to these financial measures the Company also adopts the following qualitative targets "The 5 Zeros";

- Zero loss-making projects
- Zero environmental incidents
- Zero work site accidents
- Zero ethical breaches
- Zero defects

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's principal risks and uncertainties are related to the contracts it undertakes to perform. Further details of the Company's principal uncertainties are provided in note 19 to the accounts "Accounting estimates and uncertainties". Financial risks are described in note 12, "Financial instruments".

RESULTS AND DIVIDENDS

The results for the year are set out in the Income Statement on page 6. The retained profit for the year of £10,296,000 (2007: £5,610,000) has been transferred to reserves. The directors do not propose to recommend the payment of a dividend on the issued ordinary share capital in respect of the year ended 31st December 2008 (2007 £nil).

Skanska Major Projects Limited

DIRECTORS' REPORT AND BUSINESS REVIEW (continued)

DIRECTORS

The following persons were directors of the Company during the year:-

D G Fison (resigned 24th July 2008)
P I Carré
I W Luke (resigned 29th May 2008)
W J Hocking (resigned 29th May 2008)
M C Putnam (appointed 23rd October 2008)
D R Tydeman (resigned 31st October 2008)

None of the directors at 31st December 2008 had any interests requiring to be disclosed under the Companies Act 1985. There were no changes in the directors' interests between 31st December 2008, and the date of this report. No directors during the year had a material interest in any contract significant to the Company's business.

DIRECTORS' INDEMNITY PROVISIONS

In accordance with the provisions of 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 Company had agreed to indemnify the directors in respect of losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company, and this was in force throughout the financial year ended 31st December 2008.

POLICY ON PAYMENT OF CREDITORS

Operating businesses within the Skanska Group are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

The average number of days taken to pay the Company's trade suppliers calculated in accordance with the requirements of the Companies Act is 42 days (2007 - 42 days).

THE ENVIRONMENT

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

EMPLOYMENT POLICIES

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

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the Skanska Group. This is achieved through formal and informal meetings and in-house publications. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Skanska Major Projects Limited

DIRECTORS' REPORT AND BUSINESS REVIEW (continued)

DISABLED EMPLOYEES

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

DONATIONS

During the current and preceding year the Company made no charitable or political donations.

AUDITORS

In accordance with Section 386 of the Companies Act 1985 an elective resolution to dispense with the obligation to appoint auditors annually was passed at the Extraordinary General Meeting of the Company held on 28th March 2002. The directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each of the directors has taken all the steps that they thought they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board



S Leven
Secretary
13th August 2009

Registered office:
Maple Cross House
Denham Way
Maple Cross
Rickmansworth
Herts. WD3 9SW

Registered in England
Registration number 993835

Skanska Major Projects Limited

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the 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 (IFRSs) as adopted by the European Union (EU).

The financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the company and the performance for that period. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Skanska Major Projects Limited

Independent auditors' report to the members of Skanska Major Projects Limited

We have audited the financial statements of Skanska Major Projects Limited for the year ended 31st December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31st December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

17 April 2009

Skanska Major Projects Limited

Income Statement for the year ended 31st December 2008

	Notes	2008 £'000	2007 £'000
REVENUE	2	129,038	73,113
Cost of sales		(120,681)	(68,801)
GROSS PROFIT		<u>8,357</u>	<u>4,312</u>
Administrative expenses		(400)	(400)
OPERATING PROFIT		<u>7,957</u>	<u>3,912</u>
Finance income	7	2,794	2,644
PROFIT BEFORE TAX	4	<u>10,751</u>	<u>6,556</u>
Tax	8	(455)	(946)
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE PARENT	15	<u><u>10,296</u></u>	<u><u>5,610</u></u>

The notes on pages 9 to 19 form an integral part of these financial statements.

All results are from continuing operations.

The Company has no recognised income or expense in either year with the exception of the result for each year. Accordingly, a statement of recognised income and expense has not been prepared.

Skanska Major Projects Limited

Balance Sheet at 31st December 2008

	Notes	2008 £'000	2007 £'000
NON CURRENT ASSETS			
Deferred tax asset	8	<u>79</u>	<u>78</u>
		79	78
CURRENT ASSETS			
Inventories	9	902	3,983
Trade and other receivables	10	19,135	59,767
Cash and cash equivalents		<u>46,047</u>	<u>-</u>
		66,084	63,750
TOTAL ASSETS		<u>66,163</u>	<u>63,828</u>
CURRENT LIABILITIES			
Bank overdraft		-	(458)
Trade and other payables	11	(89,610)	(96,566)
Corporation tax		<u>(456)</u>	<u>(1,003)</u>
		(90,066)	(98,027)
TOTAL LIABILITIES		<u>(90,066)</u>	<u>(98,027)</u>
NET LIABILITIES		<u>(23,903)</u>	<u>(34,199)</u>
 Share capital	14	100	100
Retained earnings	15	(24,003)	(34,299)
TOTAL DEFICIT ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS		<u>(23,903)</u>	<u>(34,199)</u>

The notes on pages 9 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 13th August 2009 and signed on its behalf by:



P I Carré
Director

Skanska Major Projects Limited

Cash flow statement for the year ended 31st December 2008

	2008 £'000	2007 £'000
Cash flows from operating activities		
Profit before tax	10,751	6,556
<i>Adjustments for:</i>		
Finance (income)	(2,794)	(2,644)
Decrease/ (increase) in trade and other receivables	40,632	(34,647)
(Decrease)/increase in trade and other payables	(6,956)	30,349
Decrease/(increase) in inventories	3,081	(3,983)
Cash generated from operations	44,714	(4,369)
Income taxes (paid)/received	(1,003)	1,481
Net cash inflow/(outflow) from operating activities	43,711	(2,888)
Cash flows from financing activities		
Interest received	3,302	3,178
Interest paid	(508)	(534)
Net cash inflow/(outflow) from financing activities	2,794	2,644
Net increase/(decrease) in cash and cash equivalents	46,505	(244)
Cash and cash equivalents at beginning of period	(458)	(214)
Cash and cash equivalents at end of period	46,047	(458)

Skanska Major Projects Limited

Notes to the Financial Statements

1. Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently in the current year and the preceding year, is set out below. The financial statements are presented in pounds sterling (rounded to the nearest thousand), being the functional currency of the company.

(a) Accounting conventions

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and under the historical cost convention and include the results of activities described in the Directors' Report, all of which are continuing.

(b) Basis of preparation

The Company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare Group financial statements, because it is a wholly owned subsidiary of Skanska UK Plc, which prepares consolidated financial statements. The financial statements present information about the individual Company and not about its group.

The Directors have prepared the financial statements on a going concern basis as the parent company has indicated that it will provide support to enable the Company to meet its liabilities as they fall due.

(c) Foreign currencies

Trading results denominated in foreign currencies are translated into sterling at average rates of exchange. Assets and liabilities are translated into sterling at the rates ruling at the period end except where rates of exchange are fixed under contractual arrangements. Differences on exchange arising from the translation of opening net assets of foreign branches denominated in foreign currencies and any related loans are taken to reserves. Other exchange differences are taken to the income statement when they arise.

(d) Revenue and profit

Revenue represents the sales value of work done on construction contracts in the period and excludes VAT. Profit on construction contracts is calculated in accordance with IAS 11 'Construction contracts'.

The principal estimation technique used within the group in establishing attributable profit on construction contracts is on a contract by contract basis, focusing on costs to complete and evaluating the final outcome anticipated on that contract. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in proportion to the stage of completion of the contract. Provision is made for losses incurred on contracts (or foreseen to be incurred) as soon as they become apparent.

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

(e) Taxation

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

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

(f) Pre-contract costs

Costs associated with bidding for contracts are written off as incurred. Once the Company has secured preferred bidder status and it is probable that the contract will be awarded, future costs are capitalised in the balance sheet.

(g) Construction contracts

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

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

(h) Inventories

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

(i) Employee benefits

Certain of the Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is a fellow group company. The Company recognises a cost equal to its contribution payable for the period.

The cost of defined contribution pension schemes is expensed to the income statement as incurred.

(j) Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument. Trade receivables and other receivables do not carry any interest and are stated at their nominal value, reduced by appropriate allowances for estimated irrecoverable amounts. Overdrafts are stated at their nominal value. Interest is accounted for on an accruals basis. Trade payables on normal terms are not interest bearing and are stated at their nominal value.

(k) Leased assets

All leases are operating leases and the annual rentals are charged wholly to the income statement.

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

2. Segmental information

The directors are of the opinion that the company has one class of business which is the provision of construction and engineering services all of which is derived within the United Kingdom.

3. Construction contracts

The following information relates to all construction contracts in progress at the balance sheet date:

	2008 £'000	2007 £'000
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	<u>315,244</u>	<u>162,804</u>

4. Profit before tax

	2008 £'000	2007 £'000
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Profit before tax is stated after charging:

Hire costs including operating lease payments:

Operating lease rentals for hire of land and buildings

Operating lease rentals for hire of plant and machinery

	435	315
	<u>853</u>	<u>384</u>

Auditors' remuneration for both years was paid for by another group company, Skanska UK Plc.

5. Staff numbers and costs

	2008 Number	2007 Number
<i>The average monthly number of employees, all of whom were engaged in the United Kingdom on the Company's principal activity:</i>		
Management and administration	<u>158</u>	<u>162</u>
<i>Staff costs:</i>	£'000	£'000
Wages and salaries	8,369	6,158
Social security costs	809	606
Other pension costs (note 16)	1,498	1,168
	<u>10,676</u>	<u>7,932</u>

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

6. Directors' remuneration

No directors' emoluments, fees or other costs were incurred by the Company during either year. The directors' emoluments were incurred by fellow subsidiary companies of the parent company and no part of their remuneration can be specifically attributed to the Company. No director has any entitlement under long-term incentive schemes or share options (2007: £nil).

7. Finance income/(costs)

	2008 £'000	2007 £'000
Interest receivable	3,302	3,178
Interest payable	(508)	(534)
	<u>2,794</u>	<u>2,644</u>

8. Taxation

	2008 £'000	2007 £'000
Tax charge for the year:		
<i>Current tax charge/(credit)</i>		
Current year	455	615
Prior year	1	388
	<u>456</u>	<u>1,003</u>
<i>Deferred Tax</i>		
Current year	(7)	(2)
Prior year	5	(59)
Change in tax rate	1	4
	<u>(1)</u>	<u>(57)</u>
Total current tax charge/(credit)	<u>455</u>	<u>946</u>
Deferred tax asset:		
Other timing differences	<u>79</u>	<u>78</u>
Asset at start of period	78	21
Deferred tax credit in income statement for period	1	57
Asset at end of period	<u>79</u>	<u>78</u>
Reconciliation of profit to total tax charge/(credit):		
Profit before tax	10,751	6,556
Profit multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	3,064	1,967
<i>Effects of:</i>		
Losses brought forward	(2,279)	(1,182)
Adjustments in respect of prior years	6	329
Other	(336)	(168)
Total tax charge for the year	<u>455</u>	<u>946</u>

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

9. Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	902	3,983

10. Trade and other receivables

	2008 £'000	2007 £'000
Amounts owed by group undertakings	8,225	50,608
Trade receivables	8,597	8,803
Prepayments	2,313	356
	19,135	59,767

All trade receivables are within their due date.

As part of arrangements with Skanska UK Plc's bankers (Skandinaviska Enskilda Banken AB) cash balances are now pooled with balances from fellow group companies on a daily basis; such arrangements are commonplace in large groups and facilitate effective cash management. In 2007 the Company's sterling bank balance had been shown as an inter-company receivable, with a balance of £72,554,000 included in the balance sheet within "Amounts owed by group undertakings", with an additional amount of £458,000 shown as a bank overdraft at the year end.

11. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	690	1,200
Payments received on account	36,617	68,376
Amounts owed to group undertakings	34,411	8,881
Accruals and deferred income	15,648	14,040
Other taxes and social security	2,244	4,069
	89,610	96,566

All trade payables are due within three months of the balance sheet date.

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

12. Financial instruments

Exposure to credit and interest rate risks arises in the normal course of 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 balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and amounts due from customers for contract work at the balance sheet date.

Interest rate risk

The Company does not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. As part of arrangements with Skanska UK Plc's bankers (Skandinaviska Enskilda Banken AB) cash balances are now pooled with balances from fellow group companies on a daily basis.

Effective interest rates and repricing analysis

As at 31st December 2008, income-earning financial assets of the company comprised cash and cash equivalents totalling £46,047,000 (2007: £Nil) all of which is repayable on demand. As at 31st December 2008, interest-bearing financial liabilities of the company were £nil (2007: £458,000), all of which is repayable on demand. Interest is earned or payable on cash balances and bank overdrafts at floating rates linked to the Bank of England base rate.

Fair values

The carrying amounts shown in the balance sheet of all financial assets and financial liabilities are considered to approximate their fair value.

	2008	2007
	£'000	£'000
<i>Carrying amounts</i>		
<i>Loans and receivables</i>		
Trade receivables	8,597	8,803
Amounts owed by group undertakings	8,225	50,608
<i>Financial Assets</i>	<u>16,822</u>	<u>59,411</u>
Cash and cash equivalents	46,047	-
<i>Total financial assets</i>	<u>62,869</u>	<u>59,411</u>
<i>Financial liabilities</i>		
Trade payables	(690)	(1,200)
Payments received on account	(36,617)	(68,376)
Bank overdraft	-	(458)
Amounts owed to group undertakings	(34,411)	(8,881)
<i>Total financial liabilities</i>	<u>(71,718)</u>	<u>(78,915)</u>

Sensitivity analysis

At 31st December 2008 and 31st December 2007, it is estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

13. Obligations under operating leases

At 31st December 2008, the Company had outstanding commitments under non-cancellable operating leases as follows:

	2008 £'000	2007 £'000
Land and Buildings:		
Less than one year	379	264
Between one and five years	316	529
	<u>695</u>	<u>793</u>
Plant and equipment:		
Less than one year	178	121
Between one and five years	215	192
	<u>393</u>	<u>313</u>
	<u>1,088</u>	<u>1,106</u>

14. Share capital

	2008 £'000	2007 £'000
<i>Authorised:</i>		
Equity share capital: 100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid:</i>		
Equity share capital: 100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

15. Reconciliation of movements in shareholders' deficit

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 st January 2007	100	(39,909)	(39,809)
Profit for the period	-	5,610	5,610
At 31 st December 2007	<u>100</u>	<u>(34,299)</u>	<u>(34,199)</u>
Profit for the period		10,296	10,296
As at 31 st December 2008	<u>100</u>	<u>(24,003)</u>	<u>(23,903)</u>

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

16. Retirement benefit obligations

The Company, in its capacity as employing company, participates in the Skanska Pension Fund which includes a defined benefit section and a defined contribution section. The assets of the Fund are held separately under Trust from those of the Skanska Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2008, in accordance with the Fund rules there were no outstanding contributions. The pension contributions are set by the Trustees of the Skanska Pension Fund based on the advice of the Fund actuary and after consultation with Skanska UK Plc. Total contributions paid during the year by the Group (excluding employee contributions) were £23,700,000 (2007: £21,548,000). Ultimately the contributions are met by the particular group company for which the employees are working. The Group expects to contribute approximately £24 million to the Fund in the next financial year.

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

This valuation is an update of the actuary's valuation at 31st March 2007 but uses a lower rate of return on assets to discount the scheme liabilities. IAS 19 *Employee Benefits* requires that the yield assumption used in the calculation of the accrued liabilities be based on AA-rated corporate bond yields at the calculation date and does not reflect the actual investments held by the Trustee which are set out below.

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

	2008 (%)	2007 (%)	2006 (%)	2005 (%)
Inflation	3.00	3.00	2.75	2.50
Rate of increase of salaries	4.50	4.50	4.50	4.25
Rate of increase of pension - Pre-April 2005	3.00	3.00	2.75	2.50
- Post-April 2005	2.00	2.00	1.90	1.90
Rate of increase for deferred pensions	3.00	3.00	2.75	2.50
Pre and post-retirement rates to discount scheme liabilities	5.50	5.50	5.00	4.75

Life expectancy after age 65 is 22 years for men and 25 years for women (2007: 22 years for men and 25 for women).

The financial position of the fund based on the above assumptions

	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Scheme liabilities	(340,915)	(313,791)	(298,700)	(286,200)
Scheme assets	279,300	298,600	271,100	242,900
Total deficit	<u>(61,615)</u>	<u>(15,191)</u>	<u>(27,600)</u>	<u>(43,300)</u>
Related deferred tax asset	17,252	4,329	8,280	12,990
Net pension liability	<u>(44,363)</u>	<u>(10,862)</u>	<u>(19,320)</u>	<u>(30,310)</u>

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

16. Retirement benefit obligations (continued)

The fair value of the fund assets and the expected return on those assets

	Valuation of assets		Expected return	
	2008 £'000	2007 £'000	2008 %	2007 %
Equities - UK	57,700	80,000	7.50	7.50
Equities – Non UK	57,600	69,100	7.50	7.50
Government bonds	78,300	73,600	5.25	4.75
Corporate bonds	78,800	69,800	5.25	4.75
Currency	6,900	6,100	7.50	7.50
Total/Weighted returns	<u>279,300</u>	<u>298,600</u>	<u>6.50</u>	<u>6.25</u>
			2008 £'000	2007 £'000
Actual return on fund assets			(32,450)	9,847

The expected long term returns on assets assumption is assessed by considering the current level of expected risk-free investments (primarily government bonds), the historical level of the risk premium associated with other asset classes in which the portfolio is invested and the expectations for future returns for each asset class. The expected return for each asset class is then weighted based on the asset allocation to develop the expected long term rate of return on assets assumption for the portfolio.

Analysis of the amount charged to the Income Statement

	2008 £'000	2007 £'000
Current service cost (net of employee contributions)	18,450	17,251
Total operating charge	<u>18,450</u>	<u>17,251</u>

Analysis of the amount charged to Other Finance Cost

	2008 £'000	2007 £'000
Expected return on pension scheme assets	20,750	17,300
Interest on pension liabilities	(17,700)	(15,200)
Net finance return	<u>3,050</u>	<u>2,100</u>

Analysis of amount recognised in statement of total recognised income and expense (SORIE)

	2008 £'000	2007 £'000
Actual return less expected return on assets	(53,200)	(7,453)
Experience gains and losses on liabilities	(1,524)	(12,735)
Changes in assumptions	-	26,200
Actuarial (loss)/gain recognised in SORIE	<u>(54,724)</u>	<u>6,012</u>
Cumulative loss recognised in SORIE	<u>(93,712)</u>	<u>(38,988)</u>

Skanska Major Projects Limited

Notes to the Financial Statements (continued)

16. Retirement benefit obligations (continued)

	2008 £'000	2007 £'000		
<i>Movement in the present value of defined benefit obligation</i>				
Present value of obligation, 1 st January	313,791	298,700		
Service cost	20,200	19,100		
Interest cost	17,700	15,200		
Benefits paid	(12,300)	(5,744)		
Actuarial loss/(gain)	1,524	(13,465)		
Obligation at 31 st December	340,915	313,791		
<i>Changes in the fair value of fund assets</i>				
Fair value of plan assets, 1 st January	298,600	271,100		
Expected return on fund assets	20,750	17,300		
Employer contributions	23,700	21,548		
Member contributions	1,750	1,849		
Benefits paid	(12,300)	(5,744)		
Actuarial (losses)	(53,200)	(7,453)		
Fair value at 31 st December	279,300	298,600		
Scheme deficit	(61,615)	(15,191)		
<i>History of experience gains and losses</i>				
	2008	2007	2006	2005
<u>Difference between expected and actual return on scheme assets:</u>				
Amount (£'000)	(53,200)	(7,453)	1,400	22,000
Percentage of scheme assets	(19.0%)	(2.5%)	0.5%	9.1%
<u>Experience gains and losses on scheme liabilities:</u>				
Amount (£'000)	(1,524)	(12,735)	9,800	(41,300)
Percentage of scheme liabilities	(0.4%)	(4.1%)	3.3%	(14.4%)
<u>Total amount recognised in SORIE:</u>				
Amount (£'000)	(54,724)	6,012	11,200	(19,300)
Percentage of scheme liabilities	(16.1%)	1.9%	3.7%	(6.7%)
<i>Sensitivity of pension obligation at the year- end to changes in assumptions</i>				
	2008 £'000	2007 £'000		
Total pension liability at 31 st December	340,915	313,791		
Estimated decrease in pension liability if the discount rate increases by 0.25 per cent	(15,300)	(13,700)		
Estimated increase in pension liability if the discount rate decreases by 0.25 per cent	14,600	14,400		
Estimated increase in pension liability if the inflation rate increases by 0.25 per cent	8,700	9,400		
Estimated decrease in pension liability if the inflation rate decreases by 0.25 per cent	(8,500)	(8,900)		

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Notes to the Financial Statements (continued)

17. Contingent liabilities

There are contingent liabilities in respect of actual and potential claims by third parties under contracting and other agreements entered into during the normal course of business. Whilst the outcome of these matters is uncertain, the directors believe that appropriate provision has been made within the financial statements in respect of these matters.

18. Related party transactions

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

Trading transactions

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

	2008 £'000	2007 £'000
Sales to group undertakings	129,038	72,120
Purchases from group undertakings	(76)	-
Management fee from fellow group undertaking	<u>(1,498)</u>	<u>(1,168)</u>

Remuneration of key management personnel

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

19. Accounting estimates and uncertainties

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

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

The key estimates and judgements in drawing up the financial statements are in connection with construction contracts in progress and claims on construction contracts.

Note 1(g) Accounting Policies, details the principal estimation techniques used in establishing attributable profit on construction contracts.

20. Ultimate Parent Company

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

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